

Audit Committee

Wednesday, 21st September, 2016
6.00 - 9.05 pm

Attendees	
Councillors:	Colin Hay (Chair), Matt Babbage, Paul McCloskey, John Payne and David Willingham
Also in attendance:	Peter Barber (Grant Thornton), Lucy Cater (Audit Cotswolds), Sarah Didcote (Deputy Section 151 Officer), Paul Jones (Section 151 Officer), Jackson Murray (Grant Thornton), Bryan Parsons (Corporate Governance, risk and Compliance Officer) and Kate Seeley (Counter Fraud Unit)

Minutes

1. APOLOGIES

Councillors Parsons and Harvey had given their apologies.

2. DECLARATIONS OF INTEREST

No interests were declared.

3. MINUTES OF THE LAST MEETING

The minutes of the last meeting had been circulated with the agenda. The Chairman reminded the committee of the need to formally agree the minutes of the last meeting, which, once signed, would represent a true record of what was discussed and agreed.

Upon a vote it was unanimously

RESOLVED that the minutes of the meeting held on the 15 June 2016 be agreed and signed as an accurate record.

4. PUBLIC QUESTIONS

No public questions had been received.

5. AUDIT HIGHLIGHTS MEMORANDUM - ISA 260 2015/16 INCLUDING FINANCIAL RESILIENCE

Jackson Murray, of Grant Thornton, introduced the Audit Findings report, as circulated with the agenda. The report highlighted key findings arising from the audit. Members were referred to the Executive Summary, which referenced outstanding work and informed the committee that final assurances from Cheltenham Borough Homes' auditors had now been received and whilst this had raised some issues, it was nothing material. The final version of the final statements and the management letter of representations had been received today and signing of the opinion would take place later in the meeting, once the committee had reviewed the Statement of Accounts. Grant Thornton were on target for the September deadline. In relation to Value for Money (VfM), there

were three areas that were assessed: decision making, sustainability and partnership working and Grant Thornton had concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

Jackson talked through some key points:

- Historically, the Council had produced group accounts which had included Ubico Ltd, but with the Council's shareholdings having decreased to one-sixth with the addition of more partners, it was agreed that group accounts were no longer required. The Council's interest would instead be classified as an investment in Ubico Ltd on the Balance Sheet.
- No material adjustments were identified within the financial statements and the recorded net expenditure had remained the same.
- There had been an increase to the balance sheets of £3.568 million as a result of the increased value of assets. This was matched by an equal increase in the Revaluation Reserve.
- Recognising the size of the accounts, recommendations on a number of adjustments to improve the presentation of the financial statements had been made.
- No issues with the Annual Governance Statement were identified.
- Weaknesses in relation to IT controls were identified, but these weaknesses did not alter the proposed audit strategy; instead offering scope to refine controls.
- Under significant risks there were two presumed significant risks which were applicable to all audits under auditing standards and none of the risk that were identified related to either of the presumed risks.
- The Agresso upgrade had been effective and a number of potential improvements had been identified in relation to the Council's IT Systems.
- Information from the valuers suggested that there was a material difference between the carrying value and fair value of some assets which were last valued in 2014. Grant Thornton had raised a recommendation that the council consider their valuation programme to ensure that values remained material stated.
- The valuation of pension fund net liability represented significant estimates in the financial statements, but the audit work had not identified any issues.
- No issues were identified in relation to payroll and expenditure.
- During testing of grant income a balance totalling £0.083m was disclosed as receipts in advance and was subsequently identified as monies relating to Section 106 bond deposits. The monies were repayable to the contractor upon completion of the works per the signed agreement. This was a classification issue not to do with the figures themselves.
- Having assessed the issues raised in the previous year, both had been addressed.
- £0.095m should have been shown as de-recognition rather than a disposal and this did not have any impact on the Council's Comprehensive Income and Expenditure Statement or the Balance Sheet.

- In terms of the VfM findings, two interlinked risks were identified: the MTFS and 2020 Vision. Gaps still existed in the MTFS and potential changes to the Council's involvement in the 2020 Vision Programme would result in alternative savings having to be identified to cover any shortfalls. Grant Thornton concluded that the risks were sufficiently mitigated and the Council had proper arrangements in place.
- The actual fees charged for the Council audit work were as budgeted.
- The action plan included Management responses.

