



CHEL TENHAM

BOROUGH COUNCIL

Notice of a meeting of Audit Committee

Wednesday, 15 June 2016
6.00 pm
Pittville Room - Municipal Offices

Membership	
Councillors:	Colin Hay (Chair), Steve Harvey (Vice-Chair), Matt Babbage, Paul McCloskey, John Payne, Dennis Parsons and David Willingham

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

Agenda

1.	APOLOGIES	
2.	DECLARATIONS OF INTEREST	
3.	MINUTES OF THE LAST MEETING 23 March 2016	(Pages 3 - 10)
4.	PUBLIC QUESTIONS These must be received no later than 12 noon on the fourth working day before the date of the meeting	
5.	AUDIT COMMITTEE UPDATE Grant Thornton (no decision required)	(Pages 11 - 20)
6.	ANNUAL AUDIT FEE LETTER (2016/17) Grant Thornton (no decision required)	(Pages 21 - 24)
7.	AUDITING STANDARDS (COMMUNICATING WITH THE AUDIT COMMITTEE) Grant Thornton (see recommendation)	(Pages 25 - 30)
8.	INTERNAL AUDIT OPINION (2015/16) Internal Audit (see recommendation)	(Pages 31 - 52)
9.	ANNUAL GOVERNANCE STATEMENT Corporate Governance, Risk and Compliance Officer (see recommendations)	(Pages 53 - 70)
10.	REVIEW OF DRAFT ACCOUNTING POLICIES Finance (see recommendation)	(Pages 71 - 92)

11.		WORK PROGRAMME	(Pages 93 - 96)
12.		ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION	
13.		DATE OF NEXT MEETING 21 September 2016	
		briefing notes (for information only) <ul style="list-style-type: none"> • Evaluation of Internal Audit provision • Purchase Order monitoring 	

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

Audit Committee

**Wednesday, 23rd March, 2016
6.05 - 8.05 pm**

Attendees	
Councillors:	Colin Hay (Chair), Matt Babbage, Flo Clucas, Dan Murch and Pat Thornton
Also in attendance:	Peter Barber (Grant Thornton), Lucy Cater (Audit Cotswolds), Emma Cathcart (Audit Cotswolds/Counter Fraud Unit), Bryan Parsons (Corporate Governance, Risk and Compliance Officer) and Nina Philippidis (GOSS/Finance)

Minutes

1. APOLOGIES

No apologies had been received.

2. DECLARATIONS OF INTEREST

Councillor Clucas declared a non-pecuniary interest in agenda item 11 (Review policy guidelines and new policy and procedures for the Acquisition of Communications Data using the Regulation of Investigatory Powers Act 2000) as a Magistrate, though not in the distinction of this policy.

3. MINUTES OF THE LAST MEETING

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

Upon a vote it was unanimously

RESOLVED that the minutes of the meeting held on the 13 January 2016, be agreed and signed as an accurate record.

4. PUBLIC QUESTIONS

None had been received.

5. AUDIT COMMITTEE UPDATE

Peter Barber from Grant Thornton introduced the update which reported on Grant Thornton's progress in delivering their responsibilities as external auditors. He reminded members that the criteria for how auditors reached their overall judgement on the Value for Money (VfM) conclusion had changed, work was progressing and the findings from this work would be reported to the committee in September. The paper also included a summary of emerging national issues and developments which could be relevant to the committee. He felt that statements in the 'financial health' paper, would resonate with this council and many others, the 'CFO insights' paper was an online analytical tool which Grant Thornton would be happy to demonstrate to officers and the 'Local Authority Trading Companies' (LATC) paper recognised that an increasing number of local authorities were looking at alternative service delivery models.

Grant Thornton had hosted a free LATC client seminar in February which had been well attended by officers from councils in the South West and had included Frank Wilson from Ubico as a speaker, though unfortunately nobody from CBC had been able to attend. Slides from this event would be made available on request.

In response to a question from a member, Peter Barber explained that the 'financial health' paper had been written at a point in time and would not be revisited in light of the budget. As a firm, Grant Thornton were becoming bolder in relation to comments on how central government operated and whilst it would not be appropriate for them to comment on the pace at which cuts were being made, they had, in the past, commented about the difficulty faced by local authorities in being able to plan into years 2,3 and 4 of an MTFS given the uncertainty over what the settlement would be throughout this period. He noted that the LGA, along with many other bodies, had made similar comments every year, for many years.

The Chairman noted the last two bullet points of the 'financial health' paper, which referenced the increasing importance of the role of elected members and the need to improve the level of public consultation. He felt that the role of elected members was more involved than it had been in the past and that the Remuneration Panel should be made aware of this.

No decision was required.

6. AUDIT PLAN 2015-16

Peter Barber of Grant Thornton, introduced the Audit Plan for 2015-16. He explained that the plan provided an overview of the scope and timing of the audit, as well their understanding of the challenges and opportunities that were facing the council; which included Central Government Funding, Devolution, Housing and Joint Arrangements. The document also outlined general changes that faced all councils; one being the bringing forward of the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year. He reminded members that in performing their audit, Grant Thornton applied the concept of materiality; meaning that they did not sign-off the accounts of the council as being correct to the penny. Overall materiality had been determined as £1,644,000 (2% of gross revenue expenditure) and £82,000 was the amount below which misstatements would be considered 'clearly trivial'. Significant risks specific to this council included, the systems upgrade to Agresso, the accurate valuation of assets for the purposes of the balance sheet and the valuation of the pensions liability fund, which would need to be reasonably stated. There were two specific risks associated with the VfM; the MTFS position and 2020 Vision arrangements. He was pleased to report that key messages arising from interim audit work were positive and that the Section 151 Officer's ability to post journals had been removed; which was a recommendation made in last years action plan and demonstrated good controls.

Peter Barber gave the following responses to member questions;

- Audit work relating to the MTFS would include looking at how the change in Business Rates were being reflected in the MTFS and he imagined that the budget was being revisited to reflect these changes.

- Part of the criteria for reaching the VfM conclusion was assessing how the council worked with partners; so rather than Grant Thornton looking at the 'Coxit' issue, they would instead be looking to evidence that the channels for dialogue remained open.
- Grant Thornton did not have the capacity to review every decision taken by the council. Their work focussed on the biggest risks and these were the MTFs, which was a significant risk to most council's and 2020 which was fundamental to this council, not just in terms of finances but also service delivery, as, if realised, it could result in efficiencies and improved services. These issues would be reviewed at a high level and would only be looked at in more detail if an issue was identified.
- The purchase of Delta House would be looked at as part of the 2015-16 financial statements and the VfM audit, more than likely under the valuation of surplus assets and investment property as it was not yet being used for service delivery. Grant Thornton would review what was paid for the property against its current value and whether this represented a gain or an impairment. If it represented an impairment, they would look at why and ensure the impairment had been properly reflected in the financial statements.

No decision was required.

7. ANNUAL INTERNAL AUDIT PLAN 2016-17

Lucy Cater introduced the audit plan as circulated with the agenda. The work of Audit Cotswolds; the council's internal audit service, provided assurance to the Audit Committee and SLT, as well as supporting the work of the external auditor. The plan (Appendix 1 of the report) was developed in January 2016, following consultation with the Senior Leadership Team, as well as this committee, and set out the risk based assurance and consultancy work planned for the year ahead, though this was not to say that it could not evolve to respond to any emerging issues

In response to a member question, Lucy accepted that some 2020 partners may have different concerns about governance and risk management and as such, different requirements from the audit plan. She would raise this at the next meeting and look to agree arrangements that suited each partner.

Upon a vote it was unanimously

RESOLVED that the Internal Audit Plan for 2016-17 be approved.

8. INTERNAL AUDIT MONITORING REPORT

Lucy Cater introduced the monitoring report which was designed to give the Audit Committee the opportunity to comment upon the work completed by the partnership and provide 'through the year' comment and assurances on the control environment. The report set out current progress against each of the areas of work and she highlighted the 'Satisfactory' assurance for Accounts Payable (Transactional Testing); a random sample of 20 invoices were tested and of these 20, 18 were paid within 30 days, though this was not always within the suppliers terms as set out on the invoice. Testing identified that two duplicate payments; one due to two invoices having been issued with two different invoice numbers and the other instance due to the fact that the invoice

was processed under two different supplier IDs. These payments did not represent large sums and members were assured that any duplicate payments were in the process of being recouped. At the time of testing 22% of invoices that were paid had a purchase order and this number had increased to 28% when reviewed again today, however, it was important that members understood that not all payments required a purchase order (utilities, subscriptions, refunds and benefit payments).

Officers, including the Corporate Governance, Risk and Compliance Officer, Accountant and Internal Audit officers, gave the following responses to member questions;

- The system will highlight that a payment has already been made, if the same invoice number (against the same supplier code) is entered twice and the fact that payment of invoices if escalated to another officer if someone is on leave or off sick, could explain why some payments were duplicated.
- Purchase Orders would mitigate against any risk of duplicate payments regardless of differing invoice numbers/supplier codes.
- The policy clearly stated which payments were exempt from having a purchase order and which were not. There was no way of differentiating, on the system, which payments did and did not require a purchase order and therefore it was for Cost Centre Managers to identify invoices which lacked the required purchase order and block the payment. The Deputy Section 151 Officer was in the process of trying to create and manipulate a report from the system, which could be used to challenge those not adhering to the policy, but given the huge number of payments which were exempt, this was not as quick and/or easy as it may sound and as such, was taking time.
- Due to the long term absence of the Head of Audit Cotswolds, it had not been possible to conclude follow-up work in relation to the Art Gallery & Museum and Car Parking. It was hoped that these would be concluded in time for the next meeting.
- The 2 Right to Buy applications which had been prevented had been prevented as the applications were being made fraudulently; either the people did not live in the property or they had been dishonest about their circumstances.
- The 'sentences' referenced in the Counter Fraud Update included fines, suspended sentences, costs and public service.
- CBH had an agreed set of costs, but given that these could not be written off the council, the Counter Fraud Unit would be reviewing these costs, with a view to increasing them.
- Where prosecutions were listed for trial, the accused had pleaded 'not guilty'.

Members were concerned that it was still not possible to confirm whether the council was compliant with its policy; that stated that all invoices (not including those that are exempt) must have a purchase order before payment could be made. They asked that a briefing be produced in time for the next meeting (15 June) that included; a diagram of the process associated with each kind of payment (exempt, with purchase order and without purchase order), the level of compliance at the time of writing the briefing, a timescale for being 100%

compliant (if not already) and details of consequences for any officers identified as not adhering to the policy on a regular basis.

Upon a vote it was unanimously

RESOLVED that the Internal Audit Monitoring Report be noted.

9. ANNUAL RISK MANAGEMENT REPORT AND POLICY REVIEW

The Corporate Governance, Risk and Compliance Officer introduced the Annual Risk Management Report and policy review, as circulated with the agenda. He apologised to the one member who had been provided with a hard copy of the papers, as the track changes had not carried through onto the printed copies and therefore a replacement had been provided. This was not an issue for all other members with iPads. He explained that there had been no substantive changes, with a number simply relating to a change of job title. He took the opportunity to reassure members that the council required any organisation with whom it entered into a shared service with, to have a Risk Management Policy and to report any issues or concerns to the council.

A member felt that the policy was missing something about appetite for risk. He felt that the policy needed to make it clear that there may be instances where the council agreed to proceed with a high level of risk, for a period of time, without taking any action to mitigate that risk. He also felt that such risks should be clearly identified on the risk register so that they were easily identified by scrutiny, who would ordinarily review any risks marked as 'red' on the register. Another member felt that paragraph 10.10 made clear that Cabinet/Council would take such decisions but her concern was in relation to decisions such as this being taken by partners. She felt strongly that this was one of many reasons why members from this council should be on committees of shared services.

Upon a vote it was unanimously

RESOLVED that;

- 1. The risk management work undertaken in 2015-16 be noted.**
- 2. The Risk Management Policy for 2016-17 be approved.**

10. REVISED CODE OF CORPORATE GOVERNANCE

The Corporate Governance, Risk and Compliance Officer, introduced the revised Code of Corporate Governance and explained that there had been no substantive changes this year, other than job titles and the generic term 'shared services' having being adopted for all partnership arrangements.

Shared Services and Joint Committees would be differentiated in the policy next year, acknowledging that powers were seeded with Joint Committees and therefore scrutiny arrangements were different.

Upon a vote it was unanimously

RESOLVED that having considered the Code and suggested an appropriate change to future versions, the 2016-17 Code be approved for use for 2016-17.

11. REVIEW POLICY GUIDELINES AND NEW POLICY AND PROCEDURES FOR THE ACQUISITION OF COMMUNICATIONS DATA USING THE REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)

The Corporate Governance, Risk and Compliance Officer and Internal Auditor from the Counter Fraud Unit, first reported that no RIPA powers had been used in 2015-16. There had been no substantive changes to the policy since last year, though it had been amended to reflect the new senior management structure and the roles and responsibilities of the officers involved in the authorisation and management of the RIPA process. New powers pertaining to the acquisition of communications data were now available to the council and the Counter Fraud Unit was keen to be able to use them when necessary. A new policy had been drafted to provide transparency and guidance on the process, which unlike surveillance, was likely to be used as part of investigations. Authorisation across all councils had not yet been agreed, but once this work was completed, officer and member training and briefings would be arranged.

The following responses provided to member questions;

- Statistics on the use of these new powers would be included in the counter fraud update which would form part of the Internal Audit update at each meeting. It would not be possible to include any more information about ongoing investigations.
- The decision making authority on use of these powers would be the authority that had referred the case for investigation and this would remain so throughout the investigation regardless of whether it crossed into other boundaries.

Upon a vote it was unanimously

RESOLVED that;

- 1. The continued use of the existing CBC RIPA Procedural Guidance be approved.**
- 2. The new Policy and Procedures Document for the acquisition of Communications Data using the Regulation of Investigatory Powers Act 2000 (RIPA) be approved.**

12. 2020 VISION - RESIDUAL CORPORATE SERVICES

As of the 1 April 2016, delivery of the Counter Fraud Unit and Internal Audit Service would be delegated to the 2020 Joint Committee. Members were assured that there would be no change to day-to-day service delivery, with the Audit Committee remaining the designated member level group responsible for monitoring performance of the new shared service.

The Chairman noted that there was no reference to the Oxfordshire devolution bid and that there could well be issues that arose if the proposal to move the Cotswolds into a new local authority in West Oxfordshire, went ahead.

No decision was required.

13. WORK PROGRAMME

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

A follow-up on the Purchase Order Management system would be scheduled for the next meeting.

The Corporate Governance, Risk and Compliance Officer enquired whether members of the committee would be interested in attending 'Effective Audit Committee' training which was currently being arranged by Grant Thornton and Gloucestershire County Council. A post-elections date would be arranged and this would be communicated to members of the Audit Committee.

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

There were no urgent items requiring discussion.

15. LOCAL GOVERNMENT ACT 1972 - EXEMPT INFORMATION

Upon a vote it was unanimously

RESOLVED that in accordance with Section 100A(4) Local Government Act 1972 the public be excluded from the meeting for the remaining agenda items as it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public are present there will be disclosed to them exempt information as defined in paragraph 5, Part (1) Schedule (12A) Local Government Act 1972, namely:

Paragraph 5; Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings

16. APPROVAL OF EXEMPT MINUTES

The exempt minutes of the meeting held on the 23 September 2015 had been circulated with the agenda. Members were reminded that approval of these minutes had been deferred from the January meeting as not all members had reviewed them on the iPad.

Upon a vote it was unanimously

RESOLVED that the exempt minutes of the meeting held on the 23 September 2015, be agreed and signed as an accurate record.

17. DATE OF NEXT MEETING

The next meeting was scheduled for the 15 June 2016.

Colin Hay
Chairman

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Audit Committee
Progress and Update Report for
Cheltenham Borough Council
Year ended 31 March 2016

