



Notice of a meeting of Audit Committee

Wednesday, 11 January 2017
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 21 September 2016	(Pages 3 - 16)
4.		PUBLIC QUESTIONS These must be received no later than 12 noon on the fourth working day before the date of the meeting	
5.		ANNUAL AUDIT LETTER 2015-16 Grant Thornton (no decision required)	(Pages 17 - 32)
6.		CERTIFICATION OF GRANTS AND RETURNS 2015-16 Grant Thornton (no decision required)	(Pages 33 - 38)
7.		AUDIT COMMITTEE UPDATE Grant Thornton (no decision required)	(Pages 39 - 58)
8.		OFFICE OF SURVEILLANCE COMMISSIONERS - RIPA INSPECTION REPORT Corporate Governance, Risk and Compliance Officer (see recommendations)	(Pages 59 - 74)
9.		FUTURE PROVISION OF EXTERNAL AUDIT Section 151 Officer (see recommendation)	(Pages 75 - 86)
10.		COUNTER FRAUD UNIT UPDATE	(Pages

		Counter Fraud Unit (see recommendation)	87 - 96)
11.		INTERNAL AUDIT MONITORING REPORT Audit Cotswolds (see recommendation)	(Pages 97 - 118)
12.		WORK PROGRAMME	(Pages 119 - 122)
13.		ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION	
14.		DATE OF NEXT MEETING 22 March 2017	
		BRIEFING NOTES (for information only) • Purchase Order monitoring (6 month follow-up)	

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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 there 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

7



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

10



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

13



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

14



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

15



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

The Annual Audit Letter for Cheltenham Borough Council

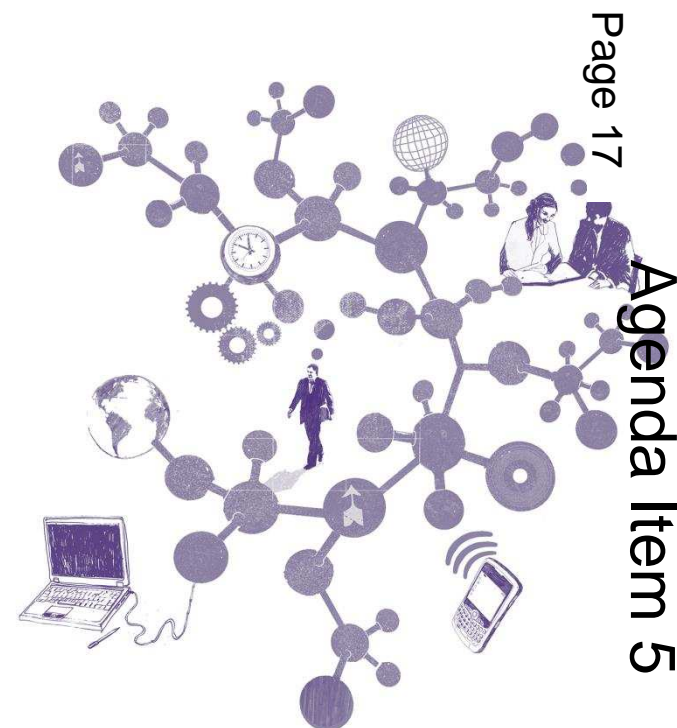
Year ended 31 March 2016

19 October 2016

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Appendices

A Reports issued and fees

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Cheltenham Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 21 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 21 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 21 September 2016.

Certificate

We certified that we had completed the audit of the accounts of Cheltenham Borough Council in accordance with the requirements of the Code on 21 September 2016.

Certification of grants

We carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

We also undertake certification of the Council's Pooling of Housing Capital Receipts Return. Work has been completed and the return will be certified by 30 November 2016.

Working with the Council

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

- We delivered an efficient audit, and issued our opinion on the financial statements and value for money conclusion nine days before the deadline and in line with the timescale we agreed with you.
- We shared our insight with you and provided regular audit committee updates covering best practice, along with our thought leadership publications.
- We provided free training on the role of the audit committee and audit committee effectiveness for your members and the other Gloucestershire Councils.
- We provided you with access to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.
- Our advisory team supported you on the accommodation strategy, and our VAT team provided advice to you and the other GO bodies.

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

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1,644,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as senior officer remuneration, salary bandings, members allowances, exit packages and auditors' remuneration.

We set a lower threshold of £82,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	As part of our audit work we: <ul style="list-style-type: none">• Reviewed accounting estimates, judgments and decisions made by management• Tested journal entries and year end adjustments• Reviewed unusual significant transactions We did not identify any issues to report
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Cheltenham Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited; and• the culture and ethical frameworks of local authorities, including Cheltenham Borough Council, mean that all forms of fraud are seen as unacceptable. We did not identify any issues to report
Financial statement level risk arising from the systems upgrade of Agresso The Council uses Agresso as its main financial system which was upgraded in February 2016. The upgrade involved data migration from the old system to the new system and therefore there is a risk of loss of data integrity.	As part of our audit work we: <ul style="list-style-type: none">• Reviewed the arrangements set up to plan and execute the upgrade from a finance and IT perspective.• Reviewed the reconciliations of balances before and after the transfer, and agreed these balances to underlying transactions. We did not identify any issues to report

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of surplus assets and investment property</p> <p>The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13. The basis on which fair value is defined for investment property is also different to that used in previous years. This represents a significant change in the basis for estimation of these balances in the financial statements. There are also extensive disclosure requirements under IFRS 13 which the Council needs to comply with.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none">• Reviewed the competence, expertise and objectivity of the management experts used• Reviewed the instructions issued to valuation experts and the scope of their work• Held discussions with valuer about the basis on which the valuation is carried out and challenged the key assumptions• Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding• Reviewed management's processes and assumptions for the calculation of the estimate• Tested revaluations made during the year to ensure they are input correctly into the Council's asset register• Reviewed the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS13 <p>We did not identify any issues to report</p>
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none">• Reviewed management's processes and assumptions for the calculation of the estimate• Reviewed the competence, expertise and objectivity of the experts used by management• Reviewed the instructions issued to valuation experts and the scope of their work• Tested revaluations made during the year to ensure they are input correctly into the Council's asset register• Held discussions with the valuer about the basis on which the valuation is carried out and challenged the key assumptions• Evaluated the assumptions made by management for those assets not revalued during the year• Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding• Considered management's assertion that the current value of PPE assets not revalued as at 31 March 2016 are not materially different to their carrying value <p>We identified one material error in the draft accounts. The Council understated the value of it's Property, Plant and Equipment in the Balance Sheet by £3.568 million. This was corrected in the revised accounts and was matched by an equal increase in the Revaluation Reserve. This arose due to the assets in question last being valued over 2 years ago, with evidence available to us showing that their fair values were materially different to their carrying values.</p>

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	<p>As part of our audit work we:</p> <ul style="list-style-type: none">• Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement• Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation• Gained an understanding of the basis on which the valuation is carried out• Undertook procedures to confirm the reasonableness of the actuarial assumptions made• Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the report from the actuary <p>We did not identify any issues to report</p>
Completeness of employee remuneration expenditure	<p>As part of our audit work we:</p> <ul style="list-style-type: none">• Documented our understanding of controls operating in the employee remuneration system• Performed a walkthrough to confirm that controls are operating as described• Performed a reconciliation of the payroll system outputs to the general ledger and financial statements• Performed trend analysis on payroll expenditure data for the year to identify any areas that require further investigation <p>We did not identify any issues to report</p>
Completeness of operating expenditure	<p>As part of our audit work we:</p> <ul style="list-style-type: none">• Documented our understanding of the controls operating in the operating expenditure system• Performed a walkthrough to confirm that controls are operating as described• Obtained an understanding of the accruals process and sample tested accruals to ensure that these are calculated on a reasonable basis• Tested for unrecorded liabilities through a review of payments made after the year end <p>We did not identify any issues to report</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 21 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 21 September 2016.

In addition to the key audit risks reported above, we identified the following issues during our audit that we have asked the Council's management to address for the next financial year:

- A number of IT recommendations were made and management were requested to implement these
- We recommended that the Council should consider the rolling valuation programme, to ensure that high value property, plant and equipment assets are valued with sufficient regularity to ensure that they remain materially stated in the Balance Sheet.