The following responses were given to member questions:

- CIPFA guidance states that depreciation begins when an asset is available for use and that all assets must depreciate.
- The council spends circa £80million a year and therefore £82k represented 0.1% of gross revenue expenditure. Grant Thornton would not expect the Finance Team to adjust the accounts for anything below that figure and members were assured that suspected fraud, of any sum, would be immediately reported.
- Grant Thornton's audit was not designed to test all internal controls. It focussed on areas of greatest risk and was retrospective.
- Journals posed an area of high risk for External Auditors as they allowed money to be moved from one place to another. The Section 151 Officer had not posted any journals in 2015-16 but his ability to do so was removed as they would not be subject to authorisation by a more senior officer.
- Finance Officers worked across all partners and as such had access to all journals of all partners. Outside of the Finance Team, access permissions were set at a level that was appropriate to the role (i.e. a budget holder would have access to their budget information only).
- Grant Thornton did not assess decisions themselves, as this was ultimately for members to make the decision. What Grant Thornton assessed was whether members were given all of the appropriate information to allow them to make an informed decision.
- In reviewing the financial strategy, Grant Thornton needed to be satisfied that the assumptions that were being made were reasonable. They recognised that there were some gaps but have seen that historically, this council has shown ability to address these gaps.
- The implementation date of 31 March 2017 had been set for the review of the rolling valuation programme as, had this been done now, it would only have had to be repeated at the 31 March 2017.

There were no recommendations arising from this report.

6. STATEMENT OF ACCOUNTS 2015-16

The Deputy Section 151 Officer introduced the Statement of Accounts 2015-16. Tonight's PowerPoint presentation (Appendix 1) would differ from previous years and focus on the process rather than the figures, given that the S.O.A had been available in advance and Grant Thornton had already talked through their Audit Findings report.

The following responses were given to member questions:

- The S.O.A had been available for public inspection for four weeks on the website as well as in hard copy at the Municipal Offices. The four week inspection period would need to include the first 10 working days of July in 2017, as it did this year. In 2018, the period will need to include the first 10 working days of June. The statement about the public inspection would be amended next year to make clear that the S.O.A had also been available on the website.
- The balance sheet represented a snap shot in time. Valuers prepare detailed valuations for a class of assets on a rolling programme basis, with a review of other assets to ensure the last valuation still reasonable. There was a legal requirement to compare the 2015/16 data to the prior year 2014/15, but not for earlier years.
- Officers did not feel that it was appropriate to include a graph plotting how the Revenue Support Grant had reduced from previous years and instead suggested that this could be included in the MTFS.
- The paragraph on Members' Allowances did state that the total of £323,852 was split between 40 councillors but Officers would look at whether they could add slightly more detail to the narrative in future years, perhaps to include a figure for the average allowance paid.
- Officers accepted that visuals such as pie charts were helpful to the public and that members felt it would be useful to map how money had been spent, but there was also a need for Officers to find a balance between what meaningful information to include, given the need to reduce the size of the S.O.A.
- Officers would give consideration to organising a member session on the S.O.A, in advance of the Audit Committee in future years, if this was something that members of the committee felt would be useful.

The committee acknowledged that the production of shorter S.O.A involved no less work and thanked the officers involved for their hard work, especially for having them finalised earlier.

The Section 151 Officer would speak to the Communications Team about a press release.

Upon a vote it was unanimously

RESOLVED that:

- (a) The accounts for the year ended 31 March 2016 be approved.**
- (b) The Statement of Accounts and letter of representation be signed by the Chairman of the committee and the Section 151 Officer.**

7. INTERNAL AUDIT MONITORING REPORT

Lucy Cater introduced the Internal Audit Monitoring Report, which provided updates on the work that had been completed by Audit Cotswolds, based on the Annual Audit Plan 2016-17. Executive Summaries for each of the audit reviews that had been concluded since the last Audit Committee meeting, were attached at Appendix 2 of the report. She was pleased to report that since it's publication, draft reports in relation to the HR Starters and Leavers Process, Follow-Up of Payment Channels and Income Streams had been finalised, the report on PSN had been received from the South West Audit Partnership, in line with the joint working protocols and the service were now in a position to

undertake follow-up work on the Art Gallery and Museum and Car Parking reviews. Members would also be aware, as it was included on the agenda, that Audit Cotswolds had submitted a proposal as part of the internal audit provider evaluations and were not the recommended provider.