1 June 2016

Peter Barber

Engagement Lead

T 0117 305 7897

E peter.a.barber@uk.gt.com

Jackson Murray

Audit Manager

T 0117 305 7859

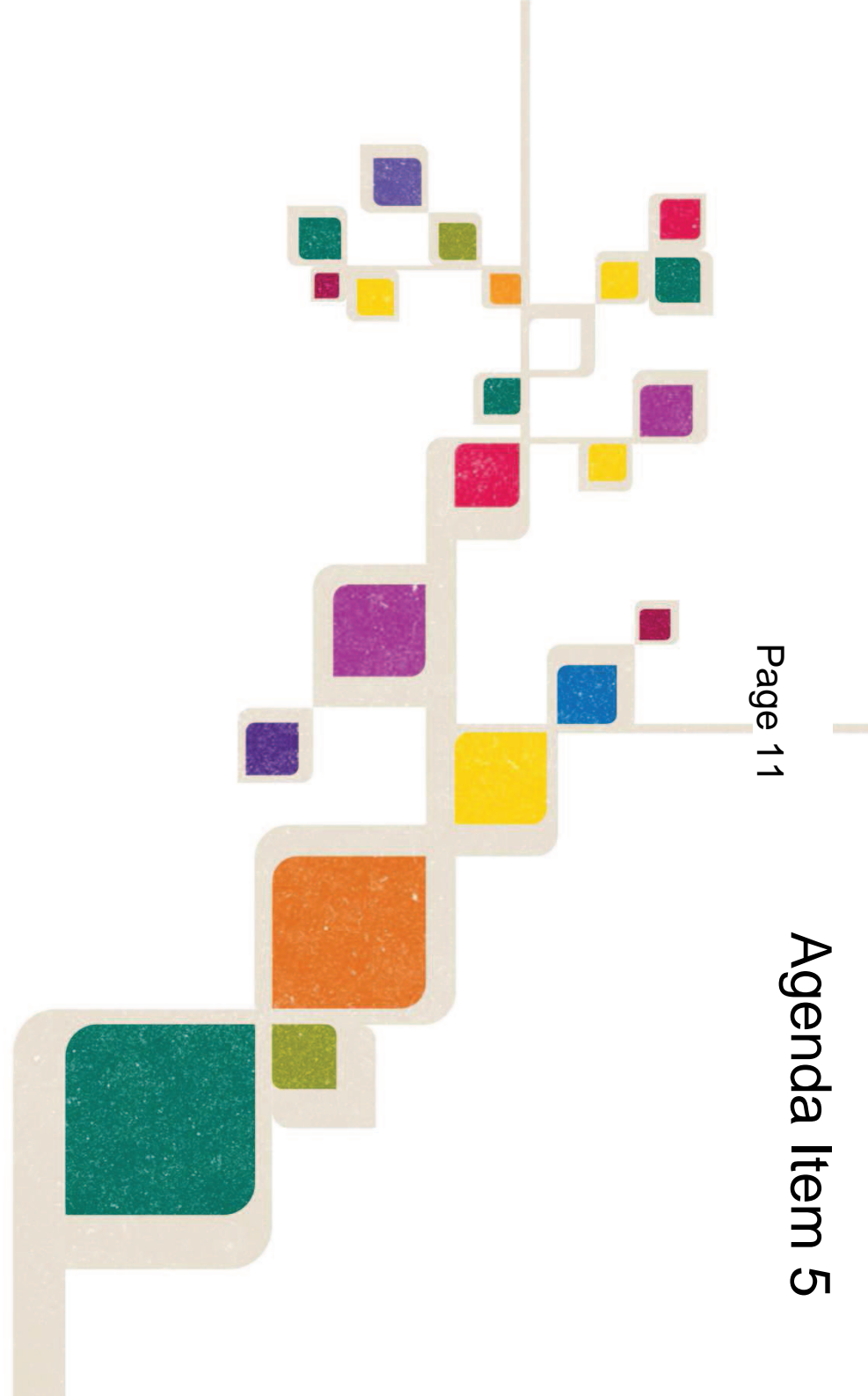
E jackson.murray@uk.gt.com

Katie Haines

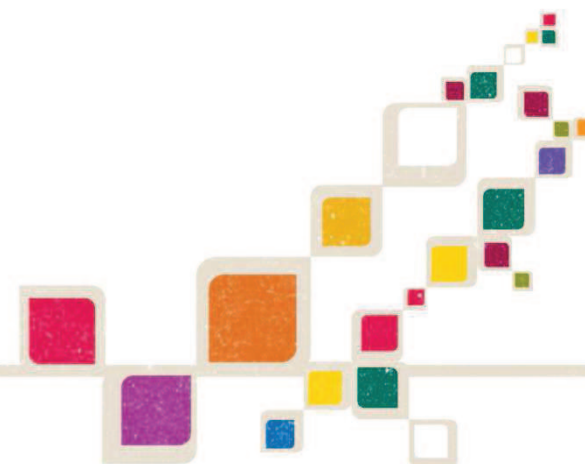
In Charge Auditor

T 0117 305 7697

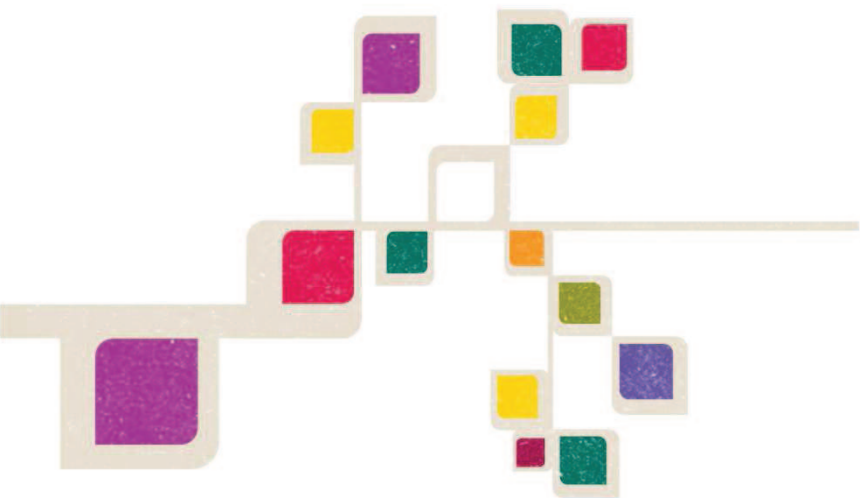
E katie.v.haines@uk.gt.com



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.

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 including:

- Better Together: Building a successful joint venture company;
<http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>
- Knowing the Ropes – Audit Committee; Effectiveness Review ;
www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/
- Making devolution work: A practical guide for local leaders (October 2015)
www.grantthornton.co.uk/en/insights/making-devolution-work/

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 Engagement Manager.



Peter Barber

Engagement Lead

T 0117 305 7897

M 07880 456 122

E peter.a.barber@uk.gt.com



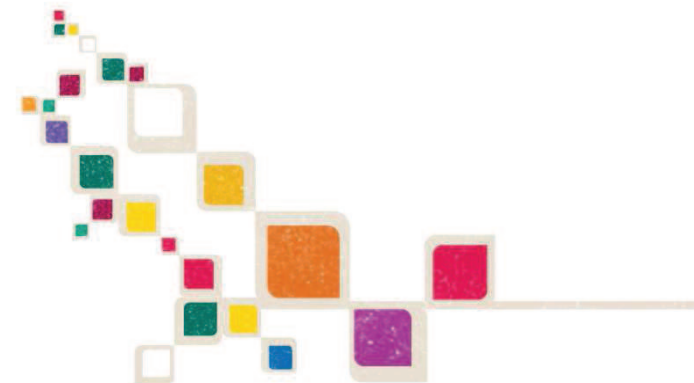
Jackson Murray

Engagement Manager

T 0117 305 7859

M 07825 028 920

E jackson.murray@uk.gt.com



Progress at 1 June 2016



 **Progress against plan**
On track

 **Opinion and VfM conclusion**
Plan to give before deadline of 30 September 2016

 **Outputs delivered**
Fee letter, Progress Reports, delivered to plan

2015/16 work	Completed	Comments
<p>Fee Letter We issued the planned fee letter for 2015/16 in June 2015.</p>	April 2015	We have also recently issued the fee letter for 2016/17, with no change to the fee charged in the prior year proposed. This letter is included as a separate agenda item at this Audit Committee.
<p>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 2015-16 financial statements.</p> <p>We also inform you of any subsequent changes to our audit approach.</p>	March 2016	This was presented to the Audit Committee at the March 2016 meeting.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's 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 	March 2016	<p>Interim audit findings for the work completed to date were reported in the Audit Plan presented to Audit Committee at the meeting in March 2016.</p> <p>As part of our formal communication between auditors and the council's Audit Committee, as 'those charged with governance' we prepare a specific report which covers some important areas of the auditor risk assessment where we are required to make inquiries of management and the Audit Committee under auditing standards. This is included as a separate item on this meeting's agenda.</p>

Progress at 1 June 2016



2015/16 work	Completed	Comments
<p>Final accounts audit Including:</p> <ul style="list-style-type: none"> Audit of the 2015-16 financial statements proposed opinion on the Council's accounts 	<p><i>Planned for July - August 2016</i></p>	<p>We are planning to complete our post statements audit in July and August 2016.</p> <p>To help the Council prepare appropriate evidence to support the financial statements, we have provided a schedule of the working papers that we expect and discussed the implications of emerging accounting matters with finance staff.</p>
<p>Value for Money (VfM) conclusion The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> Informed decision making Sustainable resource deployment Working with partners and other third parties 	<p><i>February – September, formal conclusion reported by 30 September 2016</i></p>	<p>We set out the significant risks identified as part of our planning procedures in our Audit Plan reported to Audit Committee in March 2016.</p> <p>The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report prior to the 30 September 2016 deadline.</p>
<p>Other activities We provide a range of workshops, along with network events for members and publications to support the Council.</p>	<p><i>June 2016</i></p> <p><i>August 2016</i></p>	<p>We are providing a free training session for Audit Committee members from the County and District Councils in June 2016 to support members to understand the role of the Audit Committee.</p> <p>We have arranged a free demonstration of our CFO Insights tool for members of management at the Council and its Go Partners. This will take place in Cheltenham 1 August 2016.</p>

Better Together: Building a successful joint venture company

Local government is evolving as it looks for ways to protect front-line services. These changes are picking up pace as more councils introduce alternative delivery models to generate additional income and savings.

'Better together' is the next report in our series looking at alternative delivery models and focuses on the key areas to consider when deciding to set up a joint venture (JV), setting it up and making it successful.

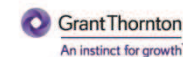
JVs have been in use for many years in local government and remain a common means of delivering services differently. This report draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges.

Key findings from the report:

- JVs continue to be a viable option – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income
- There is reason to be cautious – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils
- There is a new breed of JVs between public sector bodies – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture.

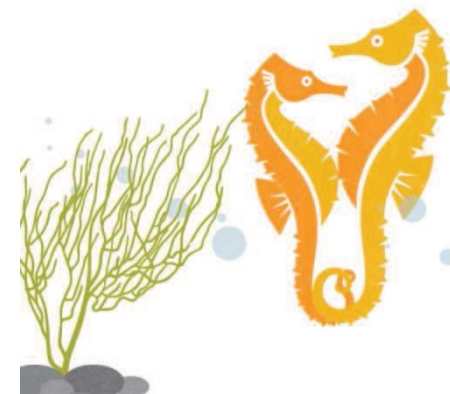
Our report, Better Together: Building a successful joint venture company, can be downloaded from our website: <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>

Grant Thornton reports



ALTERNATIVE SERVICE DELIVERY MODELS IN LOCAL GOVERNMENT

Better together
Building a successful
joint venture company



Fighting Fraud and Corruption Locally

Fighting Fraud and Corruption Locally is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape .

This strategy is the result of an intensive period of research, surveys, face-to-face meetings and workshops. Local authorities have spoken openly about risks, barriers and what they feel is required to help them improve and continue the fight against fraud and to tackle corruption locally.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

The strategy:

- calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment
- illustrates the financial benefits that can accrue from fighting fraud more effectively
- calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement
- updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan
- sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

The strategy can be downloaded from <http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally>

CIPFA publication

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Paul Jones
Section 151 Officer
Cheltenham Borough Council
Municipal Offices
Promenade
Cheltenham
GL50 9SA

Grant Thornton UK LLP
Hartwell House
55-61 Victoria Street
BRISTOL
BS1 6FT

T +44 (0)117 3057600

www.grantthornton.co.uk

6 April 2016

Dear Paul

Planned audit fee for 2016/17

The Local Audit and Accountability Act 2014 provides for the introduction of a new framework for local public audit. Under these provisions, the Audit Commission closed in March 2015 and the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.

PSAA will oversee the Commission's audit contracts for local government bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements until 2017/18. PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

Scale fee

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timescales'.

There are no planned changes to the overall work programme for local government audited bodies for 2016/17, bar the adoption of new measurement requirements for the Highways Network Asset. As Cheltenham Borough Council do not have a Highways Network Asset, this does not apply.

PSAA have proposed that 2016/17 scale audit fees (excluding work completed on the Highways Network Asset) are set at the same level as the scale fees applicable for 2015/16. The Council's scale fee for 2016/17 has been set by PSAA at £49,406.

The audit planning process for 2016/17, 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

Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors from April 2015. Audits of the accounts for 2016/17 will be undertaken under this Code, on the basis of the work programme and scale fees set out on the [PSAA website](#). Further information on the NAO Code and guidance is available on the [NAO website](#).

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)

As outlined above, the fee for any additional work in respect of the Highways Network Asset is not included in this fee.

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

Value for Money conclusion

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Certification of grant claims and returns

The Council's indicative grant certification fee has been set by PSAA at £9,015. This fee covers the cost of certifying the housing benefit subsidy claim only and is based on final 2014/15 certification fees.

The indicative fee for certification work is based on the expectation that you provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

Assurance engagements for other schemes will be subject to separate arrangements and fees agreed between the grant-paying body, the Council and ourselves

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2016	12,351.50
December 2016	12,351.50
March 2017	12,351.50
June 2017	12,351.50
Total	49,406.00
Grant Certification	
March 2017	9,015.00

Outline audit timetable

We will undertake our audit planning and interim audit procedures in December 2016 to March 2017. 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 June to September 2017 and work on the whole of government accounts return in June to September 2017.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	December 2016 – March 2017	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	June – September 2017	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	January – September 2017	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	June – September 2017	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	January 2018	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.

Grant certification	January 2018	Grant certification report	A report summarising the findings of our grant certification work
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Our team

The key members of the audit team for 2016/17 are:

	Name	Phone Number	E-mail
Engagement Lead	Peter Barber	0117 305 7897	peter.a.barber@uk.gt.com
Engagement Manager	Jackson Murray	0117 305 7859	jackson.murray@uk.gt.com
In Charge Auditor	Katie Haines	0117 305 7697	katie.v.haines@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 Jon Roberts, our Public Sector Assurance regional lead partner, via Jon.Roberts@uk.gt.com.

Yours sincerely



Peter Barber

Engagement Lead

For Grant Thornton UK LLP



Cheltenham Borough Council
Audit Committee – 15 June 2016
Auditing Standards (communicating with the Audit
Committee)

Executive Summary	<p>In compliance with International Auditing Standards, we are required annually to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. We are also required to make inquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. These inquiries are made in part to corroborate the responses to inquiries that we are also required to make of management.</p> <p>At Cheltenham BC, the Audit Committee are 'those charged with governance', and we sent a standard letter to the Chair with a set of questions designed to cover the requirements of the auditing standards. We also wrote to Paul Jones, as Section 151 Officer at the Council in his role as 'management'.</p> <p>It is good practice for the Audit Committee to review and agree the responses made to these questions by the Chair on behalf of the Committee. The draft response from the Chair is attached.</p>
Recommendation	<p>The Committee are asked to review the draft response, and are then asked to approve the Chair to sign the responses.</p>

Responses from Chair of the Audit Committee:

Auditor question	Response
<p>Have you assessed the risk of material misstatement in the financial statements due to fraud?</p>	<p>Yes.</p> <p>The highest material risk is in respect of Treasury Management activity although this is mitigated through different 'layers' of segregation of duties (initiator, reviewer and approver) and regular internal audit reviews.</p> <p>The internal audit plan includes a risk based audit of the core financial systems that are used in the compilation of the financial statements. These core systems are audited annually and any risks identified that may result in the financial statements being materially misstated due to fraud will be reported to the Corporate Governance Group and the Audit Committee.</p>
<p>What are the results of this process?</p>	<p>I can confirm that at 31st March 2016 I am not aware of any fraud that might cause a misstatement of the accounts.</p>
<p>What processes do you have in place to identify and respond to the risks of fraud?</p>	<p>The Council has a zero tolerance approach to fraud and will investigate any allegations or whistleblowing complaints.</p> <p>The Counter Fraud, Corruption and Bribery Policy, Internal Audit Charter and the terms of reference for the Head of Audit Cotswolds (Chief Internal Auditor) are formally agreed by Council. These documents set out the role of Internal Audit in the prevention and investigation of fraud. The Audit Committee also approves the risk-based annual audit plan which includes allocation of resources to respond to fraud allegations and prepare audits to consider possible areas where fraud may be a risk.</p> <p>Audit Cotswolds has also established a Counter Fraud Unit following the successful bid in February 2015 to the Department of Communities and Local Government (DCLG) for funding. This ensures the authority retains skills and resources to tackle fraud following the Department of Work and Pensions Single Fraud Investigation Service (DWP SFIS) led changes.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified, and what has been done to mitigate these risks?</p>	<p>The Counter Fraud Unit is in the first stages of set up and as such reports of high risk areas and findings are yet to be compiled.</p>

Auditor question	Response
	Historically the Council has targeted abuse within the Housing Benefit and Council Tax Reduction Scheme system and there has been little focus elsewhere. A project update was provided to the March Audit Committee meeting.
Are internal controls, including segregation of duties, in place and operating effectively?	Yes. The internal auditors review all key systems annually and any breaches of internal control would be reported to both the Section 151 Officer and the Audit Committee. Any special investigations carried out by Audit Cotswolds are also reported to the Audit Committee.
If not, where are the risk areas and what mitigating actions have been taken?	N/A.
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)?	<p>Budgetary pressures / savings targets are shared by the Senior Leadership Team. There is open reporting of progress to Cabinet via budget monitoring reports which are regularly scrutinised by the Budget Scrutiny Working Group.</p> <p>Treasury Management activity is reported and scrutinised by the Treasury Management Panel and Cabinet on a regular basis and reported through to Full Council.</p>
Are there any areas where there is a potential for misreporting?	<p>There is always the potential but we believe appropriate checks and balances are in place within the teams, and through GO Shared Services, to ensure misreporting does not occur.</p> <p>The Council monitors budgets to cost centre level which highlights any unexpected variances for further investigation.</p> <p>Financial rules govern what is required to be reported and controls the rules surrounding 'virement'.</p>
How do you exercise oversight over management's processes for identifying and responding to risks of fraud?	The Audit Committee receives regular reports from internal and external audit and the responsibility for reviewing the Code of Corporate Governance, Anti-Fraud and Corruption policies sits with the Audit Committee.
What arrangements are in place to report fraud issues and risks to the Audit Committee?	The responsibility for the investigation of actual or suspected fraud now lies with the Head of Audit Cotswolds under the Counter Fraud Unit who report to the Audit Committee on a quarterly basis.

Auditor question	Response
	<p>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 (where appropriate) which is reviewed regularly by SLT. All reports to committees require financial implications to be identified and include a template for HR, financial and legal implications and risks to be identified and scored.</p>
<p>How do you communicate and encourage ethical behaviour of staff and contractors?</p>	<p>Code of conduct for employees (link via intranet).</p> <p>Contract procedure rules for contractors.</p> <p>Procurement Strategy.</p> <p>The officer Corporate Governance Group addresses ethical matters as part of its work.</p>
<p>How do you encourage staff to report their concerns about fraud?</p> <p>Have any significant issues been reported?</p>	<p>All employees are periodically reminded of the whistleblowing policy and all staff are expected to sign related party transaction declarations on an annual basis.</p> <p>No significant issues have been reported.</p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p>No – but the Councils constitution requires members to declare any such interests and where appropriate withdraw. Senior decision making officers are also required to declare any related party transactions.</p>
<p>Are you aware of any instances of actual, suspected or alleged fraud, either within the Council as a whole, within specific departments or in other entities within the Group since 1 April 2015?</p>	<p>Other than Benefit and Council tax fraud – no.</p>
<p>What arrangements do you have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>Managers and team leaders are expected, by virtue of their job descriptions and personal professional development requirements, to keep up to date and comply with laws and regulations as they apply to their duties and those of their teams.</p> <p>In addition, the Council’s legal provider, One Legal (which is a shared service between the Council and Gloucester City Council and Tewkesbury Borough Council) advises officers and members on laws and regulations.</p>

Auditor question	Response
	<p>Within One Legal new legislation and regulations are monitored via various electronic resources including Local Government Association updates, Local Government Lawyer, Westlaw and PLC.</p> <p>Key changes in the law are considered by the Senior Leadership Team and, for any legislation that has a significant impact on the functions of the Council, working groups are set up and implementation plans prepared.</p> <p>Any potential non-compliance is reported to the Senior Leadership Team and an action plan put in place.</p> <p>The Annual Governance Statement also identifies areas of concern and areas for improvement.</p>
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>Key changes are reported to the Senior Leadership Team and, for any legislation that has a significant impact on the functions of the Council, working groups are set up and implementation plans prepared.</p> <p>Any potential non-compliance is reported to the Senior Leadership Team and an action plan put in place.</p>
<p>How are you provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Through the Annual Governance Statement which identifies areas of concern and areas for improvement.</p> <p>In addition, training sessions are used to explain new legislation. Where the changes would have a significant impact on the Council they will appear on the corporate risk register which is available. Any accounting requirements are explained at the annual workshop to help understand the accounts.</p> <p>For any specific cases a special report is prepared for the Audit Committee.</p>
<p>Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2015?</p>	<p>No.</p>
<p>What arrangements do you have in place to identify, evaluate and account for litigation or claims?</p>	<p>The Council's legal team work with management when any potential claims or litigation are identified; it also provides the Head of GO Shared Services with details of any litigation or claims for inclusion within the financial statements.</p> <p>The Council has a customer complaints process</p>

Auditor question	Response
	<p>which aims to resolve issues before they escalate.</p> <p>The Council has robust risk management in place which includes the recording of any risks of litigation or claims either within service areas or corporately.</p> <p>The Council has processes in place to manage significant contracts so they operate on a partnership basis and any issues can be raised and managed with the aim of minimising litigation or claims. Contract performance is monitored by the use of management information including key performance indicators.</p>
<p>Are there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>No.</p>
<p>Have there been any reports from other regulatory bodies, such as HMRC, which indicate non-compliance?</p>	<p>No.</p>

Signed.....