Management accepted both of these recommendations.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Medium term financial position</p> <p>The Council have been required to deliver substantial savings since 2010/11, and forecast continued significant savings requirements going forward.</p> <p>The current Medium Term Financial Strategy (MTFS) includes a balanced position for 2016-17, but includes a number of unidentified savings over the period to 2019-20.</p>	<p>We:</p> <ul style="list-style-type: none"> Reviewed the MTFS, including the assumptions that underpin the plan. Reviewed how savings are identified and monitored to ensure that they support the delivery of budgets. 	<p>A Medium Term Financial Strategy (MTFS) paper was presented to Cabinet in October 2015, which included financial projections to 2019/20. The projections showed a funding gap of £3.903m over the period 2016/17 to 2019/20, with a gap of £1.825m in 2016/17. During the budget setting process, the MTFS was updated to reflect the proposed funding settlement and other known changes. The update taken to Cabinet and Council meetings in February 2016 showed a deficit to 2019/20 of £4.198m and a funding gap of £1.881m in 2016/17. The changes were mainly driven by a funding settlement that was lower than expected.</p> <p>The updated MTFS identified proposed savings, which are detailed by area and linked to specific projects. The latest 'Bridging the Gap Strategy' for 2016/17 to 2019/20, included in the February 2016 Cabinet and Council papers, identifies total savings of £3.964m, leaving savings of £0.234m still to identify. The 2016/17 year is balanced, with a £0.671m shortfall currently identified in 2017/18. Savings are 'RAG' rated, with all but two of the 2016/17 projects rated as green. As would be expected, savings further into the future are rated amber or red.</p> <p>Savings are identified as part of the budget build and MTFS planning and are clearly linked to projects. Key savings in 2016/17 relate to the Leisure & Culture Trust, with the identified savings included within the contract, and in relation to 2020 Vision Shared Services. These savings in 2016/17 have already been identified, and are linked to the change in the Council's management structure as a result of moving toward the 2020 Vision. The savings strategy includes a total of £0.808m in relation to 2020 Vision to 2019/20. This programme is considered over the page. The potential changes to the Council's involvement in the 2020 Vision Programme will have to be considered, and additional savings identified to cover any shortfalls. Should these or any other savings not be realised, the Council will either have to use general fund balances or cut discretionary services. Discussions with the Council have identified other potential savings or income growth areas, however these have not been fully identified or quantified.</p> <p>In 2015/16 the 'Budget Strategy (Support) Reserve' was created totalling £0.973m. The current funding strategy relies on £0.400m and £0.337m of this reserve to balance the revenue budgets in 2016/17 and 2017/18. The use of New Homes Bonus received by the Council is also increased in 2016/17, with 81% of the total expected income of £2.152m being used to support the revenue budget. In 2014/15, 65% of the New Homes Bonus was used to support the revenue budget. The Government has consulted on changes to the New Homes Bonus scheme, and there is therefore a risk that future New Homes Bonus funding will change. The Council recognise this in the 2016/17 budget paper.</p> <p>The Council's MTFS takes into account the factors we would expect, is updated sufficiently regularly and is responsive to significant events in the annual financial cycle. The assumptions employed within the projections appear to be appropriate and reasonable, and are based upon known contractual obligations where these are known. The Council has also explored alternatives before deciding on the medium term financial strategy.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Value for Money

Value for money risks continued

Risk identified	Work carried out	Findings and conclusions
<p>2020 Vision</p> <p>The Council continues to progress the 2020 Vision partnership arrangement with Cotswold, West Oxfordshire and Forest of Dean District Councils.</p> <p>The success of 2020 Vision, through the members working together effectively, is critical to the medium term financial plan at Cheltenham.</p>	<p>We:</p> <ul style="list-style-type: none"> Reviewed the progress made in the development of the 2020 Vision Understood how the Joint Committee is operating and how the Councils are working together to deliver the planned savings 	<p>In early 2015 the four Councils involved in the 2020 Vision partnership established a Member Governance Board and an interim management team (made up of a Partnership Managing Director, a Lead Commissioner and a Programme Director) to progress the 2020 Vision programme prior to creating more permanent arrangements. All partner councils voted to go forward with the 2020 Vision programme.</p> <p>A Joint Committee for all partner Councils came into operation in February 2016. Each Partner has appointed two of its elected members as its representatives on the Joint Committee, one of whom will be a member of that Partner Council's Executive, and the other a member of the Partner Council. The 2020 Programme has appointed a number of 'Group Managers' to plan business cases to incorporate a cross section of services from the partner Councils into the 2020 Programme. The overall business case for the Programme is currently being reviewed and updated and initial indications are that the original savings programme will be achieved. Some savings have already been taken by partner Councils.</p> <p>Savings have already been achieved through the establishment of the 'core' 2020 project team to which a number of staff were seconded. As a result of share of the employment cost of the Chief Executive, Strategic Director and Business Improvement manager have been funded by the 2020 Project. Further savings from the programme have been delivered earlier than anticipated. Cashable savings to date are on profile with savings already delivered in 2015/16 and 2016/17 of £2.3m. Programme spend to date within budget.</p> <p>Governance arrangements are developing, a Constitution and Scheme of Delegation was approved by the Joint Committee in February 2016.</p> <p>At the public Joint Committee meeting in June 2016, a Councillor of Cheltenham Borough Council delivered a statement confirming that Cheltenham Borough Council would not vote to agree a proposal to set up a company operating model for discussion with the partner Councils and develop detailed implementation plans to establish the new companies. The statement indicated that Cheltenham Borough Council may not wish to include their Revenues and Benefits and Customer Services in the 2020 Vision programme as had been originally indicated. This has an implication of the savings that can be delivered for Cheltenham and the other Councils through the programme. These potential changes to the Council's involvement in the 2020 Vision Programme will have to be considered, and if applicable additional savings identified, with detailed plans developed to cover any shortfalls.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit nine days before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Sharing our insight – we provided regular audit committee updates covering best practice. Areas we covered included Audit Committee effectiveness and Devolution. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – We have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services. You will be attending our free income generation workshop in September 2016.

Providing training and free workshops – we provided your teams with training on financial accounts and annual reporting. We also provided your Audit Committee members with free training on the role of the Audit Committee and Audit Committee effectiveness.

Providing information – We provided you with access to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

Support outside of the audit – our advisory team supported you on the accommodation strategy, and our VAT team provided advice to you and other GO bodies.

Working with the Council

Working with you in 2016/17

We will continue to work with you and support you over the next financial year in addition to continuing the support we have provided in 2015/16.

Locally our focus will be on:

- An efficient audit – continuing to deliver an efficient audit and working with you to bring forward your accounts closure in advance of the faster close requirement in 2017/18.
- Understanding your operational and financial health – we will continue to focus our value for money conclusion work on your financial health, and consider the evolving arrangements over the 2020 Vision Programme with your neighbouring Councils.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	49,406	49,406	65,974
Audit of subsidiary company Cheltenham Borough Homes	18,650	18,650	15,800
Housing Benefit Grant Certification	8,361	TBC	12,020
Total fees (excluding VAT)	76,417	TBC	93,794

Reports issued

Report	Date issued
Audit Plan	2 March 2016
Audit Findings Report	12 September 2016
Annual Audit Letter	18 October 2016

Fees for other services

Service	Fees £
Audit related services: <ul style="list-style-type: none">Certification of Pooling of Housing Capital Receipts Return	2,100
Non-audit services <ul style="list-style-type: none">VAT helplineAccommodation Strategy workshop	417 3,000



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Paul Jones
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Cheltenham
GL50 9SA

Grant Thornton UK LLP
Hartwell House
55 – 61 Victoria Street
Bristol
BS1 6FT

14 December 2016

Dear Paul

Certification work for Cheltenham Borough Council for year ended 31 March 2016

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

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015

We have certified the Housing Benefit subsidy claim for the financial year 2015/16 relating to expenditure of £31.706 million. Further details of the claims certified are set out in Appendix A.