The Corporate Governance, Risk and Compliance Officer gave the following responses to member questions:

- Generally, those projects identified within the Corporate Strategy, were project managed by a Project Manager from the Project Office and followed PRINCE2. However, there were some smaller projects, not just in terms of financials, which were managed by the services themselves and it was for projects such as this, that did not warrant a PRINCE2 approach, for which new templates had been produced.
- All key services across the council had their own Business Recovery Plan and ICT was integral to some of these plans. ICT which now formed part of the wider 2020 partnership, had devised a new plan, which prioritised services and how quickly they would be bought back online. This plan had been shared with Service Managers who had been asked if they agreed with the priority status that had been given to their service and this would be discussed further at an SLT meeting in November. A desktop exercise would be undertaken in January, by the Business Continuity Team. Members were reminded that following the virus issues of a few years ago, that should more than one high priority service be effected, the Team would ultimately prioritise based on the point in time i.e. payroll if this needed to be processed, etc.

There were no further comments or questions.

Upon a vote it was unanimously

RESOLVED that the updated assurance levels and priority ratings being applied for 2016-17 be noted.

8. WHISTLE BLOWING POLICY

Kate Seeley had attended on behalf of Emma Cathcart, and introduced the revised Whistle-Blowing Policy. She explained that the policies from all partner councils (Cheltenham Borough, Cotswold District, West Oxfordshire and Forest of Dean District), as well as Tewkesbury Borough, which forms part of the counter fraud service provision, had been reviewed and a single policy redrafted. The redraft represented a best practice policy and would facilitate standardisation across all council's. In the past, Cabinet had approved policies and this committee had reviewed changes, but whilst the report referenced 'significant revisions' the committee were assured that the redrafted policy was not significantly different to the previous version and rather, the wording of the policy had been aligned across all of the authorities.

The following responses were given to member questions:

- The Whistle-Blowing policy was introduced in 1997 and there was a legal requirement for the authority to have one. In that time it had been used once but had not in fact been used appropriately.

- Elected Members were not referenced under item 6 of the policy (Responsibilities) as those wanting to raise concerns would not be expected to approach Elected Members.
- The policy would be amended to include the word 'perceived' or 'suspected' wrong-doing and the word 'may' would be replaced with 'will' in relation to being asked about personal interests.
- Officers were looking to develop something more condensed, which could include a decision tree. This policy did form part of employees Terms and Conditions and therefore, already formed part of the induction process.
- Officers said that the policy would be made available to all employees through the intranet and that their would be an exercise to raise awareness of the policy.

The committee agreed that the Chairman should report to Council, that the revised Whistle-Blowing policy had been approved, as well as the fact that the accounts had been signed. Officers were reminded that any report requiring a decision should be supported by a completed risk assessment.

Upon a vote it was unanimously

RESOLVED that the Whistle-Blowing Policy be approved.

9. COUNTER FRAUD UNIT UPDATE AND COUNTER FRAUD UNIT BUSINESS CASE

Kate Seeley, from the Counter Fraud Unit (CFU) introduced the update which summarised the activity being undertaken by the CFU and aimed to provide assurance over the counter fraud activities of the Council. The unit had been proactively looking at Housing related fraud at both Cheltenham and Tewkesbury, would soon be undertaking work on behalf Gloucestershire County Council in relation to Blue Badge fraud and the unit were in the process of being contracted to undertake reactive work on behalf of Ubico. A lot of focus had been given to redrafting and aligning policies and compiling the business case for a permanent CFU.