Date.....

Audit Committee Chairman Councillor Colin Hay

Cheltenham Borough Council

Cheltenham Borough Council Audit Committee –15 June 2016 Internal Audit Annual Opinion

Accountable member	Cabinet Member Corporate Services, Councillor Roger Whyborn
Accountable officer	Head of Internal Audit (Operational) – Lucy Cater On behalf of: Head of Audit Cotswolds – Robert Milford
Ward(s) affected	All
Significant Decision	No
Executive summary	<p>The Internal Audit Annual Opinion, Appendix A, gives the opinion, on behalf of Head of Audit Cotswolds 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. The 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.</p> <p>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, the opinion is 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.</p> <p>Where operational control issues were raised, the risks associated with the control issues raised, in the audit reports, are being actively managed by the responsible Management.</p> <p>Due to the information contained in The Opinion, it was deemed unnecessary to submit a quarterly monitoring report but Executive summaries for audits concluded since the last Audit Committee are attached at Appendix B.</p>
Recommendations	That the Committee considers the report and comments as necessary
Financial implications	None received. Contact officer: Paul Jones / Sarah Didcote

Legal implications	None received. Contact officer: Peter Lewis, Head of Legal Services, One Legal peter.lewis@tewkesbury.gov.uk, 01684 272012
HR implications (including learning and organisational development)	None received. Contact officer: Julie McCarthy, HR Manager julie.mccarthy@cheltenham.gov.uk, 01242 264355
Key risks	That weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives, if recommendations are not implemented.
Corporate and community plan Implications	<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> Therefore the internal audit activity impacts on corporate and community plans.
Environmental and climate change implications	None.

1. Background

- 1.1** The report outlines how the Internal Audit function has supported the Council in meeting the requirements of Regulation 4 the Accounts and Audit Regulations 2011. These state that:

“The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes arrangements for the management of risk.”

“The relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control.”

- 1.2** Under the CIPFA Public Sector Internal Audit Standards the chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme

2. Reasons for recommendations

2.1 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 assurances available to the Audit Committee, the Senior Leadership Team, and supports the work of the external auditor.

3. Annual Internal Audit Opinion

3.1 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

Report author	<p>Lucy Cater, Head of Internal Audit (Operational) 01285 623340 lucy.cater@cotswold.gov.uk</p> <p>On behalf of : Robert Milford, Head of Audit Cotswolds</p>
Appendices	<p>Appendix A of this report sets out the Annual Internal Audit Opinion Appendix B – Executive summaries</p>
Background information	<p>Internal Audit Monitoring reports presented to the Audit Committee throughout 2015/16</p>

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



INTERNAL AUDIT REPORT
Cheltenham Borough Council

Annual Internal Audit Opinion 2015/2016

Introduction

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

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

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

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

Responsibilities

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

Opinion on the overall adequacy and effectiveness of the control environment

This Annual Report gives the opinion on behalf of Head of Audit Cotswolds, 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. The 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 the 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, on behalf of Head of Audit Cotswolds, on the control environment forms part of the evidence supporting the Council's Annual Governance Statement. The primary basis for this opinion, the work undertaken during the year, is detailed within **Appendix A**. There were matters arising from the work during the year that were deemed a significant control weakness. A 'limited assurance' opinion was issued in these circumstances. 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.

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 Audit Partnership Board members are the S151 Officers and act as our client officers to ensure quality of service.

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

- 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.
- Conducting periodic meetings with the auditor during site work,
- Review and approval of the draft report,
- Review and assessment of the working file,
- Agreement of the 'points forward', the issues for consideration at next audit review or for the next audit plan

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

Effectiveness of Internal Audit

Although the above sections of this report outline compliance with national standards there is no national measurement of effectiveness. Indications that we provide an effective service is obtained from the Audit Partnership Board and that Council management are proactive in audit planning and responsive to recommendations and advice. Performance against local performance indicators is reported to each client. Performance is also measured in comparison to other local authorities who are members of the CIPFA benchmarking group. We have an Audit Charter and work to an approved Annual Plan. The Audit Charter and the Annual Plan demonstrate what the Council wishes from its internal audit service, eg the relationship or balance between financial, governance and operational assurances, consultancy type work, value for money activity and counter fraud work.

Developing the Internal Audit planning process

The Audit Plan for 2015/2016 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.

Resourcing

The service is delivered by Audit Cotswolds. This partnership has enhanced the resilience and skills base of the service. The service through 2015/2016 was delivered by a team with the following professional institute backgrounds:

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

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

During a time of exceptional change and restructuring at Audit Cotswolds, which caused uncertainty and low morale throughout the Audit team, Lucy Cater kept the team motivated with her confident and reassuring manner and ensured that the audits produced were of a high standard and on schedule. Unbeknown to Lucy, she was nominated, by the team, for the Chartered Institute of Internal Auditors inaugural Audit & Risk Awards - Inspirational Leader (Public Sector). The team particularly praised her attitude, ability to lead, support and unify, and her success at building team spirit. Although all contenders were strong nominations Lucy won the award. Some of the comments made in deciding Lucy as the winner were "Lucy's nomination stood out as she had 360 degree support across all areas – leadership, team members and role model. We were also touched that the team had nominated her without her knowledge, clearly indicating they felt she deserved the award. And with only eight years' experience we felt her achievements were particularly impressive." Lucy is currently the Head of Internal Audit (Operational) due to the Head of Audit Cotswolds involvement in the Counter Fraud Project.

A supportive network has developed in recent years between the Internal Audit Sections across the Gloucestershire Districts. We have provided audit assurance to the GO Shared Service with a working relationship with the Internal Audit team at the Forest of Dean DC.

There is within the structure the ability for the partnership to call on specialist consultants if necessary. The service also has the ability to agree "extraordinary work", whereby the client can request us to undertake specific work outside of the agreed annual audit plan. This is funded by agreement with the client.

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
- One member of the team completed their final year of the 'MSc Audit Management and Consultancy' which embodies the Chartered Institute of Internal Auditors professional qualification. They also gained the CMIIA designation
- One member of the team is three years into a PhD on Shared Service Governance in Local Authorities

Looking forward

During 2015/2016 we explored the possibility of an audit management software system. Demonstrations were given from various companies and sites visited to see the systems working. Tenders were invited and

procurement has been made for the preferred system. The system is to be implemented during 2016/2017 which will save time, increase efficiency and maximize the power of collaborative working.

In September and October 2015 each of the four councils' Cabinets and Full Councils (Cotswold District Council, West Oxfordshire District Council, Cheltenham Borough Council, and Forest of Dean District Council) made the decision to proceed with the 2020 Vision Programme. The four authorities share a focus on efficiency and on achieving value for money for council tax payers. This concern for efficiency goes hand-in-hand with the partner authorities' shared vision of a district council having a wider responsibility for what is often characterised as 'place-shaping'. The authorities play a community leadership role - looking after the long-term environmental, social and economic needs of their localities, their citizens and businesses - and must act as champions of their communities on behalf of their citizens.

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.

Lucy Cater MSc MAAT
Head of Internal Audit (Operational)

On behalf of:

Robert Milford MA PGDip CMgr FCMI CMIIA MMS
Head of Audit Cotswolds



Cheltenham Borough Council

Cheltenham Borough Council

Internal Audit Annual Opinion
on the effectiveness of the system of Internal Control for
the year ended 31 March 2016

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 Public Sector Internal Audit Standards, the Head of Audit Cotswolds 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 for 2015/16 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 purpose of the Internal Audit Annual 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.

The opinion for the year ended 31 March 2016 is set out as follows:

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

The **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 the 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 the 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 the opinion.

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

The 2020 Vision Programme has not had a significant impact on the control environment during 2015/16. This will be considered as part of the Internal Audit Opinion for 2016/17. Internal Audit have supported the 2020 Vision Programme, which is initiating transformation changes, both in terms of providing advice on governance matters and providing programme assurance including gateway reviews of the processes undertaken to inform strategic decisions.

In 2015/2016 audit monitoring reports were presented to the Audit Committee. These reports provided details of audit activity quarterly through the year. Within the reports, details of all finalised audit reports were provided for Audit Committee along with information relating to the service.

A table of internal audit work in 2015/2016 is detailed in **Appendix (i)**

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 the assessment of the overall control environment. Observations made by Internal Audit and the acceptance of advice have further enhanced the control environment.

The assessments reported from other inspection processes

In formulating the overall opinion on internal control, the Internal Audit department 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 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

Lucy Cater MSc, MAAT
Head of Internal Audit (Operational)

On behalf of:

Robert Milford MA PGDip CMgr FCMI CMIIA MMS,
Head of Audit Cotswolds

AuditCotswolds

Cheltenham Borough Council

Appendix (i)

Table of internal audit work 2015/16

AUDIT ACTIVITY / REVIEW AREAS & ASSURANCE LEVELS				
The table below provides a summary of the internal audit service activities and assurances gained.				
Ref	Audit Activity	Focus of assignment	Status	Type of Audit & Opinion
1	Annual Governance Statement	Support and review of the AGS	Complete	Assurance - Satisfactory
2	Risk Management	Review of the training for service managers	Final Report	Assurance - Satisfactory
3	Performance Management	Completion of 2014/15 audit. Review concentrated on Staff Performance	Draft Report	
4	Performance Management	Focus on performance of projects and programmes and in particular the role and responsibilities of SLT and Cabinet.	Draft Report	
5	Governance Compliance – Members Allowances	Completion of 2014/15 audit	Final Report	Assurance - Satisfactory
6	Governance Compliance	HR policy application by service managers: <ul style="list-style-type: none"> • Recruitment & Selection including induction • Capability, Grievance and Disciplinary • Training schemes 	Final Report	Assurance - Satisfactory
7	ICT	Application audits for key services ICT shared service support and review	ICT audits not undertaken due to secondment of auditor to ICT from 1 st July 2015. Assurances taken from the tasks appointed to the auditor and the controls implemented. As the ICT service is provided from the Forest of Dean District Council (FODDC), assurances have also been gained from the audits conducted by SWAP, auditors to the FODDC	
8	NNDR	Year 2 module of 3 year programme	Interim assessment completed	Assurance - Satisfactory
9	Benefits	Year 2 module of 3 year programme	Interim assessment completed	Assurance - Satisfactory
10	Council Tax	Year 2 module of 3 year programme	Interim assessment completed	Assurance - Satisfactory
	GOSS – Finance Systems	<i>Review on GO Module Audits and Client Testing:</i>		<i>Assurance -</i>
11		- Accounts receivable	Final Report	High
12		- Main Accounting	Final Report	High

13		- Treasury Management	Final Report	High
14		- Bank Reconciliation	Final Report	Satisfactory
15		- Payroll	Draft Report	
16		- Accounts Payable (transactional testing)	Final Report	Satisfactory
17		- Accounts Payable (SWAP Assurance)	Final Report	Substantial (High)
	GOSS – Human Resources	<i>Review on:</i>		<i>Consultancy -</i>
18		- Absence Recording	Final Report	Review to help inform Head of HR for 2020 Vision Programme
19		- Staff Allowances	Final Report	
20		- Job Evaluation Process	Final Report	
21	GOSS – Procurement, Insurance, Health & Safety	Health and Safety audit. Undertaken as part of Security Audit	Draft Report	
22	Data Protection & Control of Data	Completion of 2014/15 audit	Final Report	Assurance - Satisfactory
23	Social Media	Completion of 2014/15 audit	Final Report	Assurance - Satisfactory
24	Payment Channels and Income Streams	Completion of 2014/15 audit	Final Report	Assurance - Limited
25	Ubico Client Function	Follow-up to the 2013 audit review	Final Report	Assurance - Satisfactory
26	Business Continuity Management	Overall plans, service plans and service manager engagement	Audit deferred due to current work being undertaken in respect of BCPs	Consultancy to be undertaken in 2016/17
27	Accommodation strategy and property management	Review of strategy and property management	On-going due to resourcing issues	Work to be completed 2016/17
28	Security	Review of buildings and personal security	Draft Report issued	
29	Audit Committee Effectiveness	Review of Audit Committee against appropriate guidance and standards	Work deferred until after Elections	N/A
30	Contract Management	Review of key contracts including tender processes. Plus review of contractor use	Draft Report	
31	Task Force review	Review of processes and procedures used in the Cheltenham Development Taskforce project	Final Report	High
32	Safeguarding Adults and Children	Support the Safeguarding peer review and audit	On-going due to resourcing issues	Work to be completed in 2016/17
33	Transparency	Follow-Up of the 2013/14 Audit	Final Report	Assurance - High
34	Art Gallery & Museum follow-up	Follow-up of the recommendations made in the Art Gallery report	Delayed due to the long term absence of the Head of Audit Cotswolds, but now in progress	Work to be completed in 2016/17

35	Car-parking follow-up	Follow-up of the report submitted to Audit Committee in September 2015	Delayed due to long term absence of the Head of Audit Cotswolds.	Work to be completed in 2016/17
36	Parking Services Procurement	Advice in respect of replacement ANPR for Car Parking	Advice	N/A
37	Cash Handling	Advice in respect of cash handling in Planning Services	Advice	N/A
38	Petty Cash	Advice given in respect of Petty Cash Reimbursement	Advice	N/A
39	DFG / Home Loans	Advice given in respect of payments and invoicing	Advice	N/A
40	REST project support	Support and on-going advice regarding the REST project	On-going	
41	20:20 vision	Support and on-going advice regarding the 20:20 project	On-going	
42	Other change projects	Support for other projects	N/A	
43	Procurement and Implementation of Audit Management Software	Being implemented to aid increased efficiency in managing multiple audit plans and clients	On-going	N/A
44	National Fraud Initiative	Co-ordination of data submissions for the national data matching exercise	On-going	N/A
45	Counter Fraud (CFU)	Support from Internal Audit towards the development of the CFU and in aiding the investigation of matters arising within the year	On-going	N/A

Executive Summary for The Cheltenham Development Task Force	
Assurance	High
Overview & Key Findings	
<p>The Council had instituted a Civic Pride initiative “to rejuvenate and enhance the town of Cheltenham”. In October 2008 full Council formally approved in principle the establishment of an Advisory Board as the method for converting the Civic Pride aspirations into reality. In December 2009 it was reported to Cabinet and Council that an independent chair had been appointed to the Board, and that the Advisory Board cannot formally agree, it can only recommend. The inaugural meeting of the Board (as Civic Pride Advisory Board) took place on 28th January 2010. The 2015-2017 Task Force Business Plan states that “The Cheltenham Development Task Force came into existence on 4th January 2010”.</p> <p>In general terms the Task Force’s processes and procedures are sound. Nevertheless times of change do bring risk. The Task Force is now facing two certain and one possible change:</p> <ul style="list-style-type: none"> • the current Independent Chair is stepping back from his role for the immediate future, • CBC’s Chief Executive retired at the end of the 2015/2016 financial year, • there are Council elections in May 2016 which may affect Member representation on the Board. <p>These can create gaps in the governance structure and process, in the specific areas of:</p> <ul style="list-style-type: none"> • Independent Chairing of the Board • Officer attendance at Board • Member attendance at Board • Line management of the Task Force MD • Chairing of the Risk and Accountability Group <p>It is therefore pleasing to see that that the Council is addressing these issues, as follows:</p> <ul style="list-style-type: none"> • Seeking a new Board Independent Chair • The MD for Place and Economic Development is to attend the Board in place of the Chief Executive • New arrangements for the line management of the Task Force MD have been clearly defined to us, as have the roles of the Independent Chair, the MD for Place and Economic Development, and the Head of Paid Service in this process. • The Director of Corporate Resources is to chair the Risk and Accountability Group, in place of the Chief Executive <p>The Task Force’s governance documentation, the “<i>Proposed Memorandum of Understanding between partners</i>”, and the “<i>Advisory Board Operating Protocol</i>” are out of date and in need of review and updating, particularly recognising current roles, responsibilities, aims and objectives regarding the Taskforce.</p>	

Executive Summary for 2015/16 GO Shared Service HR: Job Evaluation

Assurance

Not applicable

Introduction

This is a review of Job Evaluation (JE) scheme in each of the three authorities: Cheltenham Borough Council (CBC), Cotswold District Council (CDC) and West Oxfordshire District Council (WODC). The review was requested by the GO Shared Services Head of HR in order to inform the 2020 programme.

Our principal objective was to establish the extent of commonality of approach in JE and to sample test to ensure processes are in accordance with policy. In order to achieve this we:

- Reviewed Job Evaluation processes
- Tested the Job Evaluation processes on a sample basis to verify that the pay grade of the post corresponded to that set when the Job Evaluation (JE) exercise was undertaken

The detail contained in this Executive Summary is specific to CBC only.

Background

The national Single Status Agreement was aimed at re-organising pay and rewards in Local Government, enabling councils to ensure that all staff receive equal pay for work of equal value. The Agreement required each Local Authority to undertake an extensive JE programme. JE is defined by ACAS as 'a method of determining on a systematic basis the relative importance of a number of different jobs'. There are a number of different models in use in Local Government. The National Joint Council (NJC scheme) is used at CBC.

Summary and Conclusion

We selected 5 posts from Agresso to verify that the pay grade of the post corresponded to that set when the JE exercise was undertaken. The results of our testing are shown below:

- For one post we were provided with the whole JE form showing scores for the post, officers involved in the JE, and the name of the Union officer.
- For three posts we were provided with excerpts from the master database spreadsheet which showed JE scores and pay grades set in each case. We were informed that although the roles were evaluated, there were no outcome sheets for each individual role, as they were done in batches and results recorded on the master database spreadsheet.
- For the final post in our sample we were not provided with a completed JE form. However, we were provided with a copy of a letter to the post holder from the relevant Director (line manager) showing JE scores and the pay grade set. We were also informed by the GOSS HR Manager (West) that she moderated the JE exercise for this particular post.