The issues arising from our certification work which we wish to highlight for your attention are shown below:

Cell 55: Rent rebates (tenants of HRA properties) – Incorrect Child Tax Credits	<p>In 2014/15 we identified errors in the values input for Child Tax Credits and undertook 40+ testing. Given the nature of the population and the errors found in the previous year, additional testing was undertaken in relation to this error in 2015/16.</p> <p>A sample of 40 cases from the sub population of cases in cell 55 with child tax credit were selected for testing. This additional testing identified:</p> <ul style="list-style-type: none">• One case with an incorrect child tax credit figure which had no impact on the entitlement.• One case where the application of an incorrect child tax credit figure led to an underpayment of the headline cell. <p>As there is no eligibility for subsidy which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes.</p>
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<p>Cell 55: Rent rebates (tenants of HRA properties) – Incorrect calculation of income</p>	<p>In 2014/15 we identified errors in the calculation of earnings applied to cases in this cell and undertook 40+ testing. Given the nature of the population and the errors found in the previous year, additional testing was undertaken in relation to this error in 2015/16.</p> <p>A sample of 40 cases from the sub population of cases in cell 55 with earnings attached were selected for testing. This additional testing identified:</p> <ul style="list-style-type: none"> • One case with an incorrect earnings figure which had no impact on the entitlement. • Two cases where the application of an incorrect earnings figure led to an underpayment of the headline cell. This led to a corresponding overstatement of the overpayment cells. <p>As there is no eligibility for subsidy which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes.</p>
<p>Cell 94: Rent allowances – Incorrect child care disregard overpayment</p>	<p>In 2014/15 we identified errors in the child care disregards applied to cases in cell 94 and undertook 40+ testing. Given the nature of the population and the errors found in the previous year, additional testing was undertaken in relation to this error in 2015/16.</p> <p>A sample of 40 cases from the sub population of cases in cell 94 with child care disregards were selected for testing. This additional testing identified:</p> <ul style="list-style-type: none"> • One case where the application of an incorrect child care disregard led to the overpayment of £13 in cell 099 • One case where the application of an incorrect child care disregard led to an overpayment of £11.25 in cell 099
<p>Cell 94: Rent allowances – Incorrect earnings calculation</p>	<p>In 2014/15 we identified errors in the earnings calculations applied to cases in cell 94 and undertook 40+ testing. Given the nature of the population and the errors found in the previous year, additional testing was undertaken in relation to this error in 2015/16.</p> <p>A sample of 40 cases from the sub population of cases in cell 94 with earnings were selected for testing. This additional testing identified:</p> <ul style="list-style-type: none"> • One case where incorrect earnings calculations resulted in an overpayment of £0.03 in cell 103 incorrect earnings also resulted in underpayments in cell 113 for this case. • One case where incorrect earnings calculations resulted in an underpayment of cell 103 and a

	corresponding overstatement of cell 114. As there is no eligibility for subsidy which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes.
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We are satisfied that the issues identified in 2015/16 were either isolated or relatively minor in nature, and that the Council has appropriate arrangements in place to compile a complete, accurate and timely claims for audit certification.

The indicative fee for 2015/16 for the Council is based on the final 2013/14 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by the Audit Commission for the Council for 2015/16 is £8,361. This is set out in more detail in Appendix B. Fees for schemes no longer requiring certification under the Audit Commission regime (pooling housing capital receipts return) are not included within this fee.

Yours sincerely



For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2015/16

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim (Total subsidy claimed)	31,688,097	Yes	(980)	Yes	See above for summary of qualification issues.

Appendix B: Fees for 2015/16 certification work

Claim or return	2013/14 fee (£)	2015/16 indicative fee (£)	2015/16 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	11,148	8,361	8,361	-	The 2015/16 fee represents a 25% decrease in the fee set in 2013/14.
Total	11,148	8,361	8,361	-	

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

December 2016

Peter Barber

Associate Director

T 0117 3057 897

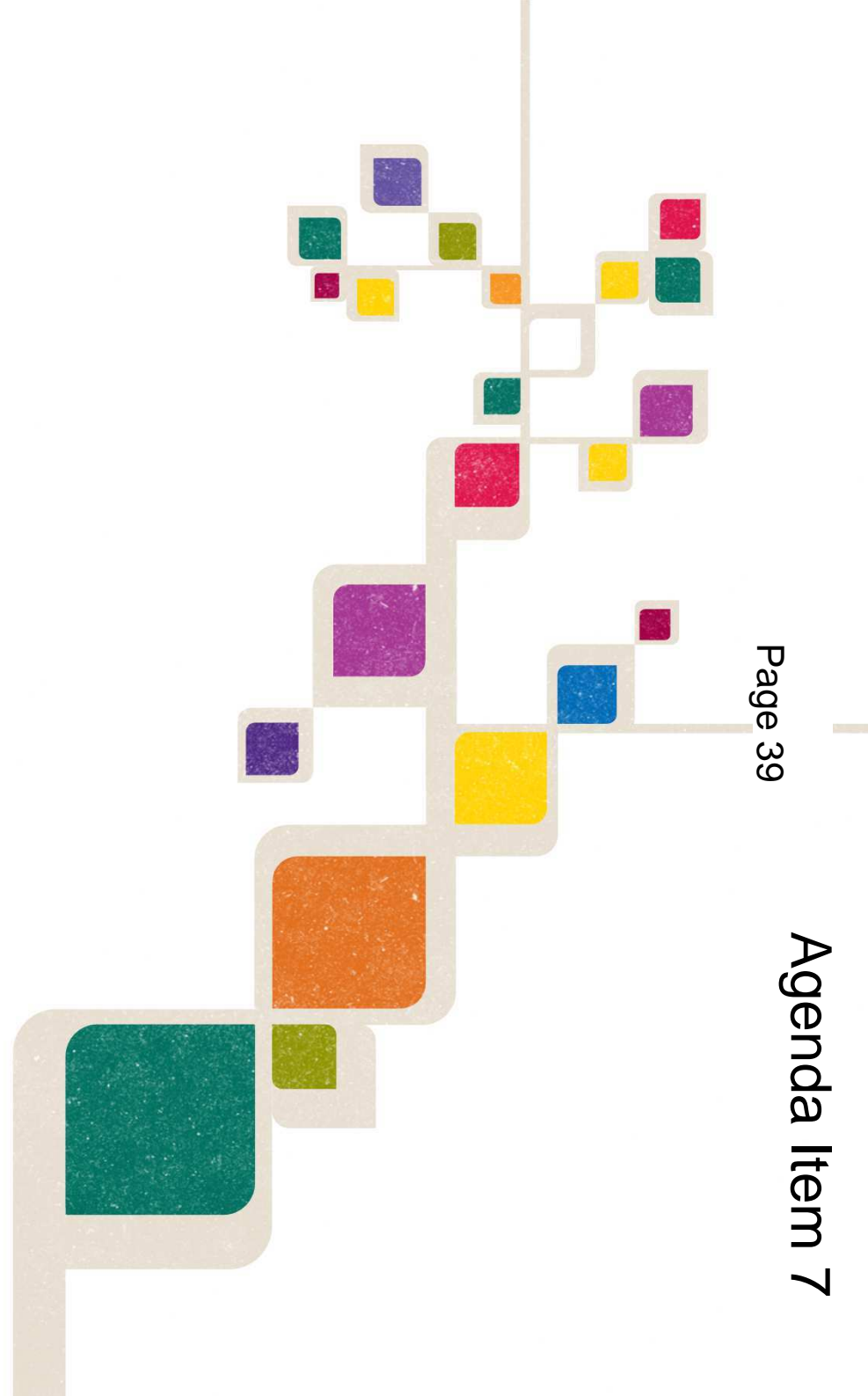
E p.a.barber@uk.gt.com

Sophie Morgan

Assistant Manager

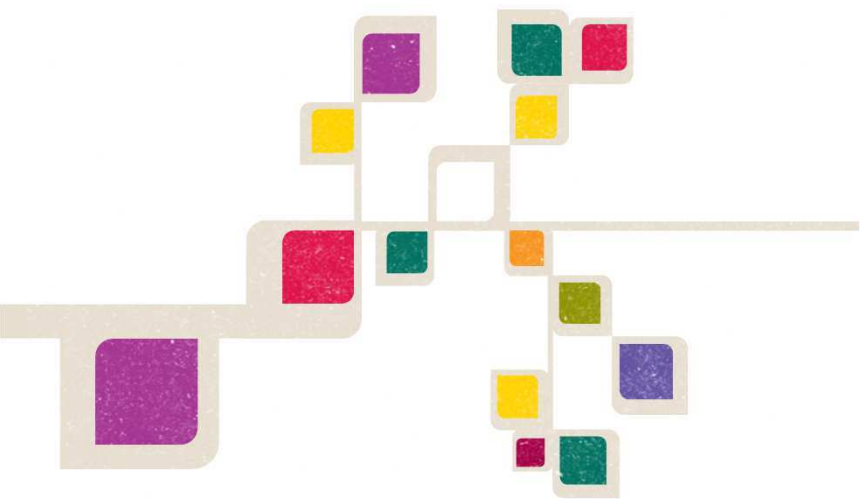
T 0117 3057 757

E sophie.j.morgan@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:

- Building a successful joint venture company (April 2016); <http://www.grantthornton.co.uk/insights/building-a-successful-joint-venture-company>
- Advancing Closure: Transforming the financial reporting of local authority accounts (July 2016); <http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>

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



Peter Barber
Engagement Lead

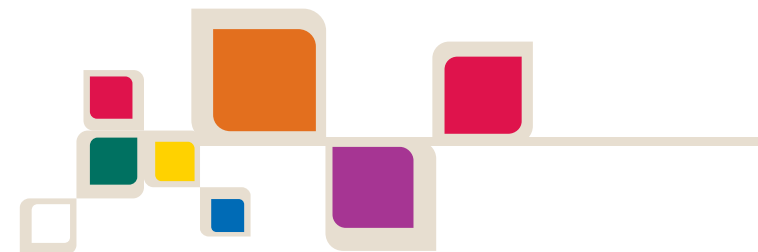
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Sophie Morgan
Engagement Manager

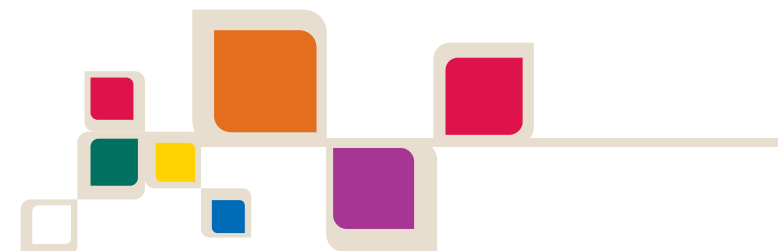
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Progress at December 2016



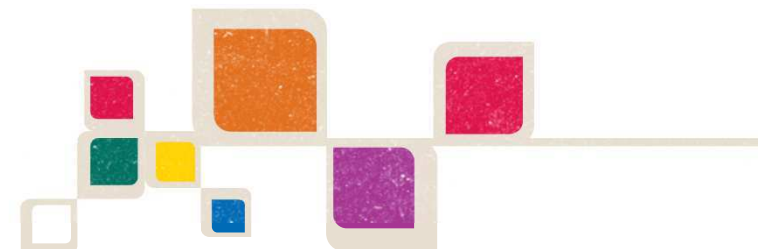
2015/16 work	Planned Date	Complete?	Comments
Annual Audit Letter	October 2016	Yes	Annual Audit Letter submitted to PSAA in October 2016 and is presented to this Committee as a separate item
Housing Benefit	June – November 2016	Yes	<p>We carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on the claim is now complete. The claim was qualified due to errors identified in relation the calculation of claimant's earned income.</p> <p>Further detail provided in our Annual Certification report which is presented to this Committee as a separate item.</p>
Pooling Capital Housing Receipts return	October 2016	Yes	We carry out work to certify the Pooling Capital Housing Receipts return. Our work on the claim is now complete. No issues were identified.

Progress at December 2016



2016/17 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter' for 2016/17 by the end of April 2016	April 2016	Yes	The 2016/17 fee letter was issued in April 2016 and considered by the June committee. Our fee letter set out the scope of our 2016/17 work and included an outline timetable
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 2016/17 financial statements.	March 2017	No	The Audit plan will be presented to the March 2017 Audit Committee
Interim accounts audit Our interim fieldwork visit will include: <ul style="list-style-type: none"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment. 	January – February 2017	No	Issues arising from our interim visit will be set out in the Audit Plan.
Final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 	July 2017	No	We will report our findings in our Audit Findings Report.

Progress at December 2016



2016/17 work	Planned Date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2016/17 VfM conclusion is set out by the National Audit Office.</p> <p>Auditors are required to reach their statutory conclusion on arrangements to secure VFM based on the overall evaluation criteria: <i>"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"</i>.</p> <p>To help auditors to consider this overall evaluation criterion, the following sub criteria are intended to guide auditors in reaching their judgements:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties <p>We will be required to report by exception if we conclude that we are not satisfied that the Council has in place proper arrangements to secure value for money in the use of its resources for the relevant period.</p>	January – March 2017	No	<p>We will carry out an initial risk assessment to determine our approach and report this in our Audit Plan.</p> <p>We will report our detailed findings in our Audit Findings Report.</p>

Grant Thornton Technical update





Accounting and audit issues

Flexible use of capital receipts

DCLG has issued a [Direction and Statutory Guidance](#) on the flexible use of capital receipts to fund the revenue costs of reform projects. The direction applies from 1 April 2016 to 31 March 2019.

The Direction sets out that expenditure which 'is incurred by the Authorities that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners' can be treated as capital expenditure.

Capital receipts can only be used from the disposals received in the years in which the flexibility is offered rather than those received in previous years.

Authorities must have regard to the Statutory Guidance when applying the Direction.

Accounting and audit issues

2017/18 Code of Practice on Local Authority Accounting

At the end of July, CIPFA/LASAAC released the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom Exposure Draft and Invitation to Comment (ITC) for public consultation. The changes proposed in the ITC include:

- a principles-based approach to narrative reporting
- review of the provisions on going concern reporting
- review of accounting policies provisions
- new disclosure on transaction costs for pension fund investments
- narrow scope amendments to International Financial Reporting Standards
- legislative changes
- new appendices outlining the provisions for the adoption of *IFRS 9 Financial Instruments* and *IFRS 15 Revenue from Contracts with Customers*. These new appendices will apply to the 2018/19 financial statements but have been included in the 2017/18 consultation to ensure accounts preparers have adequate time to prepare for their introduction.

The consultation closed on Friday 7 October 2016.

Grant Thornton Publications and events



Advancing closure: the benefits to local authorities

With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015, regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017-18, authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
- high quality financial statements as a result of improved quality assurance arrangements;
- greater certainty over in-year monitoring arrangements and financial outturn position for the year, supporting members to make more informed financial decisions for the future;
- improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
- allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.
- While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts, which our report explores in further details:
- Enabling sustainable change requires committed leadership underpinned by a culture for success
- Efficient and effective systems and processes are essential
- Auditors and other external parties need to be on board and kept informed throughout

Grant Thornton reports

Grant Thornton
An instinct for growth

Advancing closure
Transforming the financial reporting of
local authority accounts



<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>

Events and workshops

Advancing Closure Workshop held on 19 October

Following publication of our 'Advancing Closure' report we ran a workshop in our Bristol office. The session was aimed at local authority practitioners and considered the main factors for authorities to consider in accelerating their financial reporting procedures to produce their year end accounts. The event was attended by Go Shared Service team members.

Income generation - Local Government and Private Sector Roundtable Event held on 6th October

This event brought together senior leaders from local government and the private and investment sector to stimulate cross sector debate and consider current and future funding models. The event was attended by your Section 151 Officer.

Joint Venture Seminar on 6th December

Following publication of our 'Better Together' report we held a workshop in Taunton. The event provided an invaluable insight into setting up and running joint venture companies.

Grant Thornton events

Future Events and workshops

Local Government 2016/17 Financial Reporting Training

As in previous years we will be providing financial reporting training to officers. For 2016/17 our closedown workshops will be more interactive to allow officers to discuss emerging accounting and auditing issues alongside audit teams. This event will be provided free of charge. We are currently in the process of consulting with officers on the content of our workshops, to identify what they, as preparers of the accounts would find helpful.

Grant Thornton events

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Appointing your External Auditor



Introduction

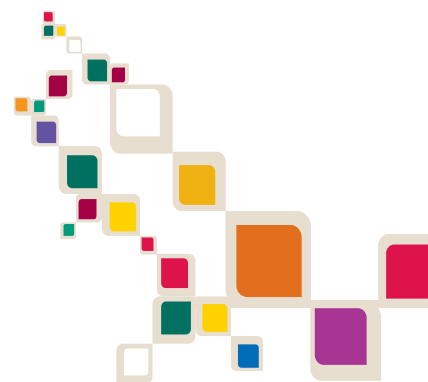
On 31st January 2014 the Local Audit and Accountability Act (LAAA) 2014 came into force. This act abolished the Audit Commission and for the first time allows Local Authorities to appoint their own auditors.