The Chief Finance Officer introduced the business case. In February 2015, Audit Cotswolds successfully bid for DCLG funding to accelerate the development of a dedicated Counter Fraud unit for Gloucestershire and West Oxfordshire. The funding was a one-off payment and the business case being considered translated the funded project into a permanent service model that was fully self-sufficient, whilst continuing to manage and utilise the DCLG fund to set-up the unit. Feasibility studies undertaken in 2015-16 and 2016-17 showed that the unit could expect to generate revenue and provide risk assurance and the business case argued that the benefits of a counter fraud unit would outweigh the costs of setting up and operating the unit. Of the options set out in the business case, all would generate a guaranteed saving, though this saving was obviously smaller in relation to Options 2 and 3. Members were reminded that with transparency regulations, there was a requirement for authorities to publicise the number of Counter Fraud Officers it employed. Members would be aware that Council tax was set in February each year, though houses continued to be built during this time, which generated a Collection Fund Surplus, which could be distributed equitably between the District, County and Police. This was estimated at £40k but had instead

generated almost £100k this year and was being estimated at £120k next year, though this obviously could not be guaranteed.

The following responses were given to member questions:

- The CFU have previously been involved in proceeds of crime in relation to Housing Benefit cases, and the CFU would be looking at whether this was something that could be pursued in other areas and particularly in terms of Planning Enforcement on businesses, as this would generate a revenue stream.
- Members were assured that processes were in place to detect fraud before it occurred and the benefit of the CFU was that information relating to attempted fraud could be shared across a wider area.
- £100k of the set-up cost was for new software.
- The Senior Finance Officer would recommend Option 3 but the other 7 Council's would need to agree to this. He therefore suggested that Option 2, which 3 partners had already signed-up to, with a note that the council was open to Option 3, if the other councils also preferred this option.
- The software is able to data matching across authorities but could also be used as a standalone system for each authority if data matching was not permitted, by legislation, across authorities.

The committee acknowledged the benefits of the CFU, not least that its very existence could act as a deterrent. Members were minded to recommend Option 3, but given the need for all council's to sign-up to this, would instead recommend that Cabinet accept Option 2 but note that Option 3 was their preference.

Upon a vote it was unanimously

RESOLVED that:

- 1. The project summary be noted.**
- 2. Having considered the business case, Cabinet be recommended to approve Option 2 with a note that Option 3 was the preferred option.**

10. FUTURE PROVISION OF INTERNAL AUDIT SERVICES

This item was taken after agenda item 11 (Work Programme).

Lucy Cater, Audit Cotswolds, was excused from the meeting.

The Section 151 Officer introduced his report on the future provision of Internal Audit services, which members would recall having received a briefing note on the same issue at the last meeting. Given that SWAP was an existing local authority owned (Teckal) company, it was possible for the council to request to join SWAP as a member and the service change without the requirement for a formal procurement process. Given the various connections within the Finance Officer Group, Grant Thornton were commissioned to support the evaluation process, both by helping with the criteria for the evaluation and by providing an independent view on the quality of the two suppliers. The proposals were

evaluated using a price/quality score of 40%/60% and each person scored the proposals independently, but ultimately, SWAP scored highest in the evaluation, unanimously. He talked through some of the reasons for this, but also highlighted the resilience that SWAP would offer given that it had a larger pool of resources to call upon. Although not a direct issue for this Council (Audit Cotswold staff are currently employed by Cotswold District Council) Members were given assurance that all the staff would have their existing rights protected under TUPE.

The Section 151 Officer gave assurance to Members that SWAP has a strong governance model in place, which was set out in detail at paragraph 3 of the report. The Members' Board meet at least twice a year and make all decisions relating to strategy, policy, and the admission of new partners. Each partner council nominates a councillor to represent them on this Board. It was being proposed that the representative for this council would be the Chair of the Audit Committee and the Chief Financial Officer would represent the council on the Board of Directors.

. The Committee noted that the proposed fee to SWAP represented a base budget saving of £32,680 and that this fee was fixed, regardless of staff pay increases, until a time when all members decided that it needed to be increased.

The following responses were given to member questions:

- Despite having to deal with long term sickness, individuals within the existing Internal Audit service had done a fantastic job and whilst it was accepted that staff were feeling nervous about the future, they were not only assured a job, but potentially better opportunities going forward as part of SWAP.
- This report had been fast tracked to this meeting of the committee, as it was not scheduled to meet again until January 2017. It was not scheduled for consideration by Cabinet until November 2016, as One Legal needed to consider all the relevant Articles, etc. It was also noted that the other Council's needed to consider the issue.
- 365 audit days needed to be honoured due to TUPE and whilst this could be reviewed in the future, it may result in redundancies.
- The aim was to resolve this issue as soon as possible, in order to remove any uncertainty for those officers that would be affected and staff, were being kept informed of progress.