In each case we were able to verify that the pay grade set for each post as a result of the JE exercise corresponded to that currently being paid as per Agresso.

Management Response

CBC has a robust process in place following the 2008 Single status exercise.

Executive Summary for Staff Absence	
Assurance	Not applicable
<p>Overview and Key Findings This is a review of staff leave in each of the three Authorities: Cotswold District Council (CDC), Cheltenham Borough Council (CBC), and West Oxfordshire District Council (WODC). The review was requested by the GO Shared Services Head of HR in order to inform the 2020 programme.</p> <p>Background Our principal objective was to establish the extent of commonality of approach in staff leave across the three Authorities, and in particular comparison of rules and regulations as regards each type of leave (principally as per Staff Handbooks). A number of inconsistencies and omissions are evident.</p> <p>Testing of Annual Leave We conducted a limited amount of testing, as follows: Tracing annual leave per flexitime records to actual annual leave recorded in Agresso, and reviewing annual leave records as per Agresso, to verify that:</p> <ul style="list-style-type: none"> • Annual Leave entitlement as shown in Agresso corresponded with Length of Service • Leave taken annually does not exceed the Annual Leave entitlement (as per b/f and c/c regulations) • Annual Leave taken is being recorded in Agresso <p>Our general findings were as follows:</p> <ul style="list-style-type: none"> • All Annual Leave entitlements as shown in Agresso corresponded with Length of Service, also as per Agresso • Annual Leave taken is being recorded in Agresso <p>Conclusion/Recommendations Our comparison of Policies revealed a number of inconsistencies and omissions across the three Authorities. A number of findings also arose from our testing work; as a result of these we would recommend that managers and officers are reminded of the need to:</p> <ul style="list-style-type: none"> • Identify Annual Leave clearly on flexitime sheets • Always record Annual Leave in Agresso • Ensure Annual Leave dates are the same in Agresso as on flexitime sheets • Managers to reconcile Annual Leave and Flexi records to Agresso to ensure the accuracy of leave entitlements to aid year end accounting processes. <p>Management Response HR & Payroll (East) periodically send out communications (through Team Brief, email and intranet) to remind managers of their responsibilities with regard to updating ABW. The team will send out an up to date reminder to managers to ensure they follow guidance in respect of completing timesheets and ABW so that they both correspond correctly to each other.</p>	

Executive Summary for 2015/16 GO Shared Service HR: Staff Allowances**Assurance****Not Applicable****Overview and Key Findings**

This is a review of allowances paid to staff in each of the three Authorities: Cotswold District Council (CDC), Cheltenham Borough Council (CBC), and West Oxfordshire District Council (WODC). The review was requested by the GO Shared Services Head of HR in order to inform the 2020 programme.

Our principal objective was to establish the extent of commonality of approach in paying allowances to staff across the three Authorities, and in particular comparison of:

- Types of allowance payable and paid by each Authority
- Rules and regulations for each allowance (particularly as per Staff Handbooks)
- Rates payable per allowance, and actually paid
- Different rates paid for the same Allowance across Authorities

Background

At CBC, the policies / guidance are available on the intranet. A Payroll Analysis Code report was produced from the ABW system which identified all the different allowances which can be used within the system. Analysis was then undertaken to determine the codes used across the three authorities.

Testing was undertaken for 2015/16 period 4 (July 2015) for frequently used Allowances. For less frequently used allowances we have extended the testing period to include 2014/15 and on occasion additional years which are identified accordingly.

Conclusion

A number of inconsistencies and omissions are evident. A summary of the main points is given below:

- There are various car mileage rates in use across the Authorities
- There are a number of Allowances being paid which are not specifically mentioned in Staff Handbooks or on Authorities' Intranets
- Certain Allowances are paid in some Authorities but not in others.
- Different rates paid for the same Allowance across Authorities.
- Inconsistencies in the amounts paid within the same Authority

Management Response

Employee allowances are different in each GO Partner Council. There are different arrangements for GOSS staff expenses due to an agreement when a restructure took place in 2012. Eg. Disturbance Allowance arrangements.

See guidance for claiming mileage for authority completing work for (not always employer mileage rate). Mileage rates (terms and conditions) are different across GO Partners and there are a number of different rates for shared workers/lease car holders/payments.

Accommodations, parking and food allowances have always been paid based on NJC/Green Book allowances.

There may be some inconsistencies across all three GO Partner authorities as they are all separate employers currently working under different terms and conditions.

Moving forward in the 2020 Partnership work has begun by HR on aligning policies and procedures across partners. This will enable managers and staff to apply policies consistently and more efficiently, reducing the risk or error of applying wrong/inconsistent policies.

Executive Summary for: Risk Management – Training for Service Managers

Assurance

Satisfactory

Background

This audit was carried out as part of the risk based audit programme planned for 2015/16 as approved by the Audit Committee in March 2015.

Risk Management is a key operational process within the Council. Effective risk management can help to ensure that appropriate decisions are made and that they are made in view of risk and opportunities. The focus of audit testing this year was on Service / Project Managers implementation of the process for identifying and mitigating risks within service areas and to consider the training available for undertaking risk management activities.

Overview and Key Findings

Our work has been completed by carrying out desk top reviews, developing a management questionnaire, review of entries within the risk registers and discussions with key officers. We can confirm that the Corporate Risk Management Policy, which aims to set out the Councils approach to, and the management of risk, has been updated annually since 2011 with the latest update drafted for April 2016.

Our discussions and testing confirmed that officers were aware of their responsibilities relating to risk management and there was evidence to support actions undertaken as per the requirements of the Corporate Risk Management Policy. We did identify some inconsistencies in the use of risk registers, but on the whole processes were sound.

We can confirm risk management training is easily accessible via the Council's online Learning Gateway system and a tutor led workshop was last delivered in October 2014.

We have identified 2 areas where we consider processes could be improved, these are:

- Encourage all officers involved in risk management activity to utilise the Councils online training portal "The Learning Gateway" to ensure they are up to date with current practice.
- Introduce standard documentation to ensure a consistent approach to risk management activity.

We also noted that given the increase in partnership working, the awareness of project risks (managed by non CBC officers) which directly have an impact on the Council's ability to deliver its services, may not always be reported to the Council. We would recommend that the Council ensures it gains sufficient assurances from third parties / partnerships that risks relating to the non-delivery of services are being effectively managed.

Based on the work undertaken we can confirm that sound processes are operating over risk management training. We have made recommendations that if addressed will improve the control environment. Therefore, we can offer a 'satisfactory' level of assurance.

Management Response

The Director of Resources and Projects discussed the report's findings and recommendations with the Corporate Governance, Risk and Compliance officer and agreed that:

- All of the recommendations will be actioned
- That in addition to the report's recommendations additional action will be taken to promote the Risk Awareness training module amongst all relevant employees and elected members
- The lead commissioners and Client officers have been reminded that any project that has a direct significant risk impact on CBC should be brought to the attention of the Senior Leadership team as per the agreed policy and partnership agreements.

Executive Summary for: 2015/16 Payroll Audit – Transactional Testing**Assurance****N/A****Background**

A 2015/16 payroll audit was undertaken which covered the controls operated by GOSS and transactional testing across the client authorities. The operation of the controls has been reported to GOSS who should report back to the Council via the COG (Client Officer Group). This memo is the result of the client testing that falls outside the GOSS area of control.

Overview and Key Findings

A sample of starter, leaver and variation forms was selected for testing. We can confirm that employee data shown on the ABW system accurately reflects the information that was submitted on the appropriate forms by Service Managers.

A sample of mileage and expense claims were selected for testing, to ensure that claims were paid in accordance with guidance in the Staff Handbook. Our testing found occasions of non-compliance. Where travel expenses are processed via Self-Serve, the system requires the officer to enter 'yes' and the date to confirm that they accept the terms of the travel policy. Our testing has shown that officers are not adhering to the requirements of the Travel & Subsistence Policy.

We also reviewed claims covering overtime, standby, casual holiday and shift allowances. We can confirm that all payments were made in accordance with relevant policies and were accurately processed by GOSS.

Recommendations

Mileage and Expenses claims - the Council should remind officers about the terms and conditions of the Travel and Subsistence Policy to ensure that claims are completed properly so that appropriate payments are made. Those claims that do not comply with the requirements of the policy should be rejected by Service Managers.

Conclusion

Transactional testing has found areas of non-compliance with policy and guidelines. GOSS is responsible for processing appropriately authorised claims/payments. It is the Service Managers' responsibility to ensure that claims are accurate and comply with policy/procedure. The above recommendations if addressed will help to strengthen the overall control environment.

Executive Summary for Ubico Client Function Review**Assurance****Satisfactory****Introduction**

This review on Ubico Client Function arrangements is in accordance with the 2015/16 Audit Plan as approved by Audit Committee in April 2015. The objectives of this audit were to review progress of the recommendations from a previous audit undertaken in 2013/14 and to review the activity and relationship between the Council's client monitoring function and the services provided by the Joint Waste Partnership (JWP).

Background

This review was initially requested by the Head of Paid Services after the Director of Commissioning retired in the autumn of 2014. Initial concerns relating to the relationship with the JWP (Joint Waste Partnership) have been resolved and therefore the scope of this review has been amended to just reviewing the recommendations from the 2013/14 review. The management responses relate to status as at September 2015, the memo has been delayed due to the availability of evidence to support the responses.

Audit Findings

The Environmental Services Partnership Board, comprising of Ubico, the JWT, CBC member (Clean & Green Environment), CBC Strategic Client Officer and CBC Service Heads meet on a quarterly basis. At the time of audit field work, meetings had taken place on 13th Feb, 10th Aug and 16th Nov 2015. We can confirm that performance was discussed in the August and November meetings and actions agreed.

Management have decided not to test the accuracy of performance data due to resource requirements outweighing the risk impact of incorrect data. We can confirm that fortnightly meetings held with the Ubico operational leads as well as the meetings discussed above ensure that officers are made aware and are involved with performance matters.

We can confirm that performance indicators have been reviewed. There are now indicators relating to Health & Safety, Environmental Maintenance, Customer Services, Fleet Management, HR and Sustainability as well as the original Waste & Recycling indicators.

We can confirm that performance information and complaints are discussed formally at the quarterly Environmental Partnership Board meetings. There was also evidence to support discussions at the fortnightly operational meetings.

Other Observations

We have undertaken a Stock Control Review at Ubico and have made recommendations to improve the control environment. One of the concerns was that the CBC officer raising purchase orders for stock replenishment was not always advised when goods had been delivered and therefore delays were encountered in paying for the goods. It would be in the Council's interest to ensure that Ubico send notification of all deliveries so that goods can be promptly receipted on the ABW system, to enable a more efficient payment process.

Conclusion and Assurance Opinion

Based on the work completed and our review of supporting evidence we can confirm that sound client monitoring activities are being undertaken. Recommendations from the 2013/14 review have been addressed. Therefore, we can conclude that the assurance opinion offered is of a satisfactory level.

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**Cheltenham Borough Council
Audit Committee – 15 June 2016
Annual Governance Statement**

Accountable member	Councillor Roger Whyborn - Cabinet Member Corporate Services
Accountable officer	Mark Sheldon - Director of Resources and Projects
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 style="text-align: center;">The AGS is for the period 1st April 2015 to 31st March 2016 and indicates how the Council is meeting the requirements of the Accounts and Audit (Amendment) (England) Regulations 2011 and, from 1 April 2015 the Accounts and Audit Regulations 2015 in relation to the publication of a statement on annual governance.</p> <p>In addition to this, CIPFA issued a “Statement on the Role of the Chief Financial Officer in Local Government (2010)”. The Annual Governance Statement reflects compliance with the Cipfa statement for reporting purposes.</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. That Audit Committee approve the AGS, and 2. recommend to the Leader and Head of Paid Service that they sign the AGS so that it can be included within the statement of accounts.
Financial implications	<p>None arising directly from this report</p> <p>Contact officer: Paul Jones, Head of Finance</p> <p>Email: paul.jones@cheltenham.gov.uk</p> <p>Tel; 01242 775154</p>

Legal implications	No direct legal implications arising from this report Contact officer: Peter Lewis Email; peter.lewis@cheltenham.gov.uk Tel. 01684 272012
HR implications (including learning and organisational development)	No direct HR implications arising from this report Contact officer: Julie McCarthy Email; Julie.mccarthy@cheltenham.gov.uk Tel. 01242 26 4355
Key risks	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.
Corporate and community plan Implications	Good governance helps to deliver the Council's aspirations to be an excellent, efficient and sustainable Council. It also ensures that risks are identified and managed to protect its assets and workforce.
Environmental and climate change implications	None

1. Background

- 1.1 The Accounts and Audit (England) Regulations 2011 regulation 4 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), and from 1 April 2015 the Accounts and Audit Regulations 2015 in relation to the publication of a statement on annual governance.
- 1.2 This AGS should be prepared and be included as part of the Financial Statements; and that it be authorised by the Leader of the Council and the Head Of Paid Service.
- 1.3 A draft AGS for the 2015/16 financial year relating to the governance of the Council is attached at Appendix 2. 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 2015/16 or where further work is planned in 2016/17. This included a review of the Code of Corporate Governance which was approved in March 2016 by the Audit Committee.
- 1.5 The Code of Corporate Governance is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government (December 2012).

- 1.6** The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 1.7** The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Cheltenham Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 1.8** The Audit Committee reviewed the council's Risk Management Policy which was approved by Cabinet in March 2016.
- 1.9 The 2015/6 Annual Review of Effectiveness**
- 1.10** Every local authority has a responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive directors within the authority who have responsibility for the development and maintenance of the governance environment, the head of internal audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.
- 1.11** Each March, assurance statements and evidence tables are issued to the Directors for completion. The evidence tables act as internal control checklists which confirm/review the existence and adequacy of governance and control arrangements, and any significant absence of, or weakness in, the control. The areas covered by the checklist are not exhaustive and any other significant weaknesses must be reported in the Certificate of Assurance.
- 1.12** In addition to the Directors review, Client officers also undertake a review for the services provided by Cheltenham Borough Homes, GO shared Service, ICT Shared Service, OneLegal, The Cheltenham Trust, and UBICO. The outcome of these reviews is discussed by the Client officer with the Director responsible for the commissioning of the service. If necessary an action plan is agreed with the service provider to address any weakness, the commissioner then signs an assurance statement.
- 1.13** Once complete, the evidence tables and the certificates are reviewed to identify any governance or control improvements which should be included in the significant issues action plan for the forthcoming year. They also draw on evidence from internal and external audit reports, and other relevant evidence including external reviews. 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.
- 1.14** The AGS is a high level statement regarding the review of governance that has been undertaken and a description of the governance frameworks in place such as the work of the Audit Committee, internal and external audits and external reviews,
- 1.15** The review of effectiveness identified a number of control issues, and these are highlighted in the AGS action plan which will be addressed by the respective Directors and Service. The Corporate Governance Group will monitor progress and report back to the Audit Committee.

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 21st September 2016.

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 March 2017.

Report author	Contact officer: Bryan Parsons Email; bryan.parsons@cheltenham.gov.uk, Tel; 01242 264189
Appendices	1. Risk Assessment 2. Annual Governance Statement and appendix
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 Resources And Projects	15/6/2016	3	2	6	Reduce	Prepare an Annual governance Statement based upon the review of its governance framework	15/6/2016	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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Scope of responsibility

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, properly accounted for and used economically, efficiently and effectively. Cheltenham Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility the Council is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Cheltenham Borough Council developed and approved a code of corporate governance, which is consistent with the principles of national best practice as set out in the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". A copy of the code can be obtained on request. This statement explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit (Amendment) (England) Regulations 2011 and, from 1 April 2015 the Accounts and Audit Regulations 2015 in relation to the publication of a statement on annual governance.

In addition to this, CIPFA issued a "Statement on the Role of the Chief Financial Officer in Local Government (2010)". The Annual Governance Statement reflects compliance with the CIPFA statement for reporting purposes. The Council's Chief Financial Officer is the Statutory Section 151 Officer (s151 Officer).

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to deliver policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. This system is based on an ongoing process designed to identify and prioritise the risks to the achievement of Cheltenham Borough Council's policies, aims, objectives, and to evaluate the likelihood of those risks being realised and the impact should they be realised, so they can be managed effectively and economically.

The governance framework has been in place at Cheltenham Borough Council throughout the year and up to the date of the approval of the Annual Report and Statement of Accounts.

The Governance framework

The Council has a sound system of governance incorporating the system of internal control. The key elements of the Council's governance arrangements are outlined in the Local Code of Corporate Governance which was reviewed and approved by the Audit Committee in March 2015. The main areas of the Council's governance framework and the key evidence of delivery are set out below, under the key elements of the CIPFA/SOLACE principles of governance:

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.**
 - (a) A corporate planning process that included consultation with Members and senior managers resulting in the approval by Council of a Corporate Strategy that reflects its Vision, Objectives and Priorities..
 - (b) The annual corporate planning process is informed by 4 corporate outcomes, the annual budget, legislation and government guidance - which link to the setting of priorities and individual

performance appraisals.

- (c) A system of performance management to measure the delivery of priorities and the quality of service to ensure that both are delivered in accordance with the Council's objectives and represent the best use of resources.
- (d) The Council and NHS Gloucestershire, together with the Police and other partners have worked together to identify the needs of the area including health matters and have published a Joint Strategic Needs Assessment.
- (e) The Cheltenham Partnership includes council officers working with a wide range of partners including Gloucestershire County Council, Gloucestershire Police and County NHS organisations to identify local needs and deliver priorities through an agreed action plan.
- (f) A Medium Term Financial Strategy (MTFS) which is regularly updated to support the delivery of the Council's corporate objectives.
- (g) A performance management framework which includes performance reports that are reported to Cabinet.
- (h) Consultation with the public through public meetings and other mechanisms on a regular basis.
- (i) As part of its budget setting process the Council consults with a public panel to gain an understanding of the communities' views.
- (j) The Council communicates with employees and all stakeholders via regular internal and external updates using promotional material, the web, the intranet and formal and informal briefings and 1-2-1s with their managers.
- (k) Annual accounts are published annually.
- (l) An Annual Report, which summarises financial and other performance over the previous financial.
- (m) All Cabinet, Committee and Council reports clearly outline their objectives and recommendations, so the community can understand what is trying to be achieved. Reports also address financial, legal, HR, property and environmental implications to aid understanding of the potential impact of recommendations being made.

2. Arrangements for reviewing the authority's vision and its implications for the authority's governance arrangements.

- (a) Consultation was used to inform the development and review of the authority's vision, objectives and financial priorities as part of the review of the Corporate Strategy.
- (b) The Audit Committee considers and approves a revised version of the Code of Corporate Governance on an annual basis that is published on the authority's website.
- (c) The budget setting process includes detailed scrutiny of proposals by elected Members and their links to the Council's vision, priorities and stakeholder views, together with equality impact assessments.
- (d) The Council is mindful that employees are also key stakeholders and as such, senior officers and Members have taken part in consultation events including manager briefings. Internal communication approaches have been reviewed to ensure all employees are aware of all issues and new policies and practices. There are positive working relationships with trades unions through formal meetings of the Joint Liaison Forum and Joint Consultative Committee and informal regular briefings were provided to the entire workforce by the Chief Executive and Head of Paid service.