This is a significant change for many organisations. High quality external audit is one of the cornerstones of public accountability and plays an important part in the strategic, operational and financial delivery of Local Government. Done well the role can bring significant benefits.

What does this mean for your organisation?

This change means that for the 2018/19 financial year you will take on the authority to appoint your own external auditor. This will be the first time you will have the opportunity to make this appointment.

External auditors need to be in place by 31 December 2017 for the audit of the 2018/19 financial year. We would encourage organisations to begin their planning early, as there are a number of possible options to consider.



Three options are available....

Audit Procurement Options ...

The legislation sets out three possible options for you to consider:

- undertake an individual auditor procurement and appointment exercise;
- undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for instance;
- join a 'sector led body' arrangement where specified appointing person status has been achieved under the regulations.

Setting up an Auditor Panel

Options 1 and 2 above require you to set up an auditor panel to advise on the selection and appointment of an external auditor. Guidance to assist you with this task has been issued by CIPFA at - <http://www.cipfa.org/policy-and-guidance/publications/guide-to-auditor-panels-pdf>.

Using a Sector Led Body

Option 3 - Public Sector Audit Appointments (PSAA) have been specified by the Secretary of State for Communities and Local Government as a person eligible to appoint external auditors in the sector. They are currently gathering support for a sector led body to make the majority of these appointments.

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Which option should we choose?

There are possible advantages and disadvantages to each option but these are likely to vary according to the type of authority and your size, geographic location etc.

Can we choose any auditor?

Under the LAAA 2014 audit firms carrying out audits of Local Government bodies have to be licensed and registered to carry out external audit services with the Institute for Chartered Accountants in England and Wales. The list can be found here..

<http://www.icaew.com/en/technical/audit-and-assurance/local-public-audit-in-england/local-auditor-register>

As the largest supplier of external audit services to Local Government bodies Grant Thornton have already completed this process and has 35 registered engagement leads across the country.

Timing and length of appointment

Auditors must be in place by 31 December 2017.

The appointment can be for longer than a year but there must be a new appointment process at least once every 5 years.

Preparing for tendering

Challenge question:

Have you decided which option you want to follow?

Procurement Options – What and How

What are you procuring?

The work of your external auditors is governed by the National Audit Office's Code of Audit Practice. There is no expected change to the NAO's Code which requires external auditors :

- to be satisfied that the accounts present a true and fair view, and comply with any legislative requirements that apply to them
- to ensure that proper practices have been observed in the preparation of the accounts and
- to ensure that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

Auditors are required to report their work by expressing an opinion on the financial statements and by forming a conclusion on the authority's arrangements for achieving value for money.

In addition auditors have additional powers under the Act such as responding to objections from members of the public in relation to the accounts.

Procurement Options

There are a number of procurement options open to you at this time. We have set out the main options below. In considering each option you will need to ensure that you comply with the Public Contracting Regulations (PCR) 2015 and take into account EU Procurement rules.

EU Procurement rules require authorities to advertise in OJEU where the estimated total contract value (over the duration of the contract) exceeds £172,514 for other public bodies and £111,676 for schedule 1 entities.

Option 1

Restricted procedure under the Public Contracts Regulations 2015. This is a two stage tender process : at the first stage, bidders complete a pre-questionnaire (PQQ) which is used to assess an organisation's commercial, technical and financial capabilities and provides a method of shortlisting interested parties who meet the minimum qualification criteria.

For the second stage, bidders are invited to the Invitation to Tender (ITT) which is often a more descriptive and thorough document that consider how the bidders will meet the tender requirements.

The authority will have to comply with strict procurement timescales allowing bidders 30 days to express an interest and another 30 days for submission of tenders.

Preparing for tendering

Challenge question:

Have you chosen a procurement route?

Procurement options

Option 2 – using an Open Procedure

This is a one-stage procedure, where bidders complete all tender documents (PQQ and ITT tender response) at the same time. The authority evaluate the bids and then evaluates the PQQ part of the submission. The disadvantage of this approach is that the authority may be inundated with large numbers of tenders and will be required to evaluate all bidders.

Existing frameworks

There are a number of well established frameworks across the public sector which cover the procurement of external audit services. Frameworks are valuable in that they are already EU/UK compliant and terms and conditions are pre-agreed, removing much of the burden for you in assessing suppliers and in shortening the process for appointment.

Whilst all frameworks allow for further competition, a number do allow call-off without competition, otherwise frequently referred to as direct award. This reduces administrative costs and the time taken for appointment.

This is applicable to two such frameworks, RM1502/ConsultancyONE as hosted by Crown Commercial Service, and Framework 664/Consultancy Services as hosted by ESPO.

Equally, there is an option for a mini-competition of suppliers under these and other frameworks. If you choose a mini-competition, it is useful to note that not all suppliers are on every framework.

Combined procurement – PSAA

Public Sector Audit Appointments have led the development of a national combined procurement option. This would strengthen your purchasing power but would potentially diminish your autonomy over the process.

Direct appointment

If the contract is below the PCR 2015 levels (which we believe it would be for Cheltenham should you opt for a 3 year appointment) you can make a direct appointment of an auditor. You will need to ensure that you comply with the 'below threshold' contract rules.

As with a direct appointment under a framework this reduces administrative costs and the time taken for appointment.

Next steps

We recognise that appointing your external auditor is a significant decision. We would be pleased to discuss with you the different options available to you.

Preparing for tendering

Challenge question:

Have you chosen a procurement route?



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GRT102468

Cheltenham Borough Council
Audit Committee – 11 January 2017
REGULATION OF INVESTIGATORY POWERS (RIPA)
Office of Surveillance Commissioner's Inspection Report

Accountable member	Councillor Roger Whyborn - Cabinet Member for Corporate Services
Accountable officer	Pat Pratley - Head of Paid Service
Ward(s) affected	None
Key Decision	No
Executive summary	To update Audit Committee on the inspection and report by His Honour Norman Jones QC, Assistant Commissioner from the Office of Surveillance Commissioners (OSC) on the Councils arrangements for the use of the powers under the Regulation of Investigatory Powers Act 2000 (RIPA).
Recommendations	<p>To consider the findings and recommendations within the OSC report following the inspection of the Councils arrangements for the use of RIPA (Appendix 2)</p> <p>To agree to consider the report recommendations and any resulting management response as part of the Annual review of the RIPA Policies at the March 2017 Audit Committee.</p>

Financial implications	<p>There are no direct financial implications arising from this report. Where initiated, the RIPA process may support the safeguarding of public funds.</p> <p>Contact officer: Paul Jones</p> <p>Email: paul.jones@cheltenham.gov.uk, Tel: 01242 264123</p>
Legal implications	<p>The Council may, where it is necessary and proportionate, need to undertake surveillance. RIPA provides a legal framework for the control and regulation of surveillance and information techniques, which public authorities undertake as part of their duties. The Council's procedural guide provides information and advice to those seeking authorisation and those officers granting authorisation, these recommendations should improve those arrangements.</p> <p>Contact officer: donna.marks@teWKesbury.gov.uk, 01684 275010</p>

HR implications (including learning and organisational development)	HR implications are only for those employees directly involved in dealing with surveillance ensuring that RIPA legislation is adhered to. Contact officer: Georgie.pugh@cheltenham.gov.uk, 01242 774972
Key risks	<i>If surveillance is carried out without due regard to RIPA, Ministry of Justice Codes of Practice and the CBC procedural guidance then there are risks to an individual's rights and to the Councils reputation. Appendix 1</i>
Corporate and community plan Implications	None
Environmental and climate change implications	None

1. Background

RIPA provides the Office of Surveillance Commissioners with the powers to carry out inspections and to provide effective and efficient oversight of the conduct of covert surveillance and covert human intelligence sources and for the acquisition of Communications Data.

The Audit Committee functions within the constitution require that it review external audit reports when they are provided to the council.

On 19 October 2016, His Honour Norman Jones QC, Assistant Surveillance Commissioner with the Office of Surveillance Commissioners (OSC) undertook an inspection of the Council's arrangements to ensure compliance with the legislative provisions, which govern the use of covert surveillance. The Office of Surveillance Commissioner issued a report on this inspection on the 1 November (appendix 2)

The use of covert surveillance is strictly governed by RIPA. The responsibility for the overall governance arrangements rests with the Head of Paid Service who acts as the RIPA Senior Responsible Officer.