Members acknowledged the good work that the current Internal Audit service had undertaken and expressed hope that this issue be resolved as swiftly as possible.

Upon a vote it was unanimously

RESOLVED that:

The report be noted and the proposal for South West Audit Partnership (SWAP) to provide the council's internal audit service from the 1st April 2017 be endorsed.

The proposal to appoint the chairman of the Audit Committee to the Members' Board and the Section 151 Officer to the Board of Directors be endorsed.

It be recommended to the 2020 Vision Joint Committee that the current arrangement with the Joint Committee be terminated on the 31st March 2017, so that responsibility for the internal audit service provision may return to Cheltenham Borough Council prior to the council entering into the new arrangement with SWAP

It be recommended to Cabinet that it be agreed that the South West Audit Partnership (SWAP).

11. WORK PROGRAMME

This item was taken before agenda item 10 (Future provision in Internal Audit Services).

The Chairman raised two items relating to Ubico, which he wished to have added to the work plan. The first, which he felt all shared services should be subject to, was an assessment of whether Cheltenham was receiving an equitable share or whether it was subsidising other authorities. He accepted that, with the addition of more partners, Cheltenham's share would decrease, but he felt strongly that this was something that should be regularly reviewed.

The second item related to if and how the movements of Ubico waste vehicles was monitored. Lucy Cater interjected and advised that Internal Audit were already reviewing Fleet Management and she would ask the Auditor to raise this with Ubico directly.


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

The Corporate Governance, Risk and Compliance Officer reminded members about the self-assessment that had been emailed to them all and urged them to let Lucy Cater (Deputy Head of Audit Cotswolds) have any comments.

13. DATE OF NEXT MEETING

The next meeting was scheduled for Wednesday 11 January 2017.

**Colin Hay
Chairman**



Cheltenham Borough Council

Audit Committee, 21 September 2016
2015/16 Statement of Accounts

Sarah Didcote, GO Shared Services




1



Areas to be covered

- Legal background
- Role of Audit Committee
- Accounting practices and procedures
- Changes to 2015/16 Financial Statements
- Format of Statements
- Financial Statements
- Notes to the Accounts
- Early Closure
- Questions

2



The Legal Framework

- Audit Commission Act 1998 – requirement to prepare an annual Statement of Accounts by 30th June. Deadline to be brought forward to 31st May for 2017/18 onwards.
- Accounts & Audit Regulations (England) 2015 - accounts to be prepared in accordance with 'proper accounting practices'
- CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the 'Code')
- Service Reporting Code of Practice (SeRCOP)
- International Financial Reporting Standards (IFRS)


3



Role of Audit Committee

- Review financial statements to be satisfied that steps have been taken to meet statutory and recommended practices
- Review the Narrative Statement for consistency with statements and known financial challenges and risks
- Review whether statements are readable and are understandable by a lay person
- Identify key messages from each of the financial statements


4



Role of Audit Committee (cont'd)

- Review suitability of accounting policies and treatments
- Seek assurances from Section 151 Officer and External Audit – review Auditors Opinion
- Signed approval of Statements by 30th September, to be brought forward to 31st July for 2017/18 onwards
- Consider if any major concerns arising from Statements or External Audit to bring to attention of Council.

5



Accounting Practices and Procedures

- Statement of Accounts is produced by GOSS Finance, but is a **corporate council document** requiring input across all services
- October 2015 – GOSS review of 2014/15 closedown process
- January 2016 – Pre meeting with External Auditors to discuss issues / changes to statements for 2015/16
- February 2016 - Year end timetable and Guidance notes produced - agreed by key officers , budget holders and external parties
- February 2016 - Workshops held to explain processes, roles and responsibilities and time scales

6



Practices and Procedures (continued)

- Training on importance and use of purchase order system to achieve earlier deadlines
- March 2016 – Budget monitoring to identify known accruals and expected year end position
- March 2016 – Timetable and Guidelines re-sent to all staff, reminding of procedures and timelines for submission of information
- March 2016 – Final reconciliation of suspense and control accounts, preparation for year end
- April / May 2016 – Accruals accounting and production of management year end outturn position