(e) The Council has through Leadership Gloucestershire engaged with the government about how, through devolution, better outcomes for the residents, communities and businesses of Gloucestershire could be achieved. The submission "We are Gloucestershire" from Leadership Gloucestershire included proposals on new governance arrangements. Discussions are still ongoing.

3. Arrangements for measuring the quality of services for users, for ensuring that they are delivered in accordance with the authority's objectives and that they represent the best use of resources.

- (a) Cheltenham Borough Council is a commissioning authority and a high proportion of its services are delivered by either a shared service or a standalone organisation, for example, housing is delivered by Cheltenham Borough Homes, Waste Management is delivered by Ubico, Leisure and Culture Services are delivered by The Cheltenham Trust. There are specific and detailed contracts and agreements in place with each of these organisations which include the arrangements for performance measurement and reporting.
- (b) The client officers monitor key performance measures within the contract and report findings to the Senior Leadership Team on a quarterly basis. The delivery organisations also monitor performance including quality and the outcome of this monitoring is reported in annual reports which are published.
- (c) The Council records performance information against the delivery of corporate objectives using reporting software which is closely scrutinised by the Senior Leadership Team (SLT) and reported to Cabinet. Where quarterly performance reports to SLT highlight a concern, appropriate corrective action will be considered, implemented and monitored.
- (d) Corporate Risks are identified, recorded and monitored through an on-line system; performance against the mitigation of these risks is monitored by SLT on a monthly basis and then reported informally to Cabinet. Audit Committee receives an annual Risk Management report which includes performance data and proposals for updating the policy.
- (e) There is also a range of consultation and feedback mechanisms for stakeholder engagement and obtaining their views on the use of resources.

4. Arrangements for defining and documenting the roles and responsibilities of Member and officer functions, with clear delegation arrangements and protocols for effective communication.

- (a) The Constitution sets out roles and responsibilities, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people.
- (b) A clear scheme of delegation for officers is included within the Constitution.
- (c) The roles and responsibilities of the three statutory officers are defined in the constitution (Head of Paid Service, Monitoring Officer and s151 Officer).
- (d) The s151 Officer leads the promotion and delivery of good financial management through the Senior Leadership Team, the Bridging the Gap programme, attendance at Cabinet and committee meetings and specialist workshops and training for officers and members.
- (e) The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
- (f) In October 2015 the Council decided to enter into the 2020 Partnership and endorse and approve the establishment of a revised CBC senior management structure which included the deletion of the post of Chief Executive, from the 28 March 2016.

- (g) The Council also agreed to the internal recruitment to the post of Head of Paid Service. The officer will also be the Returning Officer/Electoral Registration Officer from 23 May 2016.
- (h) Following the decision by Council in October the Appointments and Remuneration Committee met in January 2016 to consider the options for the appointment of a new Head of Paid Service. In February 2016 the Council approved the appointment of the existing Deputy Chief Executive to the role of Head of Paid Service and Returning Officer/Electoral Registration Officer.
- (i) There is an on-going review of the Constitution by the Constitution Working Group to ensure that it reflects the 2020 Partnership and CBC management structures. The Constitution includes Rules of Procedures, Financial Regulations, Responsibility for Functions, Contract Procurement Rules and the Budget and Policy Framework. These are underpinned by Codes of Conduct for officers and Members, gifts and hospitality rules, local protocols and by the Authority's Code of Corporate Governance.
- (j) Council consists of 40 elected members and is chaired by the Mayor and is responsible for setting the budget, the policy framework and deciding on matters set out in the constitution. It elects the Mayor and the Leader and makes appointments to committees.
- (k) The Cabinet is the part of the Council which is responsible for most day-to-day decisions.
- (l) This includes the publication of a Forward Plan containing the timetable for all key decisions.
- (m) The Cabinet consists of a Leader and seven councillors who are responsible for specific portfolios. Cabinet meetings are held in public save for where confidential or exempt information is to be discussed.
- (n) The Cabinet, Cabinet Members and Officers are required to make decisions within the Council approved Budget and Policy Framework; any decision outside that framework may only be made within prescribed urgency procedures or with the agreement of Council.
- (o) The Overview and Scrutiny committee (O&S) promotes open and transparent decision-making, democratic accountability and holds the Cabinet to account for its actions.
- (p) The O&S 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
- (q) There is an Audit Committee which is responsible for all internal and external audit matters along with some other governance associated matters.
- (r) The Audit Committee promotes and ensures effective internal control and independent assurance mechanisms, including: Risk Management; Annual Statement of Accounts; Corporate Governance Framework.
- (s) All meetings are public except for exempt / confidential matters which are considered in private. It is the Council's objective to conduct its business in public wherever possible and to keep exempt discussions and documentation to a minimum. This ensures open and transparent decision making.
- (t) The authority has Client Officers with clearly defined roles and responsibilities that liaise with service providers and partners to ensure that contractual agreements and performance measures are monitored and reported upon.

5. Arrangements for developing, communicating and embedding codes of conduct, defining the standards of behavior for members and staff

- (a) The authority's intranet contains links to policies, procedures and guidance for all staff including Human Resources (HR) policies, e-learning training modules, Information Security Policy, Freedom of Information Policy and Data Protection Policy and the Corporate Plan and Constitution.
- (b) Defined codes of conduct are included in the Constitution for elected members and Council employees, along with specific codes for dealing with planning and licensing matters.
- (c) The Council's key policies stipulate roles and responsibilities for both elected Members and employees; these are reviewed and refreshed on a regular basis.
- (d) The Council has a Standards Committee to maintain and promote high standards of conduct and assists Members and co-opted Members of the Borough Council to observe and monitor the operation of the Code Conduct. The Committee is made up of 7 Borough Councillors and 2 Independent Persons who are co-opted on to the Committee and do not have voting rights.
- (e) Corporate induction courses were run for all new employees by GOSS HR on a regular basis. Managers are responsible for local induction arrangements. Officers in politically restricted posts and those responsible for negotiating contracts are required to register their personal interests; all employees complete these declarations on an annual basis.
- (f) ICTSS provided training for all employees and elected members that included the acceptable use of equipment and the internet.
- (g) The Council has a Counter Fraud, Corruption and Bribery Policy that was reviewed by Counter Fraud Team regularly and has been communicated to all staff and is available on the Council's intranet, this was approved by the Cabinet.

6. Arrangements for reviewing and updating Standing Orders and Financial Regulations; a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks.

- a. The Council's Constitution including Financial Rules and Contract Rules are reviewed regularly by the Constitution Working Group to ensure the Council's governance arrangements reflect best practice. These arrangements include a scheme of delegation and are supported by guidance and notes that are available to elected members and employees on the intranet.
- b. The Director of Corporate Resources and Projects is responsible for the implementation and monitoring of the Risk Management Policy which is also monitored by the Audit Committee and approved by Cabinet. Any report to Council or Cabinet requiring a decision is supported by a risk assessment based upon this policy.

7. Ensuring the Authority's financial management arrangements conform to the governance arrangements of the CIPFA statement on the role of the Chief Finance Officer (CFO) in local government.

- (a) The Council's Financial Rules and Constitution are approved by Council and published on the website.
- (b) The Council ensures;
 - compliance with the Financial Procedure Rules set out in the Constitution; it has designated the GOSS Head of Finance (West) as the s151 officer (Chief Finance Officer(CFO)). It 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).

- that the s151 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.
- that 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.

- (c) All reports to Members include resource implications; prior to publication these implications are considered and approved by the CFO or one of his senior staff. These reports also cover value for money and benchmarking implications where appropriate.
- (d) The Council approves the Treasury Management Strategy on an annual basis and all Members are briefed on key financial issues.
- (e) The CFO has responsibility for ensuring that the Council operates secure and reliable financial and accounting systems. Audit Cotswolds undertakes the role of auditing these systems to give the assurance needed.
- (f) The Council has a Medium Term Financial Strategy, which is reviewed and approved annually to take into account new information, changing circumstances and new priorities; this is used to inform reports to Members. Detailed forecasts are also produced as part of the annual budget process. These represent strategic objectives and service priorities through which financial and operational performance are monitored.

8. Undertaking the core functions of an Audit Committee, as defined in CIPFA's Audit Committee's – Practical Guidance for Local Authorities.

- (a) The Council has a standalone Audit Committee which meets on a quarterly basis (or as required in exceptional circumstances) where reports from both Internal and External Audit are considered as well as risk and associated matters.
- (b) The role of the Audit Committee is defined within the Constitution together with the responsibilities of the Chairman, councillors and lead officers.
- (c) The Audit Committee provides a broad based audit role across all areas of the Council. The committee promotes and ensures effective internal control and independent assurance mechanisms, including: Internal Audit; External Audit; Risk Management; Annual Statement of Accounts; Corporate Governance Framework.
- (d) It approves internal and external audit plans, the annual accounts, and the Code of Corporate Governance; it also reviews and recommends to Cabinet for approval the Risk Management Policy.
- (e) The Chairman of the Audit Committee has direct access to the s151 officer and the Head of Internal Audit (Audit Cotswolds).

9. Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.

- (a) The system of internal financial control is based on a coherent accounting and budgeting framework including Financial Rules, Contract Standing Orders, Scheme of Delegation and accountability.
- (b) The Medium-Term Financial Strategy covers both revenue and capital spends which provides a framework for the planning and monitoring of resource requirements.

- (c) The Asset Management Plan and Capital Strategy aims to ensure that investment is linked to strategic objectives. Bids for capital and other asset management funding require an effective 'business case' linked to strategic objectives and progress in delivering key projects are monitored by the Senior Leadership Team, Councillors and Lead Commissioners. The Asset Management Plan also ensures that assets are only retained for effective business purposes.
- (d) Financial stewardship in respect of both capital and revenue proposals are reviewed and challenged by the Budget Scrutiny Working Group, and considered regularly by the Strategic Leadership Team. Service\Cost Centre Managers also consider their respective budgets on a regular basis. This is supported and challenged by the Bridging the Gap programme, an established budget monitoring process by managers and finance staff and the electronic distribution of budget monitoring reports to all managers.
- (e) All projects linked to corporate objectives are supported by their own governance arrangements that are documented within a Project Initiation Document (PID). This document includes roles and responsibilities, reporting processes and key documents. The project management guidelines define what needs to be included within the PID and if it needs to be considered by Overview and Scrutiny.
- (f) Directors are required to produce an Annual Statement of Internal Control for their divisions which include statements about risk and the internal control framework. Any significant issues arising from the annual assessment are reported to Audit Committee. This is supported by Internal Audit who deliver targeted assurance, cyclical audits and help embed risk management and other management initiatives.

10. Arrangements for whistle-blowing and for receiving and investigating complaints from the public.

- (a) The Counter Fraud, Corruption and Bribery Policy, and the Whistle Blowing Policy are owned and revised periodically. The policies are available on the Council's website, intranet and direct from Internal Audit.
- (b) If an employee has concerns about any manager or director they are encouraged to contact the GOSS HR Manager who will undertake an independent investigation.
- (c) If a customer has concerns the Council has a three stage complaints procedure which is managed by the Customer Relations Team. The procedure provides the means for customers to feedback concerns or issues. The process and on-line form are available on the Council's website or at Municipal Offices.
- (d) Complaints are investigated and analysed and reported back to managers along with the actions taken.

11. Identifying the development needs of Members and senior officers in relation to their strategic roles, supported by appropriate training.

- (a) All Members have an induction and training program, corporate training needs are identified through the Democratic Services Team.
- (b) The Member Development Program provides a structured approach to member development to ensure all members are supported in their role.
- (c) The Council supports staff development which is delivered primarily by GOSS Learning and Development Team, through programs such as Institute of Leadership and Management.

12. Arrangements for establishing clear channels of communication with all sections of the local community and stakeholders, ensuring accountability and encouraging open consultation.

- (a) Consultation events are held with public and voluntary services, Cheltenham Business Partnership and The Cheltenham Partnership. Other consultation and feedback surveys are also undertaken as required throughout the year.
- (b) The Council has published a Statement on Community Involvement which sets out the opportunities by which the public and organisations can engage with the planning system, including the procedures and methods we use to consult on planning applications.
- (c) The website also has a dedicated webpage providing information about current and past consultation events on subjects affecting the budget, licensing and major capital expenditure.
- (d) The Council has a Transparency Policy that supports the publication of data on its web page.
- (e) The Council's website also has a 'Report It' facility where the public can report issues concerning the delivery of services or make complaints. The public can also access over 50 on-line forms and documents enabling quicker, more effective, service delivery.
- (f) The website provides access to information on the Councillors, directors and senior managers together with a description of their portfolios, roles, responsibilities and contact details.
- (g) The Council also uses and funds the Cheltenham Fiesta which is a free event that brings together many of the town's voluntary organisations enabling them to raise and promote their profile of working with the council.

13. Incorporating good governance arrangements in respect of partnerships and other groups working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements.

- (a) The Council's Code of Corporate Governance is reviewed annually by the Audit Committee and is available on its website.
- (b) The Leader and Head of Paid Service are Members of Leadership Gloucestershire which brings together a range of public sector organisations that allocate and spend significant resources in Gloucestershire.
- (c) The Leader 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.
- (d) The Cheltenham Development Task Force is an advisory body bringing together the private, public and voluntary sectors in partnership, as a 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 Council's Chief Executive was a member of the taskforce and since his retirement his place is now filled by the Council's Managing Director – Place and Economic Development. The Chief Executive was also the chairman of the taskforce Risk and Accountability Group which monitors the management of the Task Force key strategic risks., Following the restructure this role is now undertaken by the Director of Resources and Corporate Projects. These risks are managed by the Task Force Managing Director who ensures that any risks scoring over 16 which impact on CBC are brought to the attention of the Senior Leadership Team.
- (e) Appropriate governance arrangements in respect of service specific partnerships are approved by Cabinet or Council and published on the website. These include the Gloucestershire Waste Partnership, Gloucestershire Airport Ltd, The Cheltenham Trust, Audit Cotswolds, One Legal, ICT, and Building Control. GOSS managed the delivery of the Council's Finance and HR support services until February 2016 when responsibility transferred to the 2020 partnership.

14. Review of effectiveness

- (a) Cheltenham Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Executive Board who have responsibility for the development and maintenance of the governance environment, the Head of Audit Cotswolds' (Internal Audit) annual report, and also by comments made by the External Auditors and other review agencies and inspectorates.
- (b) Overall responsibility for the governance framework, including the system of internal control rests with the Council Leader and Head of Paid Service and they receive reports from the s151 Officer on financial issues and the Monitoring Officer on legal issues as and when appropriate. This includes regular budget monitoring information and the Medium Term Financial Strategy.
- (c) The Council carries out its review of the effectiveness of the framework on an annual basis. All executive directors and directors complete an Annual Statement of Assurance which outlines the key control areas to which their division should comply. The outcome of this assessment is considered by the Senior Leadership Team who approve any appropriate action.
- (d) In addition to the internal review of the effectiveness of the governance framework evidence is also drawn upon from Commissioning and Client Officers in respect of compliance with agreements with Ubico, Cheltenham Borough Homes, ICT Shared Services, the GOSS Partnership, Gloucestershire Airport and the Cheltenham Trust.
- (e) There is also an annual review of Internal Audit by the s151 Officer which reviews compliance with the CIPFA Code of Practice and the effectiveness of the audit service. As in previous years the service undertook assurance work on behalf of the Council. The External Auditors raised no concerns about the standard of work performed by the Audit Cotswolds' Partnership. No major issues were identified and the service has maintained the level of assurance it is able to provide to management.

15. Internal Audit

- a. The Audit Cotswolds' Partnership is managed by the Head of Audit Cotswolds whose role has been defined in the s101 agreement and a job description; both of which help to ensure that the requirements of the CIPFA 'Role of the Head of Internal Audit' standard are delivered.
- b. The Audit Cotswolds' Partnership began in 2009 with an agreement between Cheltenham Borough Council and Cotswold District Council to combine their Audit services. West Oxfordshire District Council then joined the partnership in 2010. The partnership is constituted under a s101 agreement. It also delivers internal audit functions for GO Shared Service, Cheltenham Borough Homes, Ubico and The Cheltenham Trust.
- c. The Council's Internal Audit Plan, which is risk based, is agreed following consultation with senior officers across the council it is agreed annually with the s151 officer and approved by the Council's Audit Committee. This provides the basis for the review of internal control and governance within the Council and includes the following: -
 - Annual reviews of the Council's key financial systems by Internal Audit against known and evolving risks;
 - Cyclical reviews by Internal Audit of internal controls in operation within each service area against known and evolving risks based on a detailed risk assessment which considers the strategic and operational risks identified in the Corporate Risk Register; and
 - includes consideration of materiality, sensitivity and previous audit and inspection findings;

- Work in relation to the prevention of fraud and corruption and an allowance for the investigation of any potential irregularities identified either from audit work or through the Council's whistle-blowing policy;
 - Assurance advice and support to key projects and programmes to ensure safeguards are applied when implementing new systems of working;
 - Value for money work in relation to assessing the efficiency, economy and effectiveness of the Council's operations and recommending improvements as necessary;
 - Achievement of the Audit Plan is reported to the Audit Committee; this report also includes an opinion and assurance about the system of internal control throughout the Council;
 - Regular meetings were also held between the s151 officer and a representative of the Cotswolds' Audit Partnership to discuss specific issues that have arisen
- d. Changes to the Department of Work and Pensions, Benefit Fraud Investigation requirements – Single Fraud Investigation Service (SFIS) led to Cabinet agreeing an evolutionary approach for the establishment of a Counter Fraud Unit managed by the internal audit provider Audit Cotswolds. This entailed the s151 officer putting in place an agreement with Cotswold District Council (as host authority for Audit Cotswolds) to establish the Counter Fraud Unit.

16. Significant governance Issues

(a) The Annual Assurance Review and the work of the Audit Cotswolds' assurance work throughout the year have identified the following issues which need to be addressed;

- support effective testing of disaster recovery (DR) plan; (ICTSS responsibility)
- Ensure service area disaster recovery and business continuity plans link to the DR plan (ICTSS and CBC shared responsibility)
- Purchase Order Management System compliance (S151 officer).

(b) A Significant Issues Action Plan* has been developed to address these issues Appendix 3.

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 and will monitor their implementation and operation as part of our next annual review.