Audit Committee approved the current RIPA Guidelines March 2016 to ensure that officers comply with the legal requirements of the Regulation of Investigatory Powers Act 2000, these are due for review in March 2017. The current RIPA guidance is listed as a background paper and is available on the website.

2. The Assistant Commissioner in his report concluded that:-

- That it is unlikely that CBC will undertake covert surveillance in the near future. If it were to do so the RIPA procedural guide provides excellent guidance for both applicant and authorising officers.
- Some attention requires to be paid to the raising of RIPA awareness in Council and the training of authorising officers and officers who, though unlikely, may be called upon to manage Covert Human Intelligence Source (CHIS).
- It was encouraging to note that three of the recommendations from the last report had been fully discharged although a fourth remains extant.

He also made 4 recommendations that will strengthen and improve the Councils arrangements and guidance;

1. Amend the RIPA procedural guide (paragraph 10)

2. Raise RIPA awareness throughout the Council (paragraph 12)
3. Establish regular refresher training for authorising officers and ensure officers are trained to manage CHIS. (paragraphs 15 and 19)
4. Establish a schedule of equipment, which may be deployed for covert surveillance (paragraph 20).

3. Plan to Implement Recommendations

The Senior Responsible Officer, the Corporate Governance, Risk and Compliance Officer and the Senior Team Leader of the Counter Fraud Unit considered the report and the four recommendations.

A Social Media Policy has been drafted and will be put before members when the next annual review takes place.

Refresher Training has been arranged for all Senior Officers throughout the County and Districts including Cheltenham Borough Council on Tuesday 10th January 2017. This training will then be cascaded down to officers undertaking surveillance activity. It is highly likely in the coming months, some covert activity may be undertaken in light of the increased activity around fly tipping, therefore authorisations may be required if directed surveillance is undertaken.

Therefore all of the recommendations will be met but because of other operational changes taking place following the approval by Cabinet to formulise the Counter Fraud Partnership these should be addressed as part of the annual review of the RIPA procedures in March 2017.

The report will be considered further by the Corporate Governance Board in February and an action plan will be drafted by the Counter Fraud Unit, this will feature as part of the RIPA procedural review in March to deliver the changes needed to meet all the recommendations by April 2017.

4. Alternative options considered

None.

5. Consultation and feedback

The Corporate Governance Group. Advice has also been sought from One Legal.

6. Performance management – monitoring and review

There will be reports to the Audit Committee on the use of RIPA.

Report author	Contact officer: Bryan Parsons Email: bryan.parsons@cheltenham.gov.uk, 01242 264189
Appendices	1. Risk Assessment 2. OSC report
Background papers	1. Current RIPA guidance

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likely-hood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
	If surveillance is carried out without due regard to RIPA, Codes of Practice and the CBC procedural guidance then there are risks to an individual's rights and to the Councils reputation.	Senior Responsible Officer	11/01/2017	3	2	6	Accept	<ul style="list-style-type: none"> Put in place effective internal controls to ensure compliance with guidance. Promote the guidance with Service managers and investigation staff. 	Ongoing	Team Leader Counter Fraud Unit	
Explanatory notes 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) 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) Control - Either: Reduce / Accept / Transfer to 3rd party / Close											



Chief
Surveillance
Commissioner

Official -Sensitive

1 November 2016

OSC Inspection

Dear *Chief Executive,*

I enclose a copy the report dated 19 October 2016 prepared by His Honour Norman Jones QC, Assistant Commissioner, following his analysis of the material made available to enable him to inspect the arrangements made by the Council to ensure compliance with the legislative provisions which govern the use of covert surveillance. His Honour did not visit Cheltenham for this purpose. Neither he nor I think that anything would be gained from a personal visit, but if you take a different view and that a visit would be helpful, the necessary arrangements will be made.

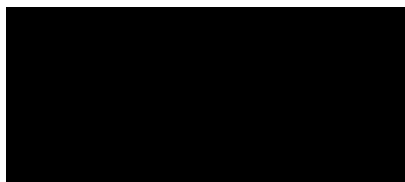
I have studied the report and endorse it.

Perhaps the striking feature of the report is that the Council has not used its statutory powers for many years. The likelihood of any change in this policy is remote. That, of course, is a matter for the Council, not the OSC. When a situation like this is present, care must be taken to see that, acting in good faith, and inadvertently, your officials do not find themselves acting without authorisation in situations which fall within the protective ambit of the legislation. The issue is carefully addressed at paragraph 12 of the report, and paragraphs 17-19 highlight the way in which these issues can arise, first in the context of investigations via social media sites, and second, in relation to CHIS. The first two recommendations made this year at paragraph 25 should be seen as part and parcel of a necessary education process.

Three of the four recommendations made by His Honour following his last visit in 2013 have been addressed and discharged. I am pleasantly struck by the speed with which they were completed. The fourth, relating to CHIS, has not been discharged and is in effect repeated in the report. Given the general policy relating to the use of the statutory powers, and the sheer unlikelihood that CHIS would be deployed, I understand, but do not agree with the failure to address this recommendation. I hope that between us we have explained why it must be addressed. I look forward to hearing from you that, despite the demands of your limited resources, this issue will now be resolved.

The remaining recommendation, relating to technical equipment, discussed at paragraph 20, should not present undue difficulty.

Mrs Pat Pratley
Cheltenham Borough Council
Municipal Offices
Promenade
Cheltenham GL50 9SA



Chief Surveillance Commissioner,
Office of Surveillance Commissioners,
PO Box 29105,
London,
SW1V 1ZU.

19th. October 2016.

INSPECTION REPORT CHELTENHAM BOROUGH COUNCIL

Inspector His Honour Norman Jones, QC.
Assistant Commissioner

Cheltenham Borough Council.

1. Cheltenham Borough Council is a local government authority serving an area of 18 square miles and a population of about 116,000 in northern Gloucestershire. Its principal township is Cheltenham where its administrative headquarters are situated.
2. The Senior Management Team is headed by the Head of Paid Service Mrs Pat Pratley who has succeeded to the office since the last inspection at which time she was an Executive Director of the Council. She is immediately supported by a Deputy Chief Executive and the Borough Solicitor. Directors, Heads of Services, Service Managers and other Managers complete the other elements in the management structure.
3. Mrs Pratley remains, as at the time of the last inspection, the *Senior Responsible Officer (SRO)* as does Mr Bryan Parsons as the *RIPA Co-ordinating Officer*.
4. I conducted the last OSC inspection of Cheltenham BC in July 2013.
5. The Council has not resorted to authorised covert surveillance since the last inspection or indeed since before 2010.
6. I am preparing this report without visiting Cheltenham BC. Having considered this material in detail, I have concluded that I can properly report to you without a physical inspection. This is in accordance with your recent direction that not every second-tier district or borough council needs to be visited every three years as a matter of course.

7. The Council Offices are situated at the Municipal Offices, Promenade, Cheltenham, GL 50 9SA.

Central Record of Authorisations.

8. At the time of the last inspection a Central Record of Authorisations was being maintained on a computerised spreadsheet which was compliant with the *Code of Practice for Covert Surveillance and Property Interference*, 8.1 save that it required columns to represent attendances at the magistrates' court for approval. An action plan indicates that these columns were added by 1 September 2013. However the Council appears now to have abandoned the maintenance of a Central Record on the basis that no authorisations have been granted in recent years. Nevertheless such a record should be maintained in accordance with the *Code of Practice for Covert Surveillance and Property Interference*, 8.1 and in consequence should be reinstated and be available in the event that authorisation is granted or refused.

Actions Taken on Past Recommendations

9. I made four recommendations in my 2013 report.

- I. *Add columns to the Central Record to reflect magistrate court procedures.*

See paragraph 8 above. This recommendation has been discharged.

- II. *Nominate the SRO as an authorising officer though to authorise only in exceptional circumstances.*

This was undertaken by 1 September 2013. This recommendation has been discharged.

- III. *Train officers as controllers and handlers of CHIS.*

The Council considers that the use of *CHIS* would be so infrequent that any training would need to be refreshed on each occasion. In the circumstances it has decided that the *RIPA Co-ordinating Officer* should identify an external agency or other local authority with the expertise that the Council could engage if the need arose. This recommendation has not been discharged. (See **CHIS and Social Media** below).

- IV. *Amend the Forward to the RIPA Procedural Guide.*

This was undertaken by 1 September 2013. This recommendation has been discharged.