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Practices and Procedures (continued)

- May/June 2016 – Production of statement of accounts, including technical adjustments
- June 2016 - Audit Committee review of Accounting policies
- 30th June 2016 – Accounts signed by Section 151 Officer and submitted to External Audit
- Public inspection period 1st July 2016 to 11th August 2016
- July 2016 – Cabinet / Council year end Outturn report
- August 2016 – External audit of accounts
- 21st September 2016 – Review and sign off of Statements by Audit Committee

8



Changes to 2015/16 Statements

- Adoption of FRS13 Fair value definition – Basis of valuation for surplus assets, assets held for investment purposes and Financial Instruments
- Ubico Ltd – now own equal 16.66% share of business, with 6 partners – no longer need to incorporate in group accounts
- New Narrative Report
- Further decluttering of Financial Statements

9



Format of Statement of Accounts

- **Narrative Statement**
 - Former Introduction and Explanatory Foreword combined / streamlined
 - Council vision and priorities and performance management
 - Developments in service delivery
 - Management outturn
 - Capital Expenditure
 - Financial Challenges ahead
 - Introduction to main statements
- **Statement of Responsibilities for the Statements**
 - Outlines the Council's and Section 151 Officer's responsibilities
 - Section 151 Certification – "True and Fair View"
 - Audit Committee approval - sign off by Chairman

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Format of Statement of Accounts (continued)

- **Core Financial Statements and notes**
 - Comprehensive Income & Expenditure Statement
 - Balance Sheet
 - Movement in Reserves Statement
 - Notes to the Accounts including accounting policies
 - Cash Flow Statement
 - Housing Revenue Account
 - Collection Fund – Business Rates and Council Tax
 - Group Accounts
- **Glossary of Terms**
- **Annual Governance Statement**
- **Independent Auditors Report – Grant Thornton**

11



Comprehensive Income & Expenditure Statement (CIES)

- **Management Outturn:**
 - represents general fund service costs funded by taxation.
 - measures underspend against approved budget
- **Comprehensive Income & Expenditure Statement (CIES):**
 - reports **total** accounting cost of Council services, for GF and HRA
 - includes year end technical adjustments
 - Gross income and expenditure re-categorised by function in accordance with Service Reporting Code of Practice (SeRCOP)
- **Segmental Reporting** note to accounts provides reconciliation between CIES and management outturn reported to Council
- **Technical Adjustments** to CIES reversed out as unusable reserves through the Movement in Reserve Statement, therefore no impact on council tax payer

12



Balance Sheet

- Shows value of assets and liabilities at the balance sheet date
- Snapshot of a point in time, showing net assets matched by reserves
- Land and Property valuations in accordance with 5 year rolling programme, with reasonability check for other material assets
- Reserves– split into usable (earmarked) reserves and unusable reserves e.g. pension reserve, revaluation reserve
- Full breakdown of each element of balance sheet supported by notes to statements

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Other Main Financial Statements

- **Movement in Reserves Statement (MIRS):**
shows the impact of the CIES deficit for the year on the balance sheet position at 31st March and the movement in usable and unusable reserves in the year.
- **Cash Flow Statement :**
shows the changes in cash and cash equivalents during the year
- **Collection Fund:**
separate statement and notes produced by billing authorities, showing transactions in relation to business rates and council tax collected
- **Group Accounts:**
consolidates council accounts with the accounts of any other body for which the council has an influential shareholding –CBH and Glos Airport

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Other Notes included in the Accounts

Other notes provided in the statements include:

- Pensions
- Provisions
- Financial Instruments
- Prior period adjustments
- Officer remuneration
- Related Parties
- Grant income
- Segmental Reporting

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Early Closure of Statement of Accounts

- 2017/18 – draft accounts to be prepared by 31st May 2018
- External Audit to be completed by 31st July 2018
- Audit Committee approval of audited accounts by 31st July 2018
- First trial run for early closure 2015/16 – completed two weeks earlier
- Further trial run planned 2016/17– aim to complete by 31st May 2017

16



Any Questions?



17