*Additional details are included in Appendix

Signed Pat Pratley, Head of Paid Service Date

Signed..... Steve Jordan, Leader Date

Significant Issues Action Plan – Review June 2016

Action	Deadline as per AGS	Action planned	Progress as at June 2016	Lead officer
1. Deliver effective testing of the new ICT disaster recovery (DR) plan; (ICTSS responsibility)	On-going	<p>The new 2020 partnership is responsible for the delivery of ICT and the delivery of a Disaster Recovery Plan and a Business Continuity provision.</p> <p>Their planned DR testing work is to be centred around the GO's Shared Services 'Agresso' platform</p> <p>They are planning to undertake their DR work Mid July 16 , due to the demands on GO's year end closedown procedures ,</p>	<p>In July their ICT management team will be carrying training sessions with our shared IT staff on the updated DR arrangements across all partner Councils.</p> <p>ICT to deliver a Disaster Recovery test during July 2016</p>	Director Resources and projects
2. Ensure service area disaster recovery and business continuity plans link to the DR plan (ICTSS and CBC shared responsibility)	To follow work stream 1	Service specific Business Continuity Plans will be updated further during 2016/17 to align with the Corporate Business Continuity Plan and the ICTSS Disaster Recovery Plan once the ICTSS Disaster Recovery Plan has been finalised.	<p>Significant investment has been made in CBC's ICT infrastructure during 2016 to reduce the likelihood of ICT system failure and improve resilience and back up arrangements.</p> <p>All Services within CBC and external service providers reviewed their SBCP in 2015/16</p> <p>May 2016 Director of Recourses and Projects met with ICT Group manager to agree shared plans and a course of action that CBC</p>	Director of Resources and Projects

Action	Deadline as per AGS	Action planned	Progress as at June 2016	Lead officer
			<p>services can align to.</p> <p>A CBC Business Continuity exercise is planned for October 2016 that will involve CBC Service managers, ICT, Finance and HR. This will provide CBC with assurance that its BC planning is robust and effective.</p>	
<p>3. Purchase Order Management System compliance</p>	<p>June 2016</p>	<p>Internal Audit to undertake compliance testing of the Purchase Order management System and to report findings to Audit Committee</p>	<p>Audit Cotswold undertook transactional testing on the use of the Purchase Order management System taking into account the current exemption list.</p> <p>The results of these tests indicated that there was a low rate of compliance at CBC, however the report did not take into account the orders processed by the property section through the UNIFORM system as these are not included on the current exemption list.</p> <p>Audit Committee requested a briefing on the current level of compliance for the June committee meeting.</p> <p>Briefing provided to Audit Committee on the 15 June</p> <p>Audit Cotswold will provide a repeat assurance check added to their 2016/17 Audit Plan for later in the year.</p>	<p>Head of Finance Section 151 officer</p>

Cheltenham Borough Council

Audit Committee – 15 June 2016

Review of Draft Accounting Policies 2015/16

Accountable member	Councillor Rowena Hay, Cabinet Member for Finance
Accountable officer	Sarah Didcote, Deputy Section 151 Officer
Ward(s) affected	All
Key Decision	Yes
Executive summary	To update Members on the Council's draft accounting policies to be included in the 2015/16 draft Statement of Accounts, providing members with the opportunity to review these policies ahead of the approval of the final audited 2015/16 Statement of accounts in September 2016.
Recommendations	That Audit Committee note the content of these draft accounting policies and make any comments as necessary.

Financial implications	As detailed throughout this report. Contact officer: Sarah Didcote, Sarah.Didcote@Cheltenham.gov.uk, 01242 264125
Legal implications	None specific directly arising from the recommendations. Contact officer: Peter Lewis, Peter.Lewis@tewkesbury.gov.uk, 01684 272695
HR implications (including learning and organisational development)	None Contact officer: Julie McCarthy , julie.mccarthy@cheltenham.gov.uk, 01242 264355
Key risks	As outlined in Appendix A.
Corporate and community plan Implications	None
Environmental and climate change implications	None.

1. Background

- 1.1 Audit Committee is required to review the council's accounting policies, as included in the statement of accounts, on an annual basis. The council's auditors, Grant Thornton have recommended that this review is done prior to the review and sign-off of the council's final audited statement of accounts in September of each year.

- 1.2 This report therefore includes the draft accounting policies to be included in the draft statement of accounts, to be submitted to External Audit by the statutory deadline of 30th June 2016.

2. Accounting Policies

- 2.1 The statement of accounts are prepared in accordance with proper accounting practices and regulations by following the CIPFA Code of Practice on Local Government Accounting ('The Code') and the CIPFA Service Reporting Code of Practice (SeRCOP), supported by International Financial Reporting Standards (IFRS's) and International Accounting Standards (IAS's).
- 2.2 The council's accounting policies outline the relevant accounting principles and methodologies adopted by the council, in order to meet these statutory requirements. They can be used to aid understanding of the statements as well as providing a comparison to other organisations. Any changes to accounting policies from previous financial years are disclosed as a separate note to the accounts.
- 2.3 GO Shared Services have completed a thorough review of the accounting policies for 2015/16 to ensure they are up to date and relevant to the statements, a copy of which is included as Appendix A to this report.
- 2.4 The main change in accounting policies from 2014/15 relates to the adoption of the FRS13 definition of 'fair value', which is used as the valuation basis for Surplus Assets and properties held for Investment purposes. This means these assets have to be valued at their 'highest and best use', which may differ from how the asset was historically used by the council.

The accounting policies are required to include those adopted in relation to the council's group accounts. In 2014/15 the council jointly owned Ubico with Cotswold District Council, resulting in the company being included in the group accounts as a Joint Venture. However Ubico now has 6 shareholders, each with a share of 16.66% in the company. These are Cheltenham, Cotswold, West Oxfordshire, Forest of Dean, Tewkesbury and Stroud. This change of ownership means the council no longer has to include the company in its group accounts, since it no longer has joint control of, nor has 'significant influence' over, the company at 31st March 2016. At the date of this report this treatment is subject to ratification by Grant Thornton, on receipt of which the accounting policies for the group accounts will be updated.

3. Conclusion

- 3.1 It should be noted that these draft accounting policies may be updated as part of the final audited statement of accounts. The committee will have the opportunity to review the final version as part of the approval of the overall statement of accounts in September 2016.

Report author	Contact officer: Sarah Didcote sarah.didcote@cheltenham.gov.uk, 01242 264125
Appendices	Appendix A - Draft Accounting Policies 2015/16
Background information	Code of Practice on Local Authority Accounting in the UK 2015/16 Accounts Accounts and Audit Regulations 2003

1. ACCOUNTING POLICIES

1.1 GENERAL PRINCIPLES

The Statement of Accounts summarises the council's transactions for the financial year and its position at the end of the financial year. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the CIPFA/LASSAC Code of Practice on Local Government Accounting in the United Kingdom (The Code) and the CIPFA Service Reporting Code of Practice (SeRCOP), supported by International Financial Reporting Standards (IFRS's), International Accounting Standards (IAS's) and statutory guidance.

The accounting convention adopted by the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounting policies of the council have as far as possible been developed to ensure that the accounts are understandable, relevant, free from material error or misstatement, reliable and comparable.

1.2 ACCOUNTING CONCEPTS

Except where specified in the Code, or in specific legislative requirements, it is the council's responsibility to select and regularly review its accounting policies, as appropriate.

These accounts are prepared in accordance with a number of fundamental accounting principles:

- Relevance
- Reliability
- Comparability
- Materiality

Additionally three further concepts play a pervasive role in the selection and application of accounting policies:

Accruals of Income and Expenditure

The financial statements, other than the cash flow statement, are prepared on an accruals basis, i.e. transactions are reflected in the accounts in the year in which the activity to which they relate takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as Inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- All income and expenditure is credited and charged to the Comprehensive Income and Expenditure Statement, unless it comprises capital receipts or capital expenditure.

Going Concern

The accounts are prepared on the assumption that the council will continue its operations for the foreseeable future. This means in particular that the Comprehensive Income and Expenditure Statement and Balance Sheet assume no intention to significantly curtail the scale of operations.

Primacy of legislative requirements

The council derives its powers from statute and its financial and accounting framework is closely controlled by primary and secondary legislation. Where legislative requirements and accounting principles conflict, legislative requirements take precedence.

1.3 EMPLOYEE BENEFITS

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within twelve months of the year-end. They include such benefits as salaries and wages, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the council is committed to the termination of the employment of an officer or group of officers.

Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. Therefore in the Movement in Reserves Statement appropriations are required to and from the pensions reserve to remove the notional charges and credits for pension enhancement termination benefits, and replace them with the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Post Employment Benefits

Employees of the council are members of the Local Government Pension Scheme, administered by Gloucestershire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council, and is accounted for as a defined benefits scheme:

- The liabilities of the Gloucestershire pension scheme attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on the adoption of the AA-rated corporate bond basis.
- The assets of the Gloucestershire pension fund attributable to the council are included in the balance sheet at their fair value on the following basis:
 - quoted securities – current bid value
 - unquoted securities – professional estimate of fair value
 - unitised securities – current bid price
 - property – market value.
- The change in the net pension liability is analysed into seven components:
 - Current service cost: the increase in liabilities as a result of the additional year of service earned - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - Past service cost: the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - charged to the Surplus or Deficit in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
 - Interest cost on defined obligation: the expected increase in the present value of liabilities during the year as they move one year closer to being paid - charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
 - Return on plan assets: the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
 - Gains/losses on settlements: the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – charged to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
 - Measurement of the net defined benefit liability: changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve.
 - Contributions paid to the Gloucestershire pension fund: cash paid as employer's contributions to the pension fund, in settlement of liabilities.

Statutory provisions limit the amount chargeable to council tax to that payable by the council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are appropriations to and from the Pension Reserve to remove the notional charges and credits for retirement benefits and replace them with the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award, and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.4 GRANTS AND CONTRIBUTIONS

Grants and contributions received from the government and other organisations are not credited to the Comprehensive Income and Expenditure Statement until any conditions attached to the grant or contribution have been, or it is reasonably certain that they will be, satisfied. For example conditions may be stipulated that specify that the grants or contributions are required to be consumed by the recipient as specified, or they must be returned to the transferor.

Amounts received as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as Revenue or Capital Grants Received in Advance. When the conditions are satisfied, the grant or contribution is credited to the relevant service line (if ring-fenced) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement, so that they are available to fund capital expenditure. Where the grant has yet to be used to finance capital expenditure, it is credited to the Capital Grants Unapplied reserve. Where it has been applied it is credited to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.5 OVERHEADS AND SUPPORT SERVICES

The cost of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of SeRCOP. The total absorption costing principle is used – the full cost of overheads and support services are shared between services in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the council's status as a multi-functional, democratic organisation
- Non Distributed Costs – past service costs and gains/losses on settlements relating to pensions, the cost of any unused IT facilities, and the cost of holding any surplus assets.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

Charges are based on a variety of methods including allocations according to officers' use of time resources, charge per unit of service and administrative building costs according to area occupied.

1.6 COUNCIL TAX RECOGNITION

Council Tax receivable for the financial year is recognised in the Collection Fund, a separate statutory account maintained by billing authorities. The Fund is charged with the council tax requirements ('precepts and demands') set by the major preceptors and billing authority before the start of the year, leaving (after providing for uncollectable debts) a surplus or deficit, which is then distributed to the same authorities in future years in proportion to their precepts or demands.

The council tax income included in the council's Comprehensive Income and Expenditure Statement for the year represents its 'demand' for the year, plus its share of the collection fund surplus or deficit for the year, before any distribution. Because the amount of surplus or deficit that can be credited or charged to the council's general fund is governed by statute, and is limited to that declared at the start of the year, adjustments are made in the Movement in Reserves Statement to the collection fund adjustment account to reflect the difference between the surplus or deficit due for the year and that which can be released according to statute.

There is no statutory requirement for a separate collection fund balance sheet. Instead the fund balances (arrears, over/pre-payments, bad debts provision and accumulated surpluses or deficits) are distributed across the balance sheets of the billing authority and the major preceptors, in proportion to their precepts and demands. The council, as a billing authority, therefore accounts for council tax balances on an Agency basis, showing only its share of the fund balances on its balance sheet.

1.7 NATIONAL NON-DOMESTIC RATES (NNDR) INCOME RECOGNITION

NNDR income is recognised in the same way as council tax described above, with the exception that the net income and surplus/deficit credited or charged to the Comprehensive Income and Expenditure Statement is shared between the billing authority, the county council and central government in statutory proportions. NNDR balances are also distributed across their balance sheets in the same proportions.

1.8 ACQUISITIONS AND DISCONTINUED OPERATIONS

Any operations or services acquired or discontinued during the financial year (for example transferred from or to another public organisation due to changes in legislation) are shown separately on the face of the Comprehensive Income and Expenditure Statement.

1.9 VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

1.10 FOREIGN CURRENCY TRANSLATION

Where the council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are converted at the spot exchange rate for 31st March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Account.

1.11 NON-CURRENT ASSETS - RECOGNITION OF CAPITAL EXPENDITURE

The council recognises non-current assets when expenditure is incurred on assets:

- held for use in the production or supply of goods or services, rental to others, or for administrative purposes
- expected to be used for more than one financial period
- where it is expected that the future economic benefits associated with the asset will flow to the council
- where the cost can be measured reliably.

The initial cost of an asset is recognised to be:

- Purchase price, construction cost, minimum lease payments or equivalent including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- Costs associated with bringing the asset to the location and condition necessary for it to be capable of operating in the manner required by management.
- Any costs of dismantling and removing an existing asset and restoring the site on which it is located.

The cost of an asset acquired other than by purchase or construction is deemed to be its fair value, except where an asset is acquired via an exchange it is deemed to be the carrying amount of the asset given up by the council.

Donated assets are measured initially at fair value. The difference between their fair values and any consideration paid is credited to the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in a Donated Assets Reserve account. Where gains are credited to the Comprehensive Income and Expenditure Statement they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Subsequent 'enhancement' expenditure is treated as capital expenditure when it is considered it will increase the value of the asset or its useful life or increase the extent to which the council can use the asset.

De Minimis policy - expenditure below £10,000 (excluding VAT) is not treated as capital expenditure except where the sum of identical assets purchased exceeds this figure, as is the case with waste collection bins and caddies.

Capital assets are held on the Balance Sheet as Non-Current Assets.

1.12 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT (PPE)

Assets that have physical substance and are held for use in the provision of services, for rental to others, or for administrative or other operational purposes on a continuing basis are classified as Property, Plant and Equipment. Such assets are categorised as Council Dwellings, Other Land and Buildings, Vehicles Plant and Equipment, Infrastructure, Community Assets, Surplus Assets and Assets Under Construction.

Infrastructure assets are inalienable assets, expenditure on which is only recoverable by continued use of the asset and there is no prospect for sale or alternative use. Examples include footpaths, cycle tracks, bridges, street furniture and drainage systems.

Community Assets are assets that the authority intends to hold in perpetuity, have no determinable useful lives and which may have restrictions on their disposal. Examples include parks, gardens, cemeteries land, allotments and open spaces used for recreation.

Surplus Assets are assets which are not being used to deliver services or for administrative purposes but which do not meet the definition of Investment properties or Assets Held for Sale.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it yields benefits to the council for more than one financial year and the cost of the item can be measured reliably. This excludes expenditure on routine repairs and maintenance, which is charged direct to service revenue accounts when it is incurred.

Measurement

PPE assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. The council does not capitalise borrowing costs incurred whilst assets are under construction.

The assets are then carried on the Balance Sheet using the following measurement bases:

- Dwellings – Current value, using the basis of existing use value for social housing (EUV-SH)

- Other Land and Buildings – Current value, using the basis of existing use value (EUV) where an active market exists or Depreciated Replacement Cost (DRC), where there is no active market for the asset or it is specialised
- Infrastructure – depreciated historic cost
- Community assets – historic cost (where known). The cost of many of the council's parks, gardens and open spaces is not known and they are therefore shown at Nil value. The Code offers the option for authorities to measure community assets at valuation, which is the requirement for Heritage assets. The council has so far not adopted to change its accounting policy in this way as it does not currently have the management information to make reasonable valuation estimates of community assets.
- Assets under construction – historic cost
- Surplus Assets – Current value, using the Fair value basis defined by IFRS13 i.e. the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date.
- In the case of assets that have short useful lives or low values (or both) i.e. Vehicles, Plant and Equipment, depreciated historic cost is used as a proxy for current value.

Assets included in the Balance Sheet at Current value are re-valued where there have been material changes during the year, and as a minimum every five years.

Where there is an upward revaluation, the carrying value is increased and the gain credited to the Revaluation Reserve. This is reflected in the Comprehensive Income and Expenditure Statement as a revaluation gain, included in Other Comprehensive Income and Expenditure. Exceptionally, gains are credited to the Surplus or Deficit on the Provision of Services (and not the Revaluation Reserve) where a revaluation loss or impairment in respect of that asset was previously charged to a service revenue account (adjusted for the depreciation that would have been charged had the revaluation or impairment losses not occurred).

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

PPE assets are assessed at the end of each year for evidence of impairment. Where evidence exists and the effect is considered material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the difference.

Where there are revaluation gains for the asset in the Revaluation Reserve the impairment loss is written down against that balance (up to the amount of the accumulated gains).

Where there are no gains in the Revaluation Reserve or an insufficient balance to meet the

impairment loss, the remaining loss is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets with a determinable finite useful life, by writing down the carrying value of the asset in the Balance Sheet over the remaining periods expected to benefit from their use. Assets not depreciated are those without a determinable finite useful life (land and community assets), assets that are not yet available for use (assets under construction) and assets reclassified as Held for Sale.

Depreciation is calculated on the following bases:

- Council dwellings – depreciated on the basis of the Major Repairs Allowance, a measure of the ‘wearing out’ of the stock, provided by the government.
- Other buildings, Vehicles, Plant, Furniture and Equipment, Infrastructure, Surplus assets – straight-line allocation over the asset’s estimated useful life.

Newly acquired assets are depreciated from the year following that in which they were acquired, although assets in the course of construction are not depreciated until they are brought into use.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged and the depreciation that would have been charged based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Assets disposed of during the year are depreciated in the year of disposal or in the case of assets reclassified as Held for Sale, in the year they were reclassified.

Componentisation

Where a *material* item of Property Plant and Equipment has components whose cost is *significant* in relation to the total cost of that item, *and* which have different estimated useful lives and/or depreciation methods, they are identified as separate assets and depreciated separately. The council’s current Componentisation Policy defines a material item as an individual building exceeding a gross book value of £872,100 and a significant individual component as one which exceeds 20% of the gross replacement cost of that building. Significant components are identified as separate assets and separately depreciated if their estimated useful lives are considered significantly different to the ‘host’ building or other components.

‘Material’ buildings are considered for componentisation whenever such a building is acquired, enhanced, or revalued after 1 April 2010.

1.13 NON-CURRENT ASSETS - HERITAGE ASSETS

Assets with historical, artistic, scientific or technological qualities held principally for their contribution to knowledge or culture.