Policy and Procedures.

10. The Council's *RIPA Procedural Guide* was described at the time of the last inspection as "a first-class document which provides all the information and guidance necessary for an authorising officer or an applicant". These remarks continue to remain pertinent and the document, which undergoes annual revision, was last fully edited in March 2016. One amendment should be

undertaken and that is to include within the section relating to *CHIS* the requirement for a risk assessment to be in each case.

See recommendation

RIPA Awareness

11. Cheltenham BC is reliant upon training and awareness guidance available for all its staff to avoid the risk of unauthorised surveillance. Officers most likely to engage in covert surveillance are grounded in a Counter Fraud Partnership with five other local councils. They have been trained to understand the legal requirements of *RIPA* and those embedded in the policies of its constituent Councils.
12. However this does not address the issue of overall *RIPA* awareness. The greatest risk of unauthorised surveillance does not arise from those who are trained to conduct surveillance on behalf of the Council, but from those officers who have little or no experience of covert surveillance or the requirements for authorisation and who may inadvertently drift into engaging in covert surveillance. These are probably the majority of Council staff. They do not require to be trained in detail about the requirements of *RIPA* and its regulatory framework but they do need to be instructed about the risks of undertaking any form of surveillance without first considering whether it needs authorisation. Such training/instruction can be easily provided without stretching limited resources. The use of the Council's intranet system, which will be used from time to time to disseminate information, may be used similarly to provide brief information to Council staff about surveillance and authorisation. It needs no more than a short message highlighting that in the event of an officer considering conducting any form of surveillance s/he must first consider whether it requires authorisation and if unsure the message should provide details of the *SRO* and the *RIPA Co-ordinating Officer* from whom advice may be obtained. Furthermore cascading information down from more senior officers to staff will further assist. At the time of the last inspection these practices had been adopted following advice from the previous inspection and if they have been abandoned should be reinstated.

See recommendation

Reports to members.

13. In accordance with the *Codes of Practice* an annual report is provided to the Audit, Governance and Standards Committee to enable it to be satisfied that the Council's *RIPA* policy remains fit for purpose. Reports are provided to the Audit Committee by the Counter Fraud Unit at quarterly intervals. Included in such reports is information relating to any authorisations undertaken. This does not fully satisfy the requirements of the *Code of Practice for Covert Surveillance and Property Interference*, 3.35 which requires that Elected Members "should also consider internal reports on the use of the 2000 Act on a regular basis to ensure that it is being used consistently with the local authorities policy and that the policy remains fit for purpose". The provision of such reports requires that councillors should be informed when covert surveillance is not being undertaken as well as when *RIPA* authorisations have been granted. The existing practice should be expanded to cover such reports.

Liaison with the Magistrate's Court.

14. The *RIPA Procedural Guide* provides structured guidance for the preparation and presentation of authorisations at a magistrates' court including the out of hours procedures. Arrangements have been made with the local magistrates in the event of an application for approval being made. The guide identifies the investigating officer as the officer to make the arrangements and attend. It is to be noted that at the time of the last inspection it was intended that the Borough Solicitor or another solicitor would attend with the investigating officer. It was remarked at that time that the legal officer should be alert to the risk of investigating officers giving hearsay evidence to the magistrate if asked about the considerations of the authorising officer at the time of authorisation. Attention is again drawn to OSC guidance that it would be appropriate for the authorising officer to attend since only that officer can answer questions raised relating to his/her considerations of *necessity* and *proportionality* or the reasons why specific limitations may have been placed on the authorisation.

Authorising Officers

15. Two officers are designated as authorising officers both of whom are Directors. In addition the Head of Paid Service and, in his absence, whoever deputises for him would be required to authorise in the event of the employment of juvenile or vulnerable *CHIS* or the acquisition of *confidential information*. Whilst the two designated authorising officers have received training it is unclear whether the Head of Paid Service or his deputy have done so. It is important that all authorising officers receive refresher training at regular intervals.

See recommendation

Training

16. Cheltenham BC had established a structured *RIPA* training programme at the time of the last inspection with the intention of engaging professional external training at regular intervals. It is encouraging to note that in the period since that inspection some 16 officers, including the *RIPA Co-ordinating Officer*, have received refresher training.

CHIS and Social Media.

17. Although the Council is alert to the risks associated with investigations of social media it has not yet developed its own policy in relation to such operations. The Counter Fraud Unit is currently responsible for the development of such a policy following the adoption of which the Council intends to train officers in the use of such methods. It is important that the officers responsible develop this policy in the very near future since the Council will be at continuing risk of officers inadvertently engaging in covert surveillance until appropriate training is provided.

18. It may be helpful to consider providing officers with a short "rule of thumb" to the effect that:

Access to open source material does not require *RIPA* authorisation unless there are repeated visits to the same site. These normally occur when an attempt is being made to build a profile of the account operator. In that case *directed surveillance* authorisation is required. If the privacy controls are breached (eg. by becoming a 'friend'), and a pseudo account is used, ensuring that the officer's identity as a Council employee is hidden, then at least *directed surveillance* authorisation will be required. If direct contact is made with the account owner/operator and a relationship commences *CHIS* authorisation will be required. In the latter case it is a statutory requirement of *RIPA* that a controller, handler and recorder are appointed to manage the operation.

19. Cheltenham BC has not, at least in recent years, employed *CHIS*. Whilst it is careful to ensure that circumstances giving rise to "status drift" do not occur that does not cover all circumstances in which *CHIS* may be employed. Whilst the Council is unlikely to do so in the near future it must always be prepared to address the situation were to arise. It is noted that the Council's *RIPA Procedural Guide* gives guidance on the requirement for controllers and handlers. The requirement for *CHIS* authorisation may arise urgently and require to be dealt with immediately by which time it is too late to consider the training of *CHIS* managers. Comment has already been made (see paragraph 9(iii) above) on the lack of training of officers to carry out this function. This should be addressed in future training. It is not necessary that officers should be trained to police standards but there should be officers trained to understand the responsibilities of managing *CHIS* and the need for risk assessments and the keeping of appropriate records.

See recommendation

Technical Equipment.

20. The Council does not maintain a schedule of technical equipment it possesses which may be deployed in the event of covert surveillance being undertaken although it is considered that "there may be machinery utilised by specific enforcement teams". A schedule should be established recording these items and should be updated if fresh items are purchased.

See recommendation.

CCTV

21. The Council owns a town centre CCTV system which is managed by the Gloucestershire police with whom the Council has an agreed protocol in accordance with the *OSC Procedures and Guidance, note 271*. The system is operated in accordance with the Surveillance Camera Commissioners Code of Practice and the Third Party Self-Certification Scheme has been completed.

Conclusions.

22. It is unlikely that Cheltenham BC will undertake covert surveillance in the near future. If it were to do so the *RIPA Procedural Guide* provides excellent guidance for both applicant and authorising officers.
23. Some attention requires to be paid to the raising of *RIPA* awareness in the Council and the training of authorising officers and officers who, though unlikely, may be called upon to manage *CHIS*.
24. It was encouraging to note that three of the recommendations of the last report had been fully discharged although a fourth remains extant.

Recommendations.

25.
 - (i) Amend the *RIPA Procedural Guide*. (Paragraph 10).
 - (ii) Raise *RIPA* awareness throughout the Council. (Paragraph 12).
 - (iii) Establish regular refresher training for authorising officers and ensure officers are trained to manage *CHIS*. (Paragraphs 15 and 19).
 - (iv) Establish a schedule of equipment which may be deployed for covert surveillance purposes. (Paragraph 20).

**His Honour Norman Jones, QC,
Assistant Surveillance Commissioner.**

OFFICIAL- SENSITIVE

DISCLAIMER

This report contains the observations and recommendations identified by an individual surveillance inspector, or team of surveillance inspectors, during an inspection of the specified public authority conducted on behalf of the Chief Surveillance Commissioner.

The inspection was limited by time and could only sample a small proportion of covert activity in order to make a subjective assessment of compliance. Failure to raise issues in this report should not automatically be construed as endorsement of the unreported practices.

The advice and guidance provided by the inspector(s) during the inspection could only reflect the inspectors' subjective opinion and does not constitute an endorsed judicial interpretation of the legislation. Fundamental changes to practices or procedures should not be implemented unless and until the recommendations in this report are endorsed by the Chief Surveillance Commissioner.