The council's collections of heritage assets are accounted for as follows:

Ceramics, Art, Regalia and Silverware, Furniture, Textiles, Ephemera, other collectables

These are reported in the Balance Sheet at their current insurance valuation, which is based on market values.

Statues and Monuments

These are reported in the Balance Sheet at their current insurance valuation, which is based on historic or replacement cost.

Archaeology

The council cannot obtain reliable cost or valuation information for its archaeological collection. This is because of the diverse nature of the assets held and lack of comparable market values. Consequently the council does not recognise these assets on its balance sheet.

The insurance valuations are updated for inflation on an annual basis, with gains credited to the Revaluation Reserve. The council has deemed that all the heritage assets have indeterminate lives, hence the it does not consider it appropriate to charge depreciation.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment. Any impairment is recognised and measured in accordance with the council's policy on impairment for Property, Plant and Equipment. Occasionally the council will dispose of heritage assets. These are accounted for in accordance with the council's policy on disposals and assets held for sale.

1.14 NON-CURRENT ASSETS - INVESTMENT PROPERTY

Investment properties are those that are used *solely* to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset, in its highest and best use, could be exchanged between market participants at the reporting date. Properties are not depreciated but are revalued annually as necessary dependent on changes in market conditions in the year. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Such gains and losses, however, are not permitted by statutory arrangements to have an impact on the General Fund Balance and are therefore reversed out in the Movement in Reserves Statement and credited to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

1.15 NON-CURRENT ASSETS - INTANGIBLE ASSETS

Expenditure on assets that do not have physical substance and which are controlled by the entity through custody or legal rights (e.g. software licences), is capitalised when it will bring benefits to the council for more than one financial year. Internally generated assets are capitalised where it can be demonstrated that the project is technically feasible, is intended to be completed (with adequate resources being available), where the council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset, and where the expenditure during the development phase can be reliably measured.

Intangible assets are measured at cost, which is amortised over the estimated useful life of the asset to the relevant service line in the Comprehensive Income and Expenditure Statement, to reflect the pattern of consumption of benefits. Estimated remaining useful lives are reviewed annually and an asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are charged to the relevant service line in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or cessation of use of an intangible asset is credited or charged to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance, so they reversed out of the General Fund Balance in the Movement in Reserves Statement and charged or credited to the Capital Adjustment Account with any sale proceeds greater than £10,000 credited to the Capital Receipts Reserve.

1.16 NON-CURRENT ASSETS – DISPOSALS AND ASSETS HELD FOR SALE

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Assets are classified as held for sale where the asset is available for immediate sale in its present condition and where the sale is highly probable i.e. the asset has been advertised for sale and a buyer sought and the completion of the sale is expected within twelve months of the balance sheet date. Dwellings sold under Right to Buy are deemed to become surplus on the day that the transfer to the tenant takes place (completion of the sale), and are therefore considered operational until they are sold.

Except when carried at (depreciated) historic cost, an asset is revalued immediately before its reclassification as Held for Sale, using its existing category's measurement basis. Following reclassification assets are measured at the lower of their carrying values and fair values less costs to sell. Any subsequent gains in value are first used to reverse any losses previously charged to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement and thereafter recognised in the Revaluation Reserve. Losses in value are charged to the Surplus or Deficit on the Provision of Services (even when there is a balance held for that asset in the Revaluation Reserve).

Depreciation is not charged on Assets Held for Sale, except in the year in which they were classified as held for sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified as non-current assets (Property, Plant and Equipment, Investment or Heritage assets) and valued at the lower of their carrying amount before they were classified as held for sale (adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale), and their recoverable amount at the date of the decision not to sell.

When an asset is disposed of, or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment, Heritage or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal (i.e. netted off against carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are written off to the Capital Adjustment Account.

Amounts received from a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to Housing Revenue account (HRA) disposals, as specified by statutory regulations, is payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement of Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Such amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.17 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets is charged to the relevant service revenue account in the year. To the extent the council has determined to meet the cost of this expenditure from capital resources (borrowing, capital receipts or grants) a transfer to the Capital Adjustment Account via the Movement in Reserves Statement reverses out the amounts charged to the General Fund Balance so there is no impact on the level of council tax.

1.18 CHARGES TO REVENUE FOR NON-CURRENT ASSETS

Service revenue accounts, support services and trading accounts are charged with the following amounts to record the real cost of holding assets during the year:

- Depreciation of property, plant and equipment used by the relevant service
- Amortisation of intangible assets used by the service
- Revaluation and impairment losses, where there are no accumulated gains in the Revaluation Reserve against which the losses can be charged.

The council cannot raise council tax to cover depreciation, amortisation or revaluation and impairment losses. It is, however, required to make an annual provision (known as Minimum Revenue Provision or MRP) from revenue towards reducing its overall borrowing requirement, equal to an amount calculated on a prudent basis by the council in accordance with statutory guidance. The above charges are therefore reversed out of the General Fund Balance and replaced by a MRP contribution to the Capital Adjustment Account in the Movement of Reserves Statement.

1.19 LEASES

Leases are classified as either Finance Leases or Operating Leases. Arrangements that do not have the legal status of a lease but convey the right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

Defining a Finance Lease

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. This is likely to apply if some or all of the following situations are met:

- If the lessee will gain ownership of the asset at the end of the lease term (e.g. in the case of hire purchase)
- If the lessee has an option to purchase the asset at a sufficiently favourable price that it is reasonably certain, at the inception of the lease, that it will be exercised
- If the lease term is for the major part of the economic life of the asset, even if title is not transferred. The economic life of the asset is deemed to be consistent with the useful life of the asset in the depreciation policy. The council recognises the major part to be 75% of the life of the asset, unless on an individual case basis this would not give a true representation of the substance of the transaction
- At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. The present value of the minimum lease payments is calculated by discounting at the rate inherent in the lease. If this rate cannot be determined the incremental borrowing rate applicable for that year is used. The council recognises “substantially all” to mean 90% of the value of the asset. In some circumstances, a level of 75% is used if the council believes that using this level will give a result that better reflects the underlying transaction
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications
- If the lessee cancels the lease, the lessor’s losses associated with the cancellation are borne by the lessee
- Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (e.g. in the form of a rent rebate equalling most of the sales proceeds at the end of the lease)
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Lessee Accounting for a finance lease

Where the council is leasing an asset (for example as a tenant) that is deemed a finance lease, it will recognise that asset within its asset register, and account for that asset as though it were an owned asset.

The initial recognition of the asset is at the fair value of the asset, or if lower, the present value of the minimum lease payments. A liability is also recognised at this value, which is reduced as lease payments are made. Lease payments made to the lessor are split between the reduction in the liability and interest, which is charged to the Comprehensive Income and Expenditure Statement.

Lessor Accounting for a finance lease

Where the council grants a finance lease over property or items of plant or equipment the carrying values of the relevant assets are written out of the Balance Sheet to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement, as part of the gain or loss on disposal. The amount receivable on disposal (representing the minimum lease payments due), is credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal, matched by a cash receipt (if a premium has been paid) or a long term debtor (if to be settled by payments in future years) on the Balance Sheet.

The amount receivable on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

Where the amount due under the lease is settled by payments in future years the amount receivable on disposal is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve. When received future lease payments are apportioned between:

- a charge for the acquisition of the assets, which reduces the lease debtor
- finance interest, which is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

An amount equivalent to the charge for the acquisition of the assets is at the same time transferred from the Deferred Capital Receipts Reserve to the Capital Receipts Reserve.

Defining an Operating Lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards arising from ownership of the asset.

Lessor Accounting for an operating lease

Where the council grants an operating lease over property or items of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to the relevant service income line or, if the asset is classified as an Investment property, to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Lessee Accounting for operating leases

Rentals paid under operating leases are charged to the service using the asset in the Comprehensive Income and Expenditure Statement.

1.20 FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised in the Balance Sheet when the authority becomes party to the contractual provisions of the instrument. In the case of a financial asset this is when the authority becomes committed to its purchase, except in the case of trade receivables, which are recognised when the goods or services have been supplied. Financial liabilities are recognised when the cash or goods or services have been received.

Financial Liabilities

Financial liabilities are initially measured at fair value and then carried at amortised cost. Where interest is payable this is charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, based on the carrying amount of the liability multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. Transaction costs are charged to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement, unless deemed material, in which case they are added to the initial cost.

Normally this means, for the council's borrowings, the amount recognised in the Balance Sheet represents the outstanding principal repayable plus any accrued interest, and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year stated in the loan agreement. For current payables with no stated interest rate the amount recognised is the outstanding invoiced amount.

Gains and losses on the early settlement of borrowing are credited or charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of settlement. However, where settlement has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is deducted from or added to the amortised cost of the new or modified loan and its write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over a number of years. The council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid, subject to the maximum or minimum number of years specified in the regulations. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

The authority's financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments *and* are not quoted in an active market.
- Available-for-sale assets – assets that have a quoted market price *and/or* do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are initially measured at fair value and carried at amortised cost. Where interest is receivable this is credited to the Financing and Investment Income and Expenditure line

in the Comprehensive Income and Expenditure Statement, based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. Normally this means, for the council's loans and investments, the amount recognised in the Balance Sheet is the outstanding principal receivable plus any accrued interest, and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year stated in the loan agreement.

Interest attributable to the Housing Revenue Account (HRA) is calculated based on the level of its usable reserves held throughout the year and the weighted average (consolidated) rate of interest earned by the council, in accordance with statutory provisions.

Where loans and receivables are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and an impairment charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised cash flows, discounted at the asset's original effective interest rate.

For current receivables with no stated interest rate the amount recognised is the outstanding invoiced amount, less any allowance for impairment (provision for bad or doubtful debts).

Any gains and losses that arise on the disposal or de-recognition of the asset are credited or charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-sale financial Assets

Available-for-sale financial assets are initially measured and carried at fair value, except in the case of equity instruments that do not have a quoted price in an active market for which a reliable fair value cannot be established, which are measured at cost. For instruments quoted in an active market, fair values are based on their market prices at the reporting date, except where the instruments will mature within twelve months of that date, in which case they are assumed not materially different to (and therefore equal to) their carrying values.

Where the asset has fixed or determinable payments, the interest receivable is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, any income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the council.

Changes in fair value (except those arising from impairments), if material, are balanced by an entry to the Available-for-Sale Reserve and the gain or loss is recognised in Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement. Where impairment losses have been incurred, these are charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the de-recognition of the asset are credited or charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, together with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

1.21 INVENTORIES

Inventories held in stores are included in the Balance Sheet at the latest price paid. This is a departure from the requirements of the Code, which require inventories to be shown at the lower of cost and net realisable value. The effect of the different treatment is not considered material.

1.22 CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

1.23 PROVISIONS

Provisions are made where an event has taken place that gives the council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing or amount of the transfer is uncertain. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the council becomes aware of the event, based on its best estimate of the likely settlement. When payments are eventually made, they are charged to the provision carried on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service line in the Comprehensive Income and Expenditure Statement.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

1.24 CONTINGENT LIABILITIES

A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but, where material, disclosed in a note to the accounts.

1.25 RESERVES

The council sets aside specific amounts as usable reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the General Fund balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to form part of the

Surplus or Deficit in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure in that year.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits, and they do not represent usable resources for the council – these reserves are known as unusable reserves.

1.26 CONTINGENT ASSETS

A contingent asset arises where an event has taken place that gives the council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council.

Contingent assets are not recognised in the Balance Sheet but, where material, disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.27 PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the council's financial position or financial performance. Where a change made has a material effect, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.28 EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that arose after the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.29 ESTIMATION TECHNIQUES

Estimation techniques are the methods adopted to assess the values of assets, liabilities, gains and losses and changes in reserves in situations where there is uncertainty as to their precise value. Unless specified in the Code or in legislative requirements, the method of estimation will generally be the one that most closely reflects the economic reality of the transaction.

1.30 JOINTLY CONTROLLED OPERATIONS

Jointly controlled operations are activities undertaken by the council, together with other organisations, involving the shared use of the assets and resources of the organisations, rather than the establishment of a separate entity. The council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and charges or credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Such operations, not being separate entities, are accounted for in the council only accounts and are not separate entities for Group account purposes.

1.31 INTERESTS IN COMPANIES AND OTHER ENTITIES – GROUP ACCOUNTS

The council has material interests in companies and other separate entities that have the nature of being subsidiaries and joint ventures and require it to prepare Group Accounts. In the council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

Basis of Consolidation

The group accounts bring together the council's own accounts with those of Gloucestershire Airport Ltd, in which the council has a 50% shareholding, and Cheltenham Borough Homes Ltd (CBH), in which the council has a 100% shareholding. The accounts of CBH include those of Cheltenham Borough Homes Services Ltd, a wholly owned subsidiary of Cheltenham Borough Homes Ltd.

Gloucestershire Airport Ltd has been treated as a Joint Venture (since it is jointly owned and controlled with Gloucester City Council), so has been consolidated with the council's accounts on an equity accounting basis, in which the council's share of the company's operating results and net assets or liabilities (based on its proportionate shareholding) are shown as separate lines in the main group statements. There is no requirement to adjust for inter-organisation transactions and balances.

CBH has been treated as a Subsidiary (since it is wholly owned and controlled by the council), so its accounts have been consolidated in the main group statements on a line-by-line basis, eliminating inter-organisation transactions and balances.

At 31st March 2016 the council also had a 16.66% shareholding in Ubico Ltd., a local authority owned company which (from 2015/16) has six members, providing environmental services to the shareholder councils. Previously the company was jointly owned and controlled with Cotswold District Council. Since the council no longer has control or joint control or significant influence over the company, from 2015/16 its accounts have not been consolidated into the group accounts, however full disclosure notes are provided.

Accounting Policies

The financial statements in the group accounts are prepared in accordance with the policies set out above, with the following additions and exceptions:

The financial statements for Cheltenham Borough Homes (CBH) and Gloucestershire Airport have been prepared under the historical cost convention in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007).

Property, Plant and Equipment assets held by Gloucestershire Airport are initially valued at historic cost. For the purposes of the group accounts they have been re-valued at Current value in existing use (using depreciated replacement cost) in order to bring them in line with the council's accounting policies. A formal valuation of the runway and buildings at the Airport, with a valuation date of 31st March 2012, was undertaken by an external valuer in 2012.

Dwellings owned by CBH are initially valued at historic cost. For the purposes of the group accounts they have been re-valued at Current value to bring them in line with the council's accounting policies. In 2014/15 the Current value was assessed by an external valuer using the existing use value for social housing (EUV-SH) appropriate to the dwellings' tenure as affordable homes. Previously market value was used as a proxy for fair value.

Audit Committee 2016-17 work plan

Item	Author	Decision / Discussion
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15 June 2016		
Briefing (to agree agenda): 3 May 2016	Officers and GT liaison: 1 June 2016	Reports to DSU by: 3 June 2016
Audit committee update	Grant Thornton	Discussion
Annual Audit Fee letter 2016/17	Grant Thornton	Discussion
Auditing Standards (communicating with the Audit Committee)	Grant Thornton	Decision
Internal audit opinion 2015/16	Lucy Cater	Discussion
Annual governance statement	Bryan Parsons	Decision
Review of draft accounting policies	Sarah Didcote	Decision
No Purchase Order No Payment compliance	Sarah Didcote/Bryan Parsons	Briefing
Evaluation of Internal Audit provision	Paul Jones	Briefing
21 September 2016		
Briefing (to agree agenda): tbc	Officers and GT liaison: tbc	Reports to DSU by: Fri 9 Sept 2016
Audit committee update	Grant Thornton	Discussion
Audit highlights memorandum - ISA 260 (for the previous year) inc. Financial Resilience	Grant Thornton	Discussion
Internal audit monitoring report	Rob Milford	Discussion
Counter Fraud update	Emma Cathcart	Discussion
Review of annual statement of accounts	Finance Team	Tbc
11 January 2017		
Briefing (to agree agenda): tbc	Officers and GT liaison: tbc	Reports to DSU by: Wed 21 Dec 2016 (early / bank hols)
Audit committee update	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	Discussion
Counter Fraud update	Emma Cathcart	Discussion

Audit Committee 2016-17 work plan

Item	Author	Decision / Discussion
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Annual governance statement – significant issues action plan	Bryan Parsons	Decision
22 March 2017		
Briefing (to agree agenda): tbc	Officers and GT liaison: tbc	Reports to DSU by: Fri 10 March 2017
Audit committee update	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	Discussion
Counter Fraud update	Emma Cathcart	Discussion
Annual review of risk management policy	Bryan Parsons	Decision
Approval of the Code of Corporate Governance	Bryan Parsons	Decision
14 June 2017		
Briefing (to agree agenda): tbc	Officers and GT liaison: tbc	Reports to DSU by: Fri 2 June 2017
Audit committee update	Grant Thornton	Discussion
Internal audit opinion (for the previous year)	Rob Milford	Discussion
Internal audit monitoring report	Rob Milford	Discussion
Counter Fraud update	Emma Cathcart	Discussion
Annual governance statement	Bryan Parsons	Decision
Annual Audit Fee letter for the coming year	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 2016)		
Corporate Strategy – consideration of governance issue	Rob Milford	Tbc

Audit Committee 2016-17 work plan

Item	Author	Decision / Discussion
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)	Rosalind Reeves	
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
Revenue and benefits commissioning review (governance arrangements)	Mark Sheldon	Tbc
Briefing note - Audit arrangements of Airport, ICT and other services/bodies for which CBC require assurances	Rob Milford	Information
AG&M update – progress against recommendations from extraordinary meeting	Lucy Cater	Part of update
Car Parking issues – follow-up (agreed at 23/09 meeting)	Lucy Cater	Part of update
Effectiveness of the Audit Committee	Rob Milford	Presentation

ANNUAL ITEMS (standing items to be added to the work plan each year)			
January	Audit committee update	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	Discussion
	Counter Fraud update	Emma Cathcart	Discussion
	Annual governance statement – significant issues action plan	Bryan Parsons	Decision
March	Audit committee update	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	Discussion
	Counter Fraud update	Emma Cathcart	Discussion
	Annual review of risk management policy	Bryan Parsons	Decision

Audit Committee 2016-17 work plan

	Item	Author	Decision / Discussion
	Approval of the Code of Corporate Governance	Bryan Parsons	Decision
June	Audit committee update	Grant Thornton	Discussion
	Internal audit opinion (for the previous year)	Rob Milford	Discussion
	Internal audit monitoring report	Rob Milford	Discussion
	Counter Fraud update	Emma Cathcart	Discussion
	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 committee update	Grant Thornton	Discussion
	Audit highlights memorandum - ISA 260 (for the previous year) inc. Financial Resilience	Grant Thornton	Discussion
	Internal audit monitoring report	Rob Milford	Discussion
	Counter Fraud update	Emma Cathcart	Discussion
	Review of annual statement of accounts	Finance Team	Tbc

Briefing Notes

Audit Committee

Date: 15 June 2016

Responsible officer:
Paul Jones, Section 151 Officer

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

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

SUBJECT: Evaluation of Internal Audit provision

1. Background

Internal Audit services are currently provided by Audit Cotswolds to Cheltenham Borough Council, Cotswold District Council and West Oxfordshire District Council. Forest of Dean District Council receives its Internal Audit Services from South West Audit Partnership (SWAP). Forest of Dean District Council is a Member of SWAP which is a company limited by guarantee and is wholly owned and controlled, as an in-house company, by its members and is a local authority controlled company for the purposes of Part V of the Local Government and Housing Act 1989. The liability of each member is limited to £1, being the amount that each member undertakes to contribute to the assets of the Company in the event of it being wound up while it is a member or within one year after it ceases to be a member.

As part of the internal audit planning process for 2016/17, several 2020 partnership services areas were identified for review in both the Audit Cotswolds and SWAP audit plans. Since 2012, the GO Shared Service areas have been jointly audited by Audit Cotswolds and SWAP with a joint protocol in place which aims to avoid service areas being audited twice. However, in practice, many of the GOSS service areas are audited twice, by internal and external audit, and there is often a third audit so that either SWAP or Audit Cotswolds can gain assurance that "local" processes are operating in accordance with the main system (e.g. payroll) internal controls.

This is not a very efficient arrangement and it would be preferable for one internal audit provider to be commissioned to provide internal audit services for the shared services, and/or all of the Councils' services.

As SWAP is an existing Teckal company, Cheltenham BC, Cotswold DC and West Oxfordshire DC could request to join SWAP as members. Alternatively, subject to the exit provisions, Forest of Dean DC could decide to commission services from Audit Cotswolds through the use of s.101 delegated powers. In both cases, the service change can be implemented without the requirement for a formal procurement exercise.

This paper proposes an independent evaluation of the two internal audit services providers to enable the Joint Committee to decide upon the Internal Audit Service Provider for the partner councils.

The partner Councils share the same external auditor, Grant Thornton. Grant Thornton are ideally placed to be able to provide the Joint Committee with independent advice upon the cost and

quality offered by each internal audit provider and have been commissioned to undertake this work on behalf of the partnership.

2. Proposal

It is proposed that the management teams of both SWAP and Audit Cotswold are invited to submit a "bid" to become the Internal Audit provider on behalf of all the partner councils and the partnership shared services. The bids will not form part of a formal procurement process, however, each internal audit provider will be provided with the same information (brief) at the same time in order to ensure there is a fair and transparent process.

The brief will require information to be provided in relation to both the cost of the service provision and the quality of the service.

Grant Thornton provided detailed selection criteria to support the evaluation of cost and quality. The partner council Chief Finance Officers have reviewed the criteria and agreed upon the weightings to be applied to the selection criteria.

The revised timescale is set out below:

20 May 2016	Chief Finance Officers agreed the final wording of the brief to go to SWAP and Audit Cotswolds
27 May 2016	Proposals sent out to SWAP and Audit Cotswolds
1 July 2016	Receive written submissions from SWAP and Audit Cotswolds
w/c 4 July 2016	Presentations to Client Officers to include Chief Finance Officers, Clients from Cheltenham Borough Homes Ltd, Ubico Ltd and The Cheltenham Trust. Client Officers agree recommendation to Joint Committee including legal and governance implications for all internal audit clients
11 July 2016	Formal meeting of Joint Committee receives report from Client Officers and considers recommendations
September 2016	Audit Committees receive report from relevant commissioner for consultation on proposed change of provider OR noting the completion of the evaluation process and the continuation of existing provider
October 2016	Where a change of supplier is recommended, Cabinet(s)/client decision making body receives report including consultation response from relevant Audit Committee
October – February	Council(s) receive report from Cabinet recommending internal audit service 2017 provider, changes to legal and governance arrangements and TUPE transfer of internal audit staff where applicable.
February/March 2017	Implementation of change
1 April 2017	New internal audit arrangements commence

Contact Officer: Paul Jones, Section 151 Officer

Tel No: 01242 775154

Email: paul.jones@cheltenham.gov.uk

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Briefing Notes

Audit Committee

Date: 15 June 2016

Responsible officer:

Sarah Didcote, Deputy Section 151 Officer

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

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

SUBJECT: Purchase Order monitoring

The council's Senior Leadership Team approved the introduction of a "no purchase order, no payment" policy in April 2015, to support the requirement that purchase orders be raised for all expenditure, with the exception of certain categories of expenditure included on an exemption list, as shown in Appendix B.

A request was made by Audit Committee at its meeting on 23rd March 2016 for compliance with this policy to be monitored and reported to the committee; following an audit report showing only 27% of eligible creditor payments raised in 2015/16 were supported by purchase orders. This briefing note outlines progress made in this area since this date.

A report has now been written to show the monthly usage of the purchase order module of the council's financial system, Agresso Business World. The report for 2015/16, broken down into monthly periods and also the report for April 2016 are attached to this note for information (Appendix A). This shows an increase in the percentage of purchase orders raised since the introduction of the policy, with 33% of eligible payments being raised by purchase orders in April 2016.

It can be seen that 44% of eligible payments where no purchase orders have been raised are in respect of repairs related expenditure generated from Property Services division, using the Uniform system. This system is a stand-alone works order system used to manage repairs purchases and contracts by the division. This complies with financial rules in that purchase work orders are being raised. However as Uniform is not integrated with the Agresso finance system, it results in duplication of effort in the approval and payment processes. This expenditure is not included on the exemption list, as purchase ordering is managed through Uniform. Work has commenced to investigate the possibility of an interface between the two systems, to incorporate property orders into the council's main procurement arrangements. Full details of monitoring within the Uniform system are included in Appendix C to this briefing note.

Similarly, purchase orders are raised by Cheltenham Borough Homes for Housing Revenue Account repairs using a stand-alone system with no direct interface to Agresso. This accounts for 6% of eligible payments. These arrangements will also be reviewed at a later date.

If the Property services and CBH repairs expenditure were to be added to the exemption list and excluded from the purchase order monitoring statistics, this would result in a total of 68% of eligible payments being raised using the purchase order system in April 2016, with 32% of eligible payments being non-compliant.

GO Shared Services have now allocated additional resource to the monitoring of purchase orders raised. This will include identifying services which are non-compliant and offering additional training and support to staff, with the aim of improving performance. This will become an essential process for the council in order to achieve the statutory earlier closedown of the statement of accounts by 31st May from the financial year end 2017/18 onwards.

This briefing note, together with a breakdown of non-compliant services has been reviewed by Executive Board who, with the support of GO Shared Services, will be addressing the issues and monitoring the performance with service managers, both through their Departmental Management Team meetings and 1-2-1's as necessary, to ensure compliance with the policy. Executive Board will also be asked to consider adding Property services and CBH expenditure to the Agresso Exemption List until their systems are fully integrated with Agresso.

Contact Officer: Sarah Didcote, GOSS & Deputy Section 151 Officer

Contact Details: Tel 01242 264125, email Sarah.Didcote@Cheltenham.gov.uk

All invoice payments 2015/16	April	May	June	July	August	Sept	Oct	Nov	Dec	Jan	Feb	March	Average Total
Purchase Order Payment	18.31%	19.15%	20.62%	22.89%	23.53%	16.67%	26.95%	16.89%	24.83%	27.20%	16.91%	19.04%	20.76%
Supplier Payment	18.88%	12.82%	15.19%	9.23%	15.06%	12.00%	11.19%	10.93%	9.69%	6.58%	17.24%	13.24%	12.57%
Supplier Payment - CBH	15.73%	11.79%	13.70%	16.63%	17.18%	10.19%	22.03%	12.47%	11.22%	9.44%	16.58%	11.60%	13.75%
Supplier Payment - Maintenance	26.07%	33.33%	29.26%	36.10%	20.94%	40.45%	19.32%	37.31%	36.05%	38.26%	29.39%	37.96%	32.91%
Supplier Payment - Permitted	21.01%	22.91%	21.23%	15.15%	23.29%	20.70%	20.51%	22.41%	18.20%	18.51%	19.87%	18.16%	20.01%
Total Creditor payments	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Invoice payments 2015/16 (excluding exemptions)	April	May	June	July	August	Sept	Oct	Nov	Dec	Jan	Feb	March	Average Total
Purchase Order Payment	23.19%	24.83%	26.18%	26.98%	30.67%	21.02%	33.90%	21.76%	30.35%	33.38%	21.11%	23.27%	25.95%
Supplier Payment	23.90%	16.63%	19.28%	10.87%	19.63%	15.13%	14.07%	14.08%	11.85%	8.08%	21.52%	16.18%	15.72%
Supplier Payment - CBH	19.91%	15.30%	17.40%	19.60%	22.39%	12.85%	27.72%	16.07%	13.72%	11.59%	20.70%	14.18%	17.19%
Supplier Payment - Maintenance	33.00%	43.24%	37.15%	42.55%	27.30%	51.00%	24.31%	48.08%	44.07%	46.95%	36.68%	46.38%	41.14%
Average Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Supplier Payment v PO Payments - excluding repairs	April	May	June	July	August	Sept	Oct	Nov	Dec	Jan	Feb	March	Average Total
Purchase Order Payment	49.24%	59.89%	57.59%	71.28%	60.98%	58.15%	70.67%	60.71%	71.92%	80.51%	49.52%	58.98%	62.28%
Supplier Payment-excluding repairs	50.76%	40.11%	42.41%	28.72%	39.02%	41.85%	29.33%	39.29%	28.08%	19.49%	50.48%	41.02%	37.72%
Average Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

2016/17 -APRIL

Breakdown of all invoice payments 2016/17	April	May	June	July	August	Sept	Oct	Nov	Dec	Jan	Feb	March	Average Total
Purchase Order Payment	28.94%												28.94%
Supplier Payment	13.54%												13.54%
Supplier Payment - CBH	5.38%												5.38%
Supplier Payment - Maintenance	39.05%												39.05%
Supplier Payment - Permitted	13.08%												13.08%
Total Creditor payments	100.00%												100.00%

Invoice payments 2016/17 (excluding exemptions)	April	May	June	July	August	Sept	Oct	Nov	Dec	Jan	Feb	March	Average Total
Purchase Order Payment	33.30%												33.30%
Supplier Payment	15.58%												15.58%
Supplier Payment - CBH	6.19%												6.19%
Supplier Payment - Maintenance	44.93%												44.93%
Average Total	100.00%												100.00%

Invoice payments 2016/17 (excluding exemptions, CBH & maintenance)	April	May	June	July	August	Sept	Oct	Nov	Dec	Jan	Feb	March	Average Total
Purchase Order Payment	68.12%												68.12%
Supplier Payment-excluding repairs	31.88%												31.88%
Average Total	100.00%												100.00%

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Exceptions List to Council's 'No PO – NO Pay Policy

Utility bills	Accommodation costs
Telephone bills	Fuel cards
Photocopier rental charges	Business rates
Rent refunds	Grant payments
Council Tax	Direct payment suppliers
Subscription renewals	Low value purchases below £100
Payment requisitions (Proformas where no invoice is submitted)	Legal settlements and court costs
Business Card / Council Debit Card purchases	VAT only invoices
Interface related invoices	Stationery or printing purchased via a web portal account
Public transport	Rail warrants
Postal Services	Land and property searches
Stray dog service	DVLA enquiries

The Exceptions List will be constantly reviewed and added to where justified.

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Audit Committee Purchase Order Monitoring – Supplementary information Property Maintenance	Date	15 TH June 2016
	Report title	Appendix C
	Report author	Garrie Dowling

Subject: Purchase Orders and Invoice Reconciliation for Property Maintenance Works

Property & Asset Management (Property Maintenance Section) compliance with financial rules of 'no purchase order, no payment' policy

Background

Circ. 2010 the Property department implemented the 'Uniform' Estates module, and Works & Maintenance module to assist in management of the councils property portfolio. All procurement in relation to the annual spend on property maintenance was undertaken using this software which included purchase of:

- Reactive (emergency) maintenance
- Routine (compliance) maintenance
- Planned (programmed) maintenance

The purchasing and reconciliation process adopted for each type of Work remains as follows:

Reactive (emergency) maintenance – Utilising a framework call-off contract on a rotation basis:

- Define the Works
- Raise a purchase order
- Instruct a Contractor and issue the purchase order
- Monitor progress
- Inspect the Works and sign-off
- Invoice reconciliation
- Log actions and performance
- Close order

Routine (compliance) maintenance – Utilising Term Contracts tendered and in place for specific areas of Work e.g. mechanical services, electrical services, fire precaution services, security etc.:

- Works predefined via term contract specification and scope
- Raise annual purchase order
- Issue the purchase order to the Contractor/ Service Provider
- Monitor progress
- Inspect the Works and sign-off (monthly)
- Invoice reconciliation (monthly)
- Log actions and performance
- Close annual order

Planned (programmed) maintenance – Utilising Contract Rules for relevant Work value

- Works predefined via preparation of specification and scope
- Tender Works via either

- Request minimum of two quotations (under 10K value)
- Tender via Framework (10K to 50K)
- Tender via normal procurement process (over 50K)
- Evaluate quotation/ tender and award
- Raise a purchase order
- Instruct a Contractor and issue the purchase order
- Monitor progress
- Inspect the Works and sign-off
- Invoice reconciliation
- Log actions and performance
- Close order on final account

Circ. 2012 the department was asked to implement payment of invoices through Agresso, however, a compatibility issue soon became apparent in that Agresso could not record 'estate management' attributes so in order that Property could carry on capturing estate management data throughout the Works ordering process, and to prevent 'double-handling of purchase orders and invoice reconciliation it was agreed that the process outlined in the attached process map be adopted until a suitable solution could be found. Recording estate management data is a requirement under the Government's Transparency Agenda.

The task of finding a solution was left with the Uniform and Agresso software implementation team. To date no solution has been forthcoming, but the department are working with Finance and Procurement to resolve the current software interface difficulties.

Annual Budget Monitoring

To assist in budget monitoring Property maintain a Excel spreadsheet log for reactive, routine and planned maintenance which gives a monthly snap-shot on status of all Uniform purchase order commitments and invoice reconciliation. These spreadsheets (example attached), and the information contained therein, are forwarded to the Finance department on a monthly basis.

Summary

Purchasing Process:

Currently managed via Uniform Works & Maintenance module as previously described together with departmental monitoring via Excel spreadsheet as described above.

Payment Process:

Currently monitored via Uniform Works & Maintenance module as previously described together with departmental monitoring via Excel spreadsheet as described above; and also via Agresso payment approval process following input by FoD Accounts Payable

Financial Forecasting:

Currently monitored departmentally via Excel spreadsheet as described above, and through monthly update's issued to Finance department.

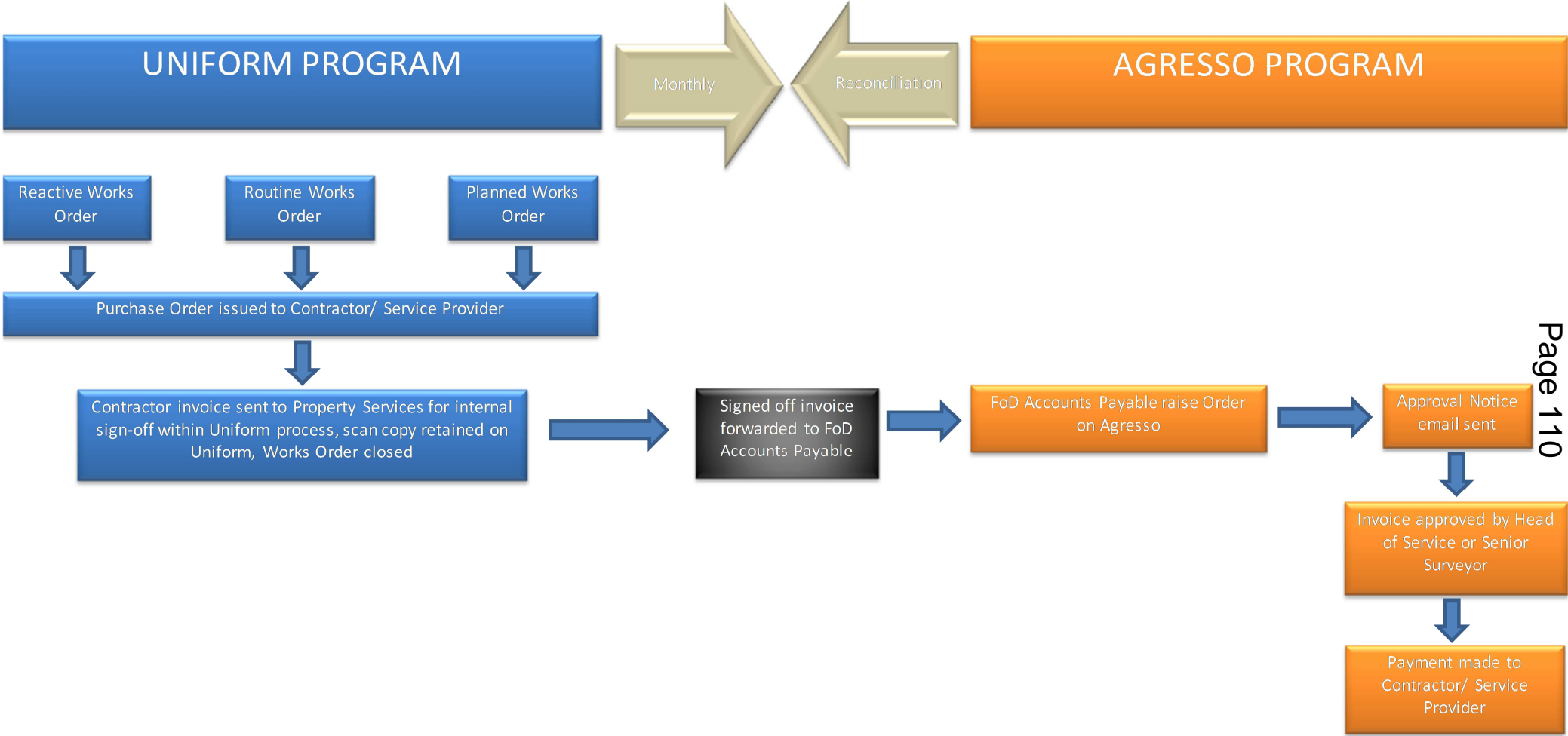
Conclusion

In light of the aforesaid, we consider the departmental processes offer a valid alternative to raising purchase orders on Agresso at the outset of an instruction to a contractor or service provider by virtue that the Uniform purchase order does the same thing and should, therefore, provide compliance with the no purchase order no payment policy. Difficulties with budget monitoring are

managed as described although we appreciate they are not ideal, and do incur inefficiencies in Officer time. Property Services continue to work toward a resolution to the software interface with both Procurement and Finance departments.

Appendix C

Process Map - Purchase Orders and Invoice Reconciliation for Property Maintenance Works



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