The report is sent only to the recipient of the Chief Surveillance Commissioner's letter (normally the Chief Officer of the authority inspected). Copies of the report, or extracts of it, may be distributed at the recipient's discretion but the version received under the covering letter should remain intact as the master version.

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OFFICIAL – SENSITIVE



OFFICE OF SURVEILLANCE COMMISSIONERS
INSPECTION REPORT

Cheltenham Borough Council

October 2016

Assistant Surveillance Commissioner:
His Honour Norman Jones, QC.

Cheltenham Borough Council Audit Committee – 11 January 2017 Future Provision of External Audit

Accountable member	Councillor Roger Whyborn, Cabinet Member for Corporate Services
Accountable officer	Paul Jones, Section 151 Officer
Ward(s) affected	None directly
Significant Decision	No
Executive summary	Following the demise of the Audit Commission new arrangements were needed for the appointment of external auditors. The Local Audit and Accountability Act 2014 require authorities to either opt in to the appointing person regime or to establish an auditor panel and conduct their own procurement exercise.
Recommendations	To recommend to Full Council that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

Financial implications	<p>If PSAA is not used some additional resource may be needed to establish an auditor panel and conduct our own procurement. Until either procurement exercise is completed it is not possible to state what additional resource may be required for audit fees for 2018/19, although it is anticipated that any increase will be minimised through using PSAA.</p> <p>Contact officer: Paul Jones, paul.jones@cheltenham.gov.uk 01242 775154</p>
Legal implications	<p>The process as set out in the report and the recommendation will ensure compliance with the Local Audit and Accountability Act 2014.</p> <p>Contact officer: Peter Lewis, Peter.Lewis@teWKesbury.gov.uk, 01684 272012</p>
HR implications (including learning and organisational development)	<p>There are no direct HR implications for this Council.</p> <p>Contact officer: Julie McCarthy , julie.mccarthy@cheltenham.gov.uk, 01242 264355</p>
Key risks	As set out in the report, use of PSAA minimises the risks inherent in undertaking our own procurement.
Corporate and community plan Implications	None.

Environmental and climate change implications	None.
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Background

- 1.1 The Local Audit and Accountability Act 2014 (the Act) established new arrangements for the audit and accountability of relevant authorities, including local authorities.
- 1.2 These new arrangements include the ability of such bodies to appoint their own local public auditors via an auditor panel. This may be carried out individually or jointly with one or more other authorities.
- 1.3 The Secretary of State for Communities and Local Government has decided to implement a phased introduction of the new local audit framework. Smaller local authorities must have appointed their local auditors by 31st December 2016 and larger principal authorities (such as this Council) by 31st December 2017:

2. Reasons for Recommendations

- 2.1 It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement we undertook by ourselves or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.
- 2.2 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole). To comply with this regulation the Audit Committee is asked to make the recommendation above to Full Council.
- 2.3 A number of frequently asked questions are attached at Appendix 2 to aid Members in their decision-making.

3. Process and advantages

- 3.1 As part of closing the Audit Commission the Government novated external audit contracts to PSAA on 1st April 2015. The audits were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.
- 3.2 In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the appointed person regime.
- 3.3 There was a degree of uncertainty around the appointed person regime until July 2016 when PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across most of local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a company owned by the Local Government Association's Improvement and Development Agency (IDeA).
- 3.4 It is the view of the Society of District Council Treasurers (and of the other Treasurers' Societies)

that the sector-led procurement by the PSAA is likely to be less resource intensive and likely to produce better outcomes. The PSAA have already contacted authorities for expressions of interest and formal invitations were issued on 27th October 2016.

3.5 The date by which authorities will need to opt in to the appointing person arrangements is 9th March 2017. It is therefore important that this issue is considered by Full Council at its December meeting.

3.6 The main advantages of using PSAA are set out in its prospectus and are copied below; these can also be viewed as the disadvantages if the Council was to decide to undertake its own procurement.

- Assure timely auditor appointments
- Manage independence of auditors
- Secure highly competitive prices
- Save on procurement costs
- Save time and effort needed on auditor panels
- Focus on audit quality
- Operate on a not for profit basis and distribute any surplus funds to scheme members.

4. Alternative options

4.1 An alternative option would be to establish an auditor panel and conduct a procurement exercise either alone or with other authorities e.g. our GO partner council's. This is not recommended as it will be a far more resource intensive process and, without the bulk buying power of the sector led procurement, would be likely to result in a more costly service.

Report author	Contact officer: Paul Jones paul.jones@cheltenham.gov.uk, 01242 264125
Appendices	Appendix 1 – Risk Assessment Appendix 2 – PSAA – Appointing Person – Frequently Asked Questions Duties and responsibilities
Background information	<ul style="list-style-type: none">• PSAA Corporate Plan 2015 - 2018• PSAA Prospectus• PSAA invitation to opt in letter

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	I	L	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
	If the Council decides not to opt in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors, then it would have to establish an auditor panel and conduct its own procurement exercise which could be more expensive, time consuming and lead to a lack of alignment with the other local authorities in respect of an approach to audit planning.	CBC Section 151 officer	December 2016	2	2	4	Accept	Opt in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.	9/3/2017	CFO	

Appointing person: Frequently asked questions

Question	Response
1. What is an appointing person?	<p>Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the Local Audit (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of the accounts from 2018/19 on behalf of principal local government bodies that opt in, in accordance with the Regulations. Eligible bodies are principal local government bodies listed in schedule 2 of the Local Audit and Accountability Act 2014. This includes county councils, district councils, London Borough councils, unitary authorities, metropolitan councils, police bodies, fire and rescue authorities, joint authorities, combined authorities, national park authorities, conservation boards, PTEs, waste authorities, and the GLA and its functional bodies.</p> <p>The ‘appointing person’ is sometimes referred to as the sector-led body.</p> <p>PSAA is a company owned by the LGA’s Improvement and Development Agency (IDeA) and was established to operate the transitional arrangements following closure of the Audit Commission.</p>
2. When will invitations to opt in be issued?	<p>The date by which principal authorities will need to opt into the appointing person arrangement is not yet finalised. The aim is to award contracts to audit firms by June 2017, giving six months to consult with authorities on appointments before the 31 December 2017 deadline. We anticipate that invitations to opt in will be issued before December 2016 at the latest.</p>

Question	Response
	<p>Authorities will have a minimum period of eight weeks to respond to the invitation.</p> <p>In order to maximise the potential economies of scale from agreeing large contracts with firms, and to manage any auditor independence issues, PSAA needs as much certainty as possible about the volume and location of work it is able to offer to firms. Our provisional timetable suggests that we will need to start preparing tender documentation early in 2017, so we will need to know by then which authorities want to be included.</p>
3. Who can accept the invitation to opt in?	In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, a principal authority will need to make the decision to opt in at full council (authority meeting as a whole), except where the authority is a corporation sole (such as a police and crime commissioner), in which case the function must be exercised by the holder of the office.
4. Can we join after it has been set up or do we have to join at the beginning?	The Regulations require that once the invitations to opt in have been issued, there will be a minimum period of eight weeks for you to indicate acceptance of the invitation. One of the main benefits of a an appointing person approach is the ability to achieve economies of scale as a result of being able to offer larger volumes of work. The greater the number of participants we have signed up at the outset, the better the economies of scale we are likely to achieve. This will not prevent authorities from joining the sector-led arrangements in later years, but they will need to make their own arrangements to appoint an auditor in the interim. In order to be in the best position we would encourage as many authorities as possible to commit by accepting the invitation within the specified timeframe.

Question	Response
5. Will membership be free for existing members of the LGA?	The option to join the appointing person scheme will be open to all principal local government authorities listed under Schedule 2 of the Local Audit and Accountability Act 2014. There will not be a fee to join the sector-led arrangements. The audit fees that opted-in bodies will be charged will cover the costs to PSAA of appointing auditors and managing the arrangements. We believe that audit fees achieved through large contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by opting into the PSAA offer, authorities will avoid the costs of their own procurement and the requirement to set up an auditor panel with independent members.
6. How will we be able to influence the development of the appointing person scheme and associated contracts with audit firms?	We have not yet finalised the governance arrangements and we are considering the options, including how best to obtain stakeholder input. We are considering establishing a stakeholder engagement panel or advisory panel which can comment on our proposals. PSAA continues to work in partnership with the LGA in setting up the appointing person scheme and you can feed in comments and observations to PSAA by emailing generalenquiries@psaa.co.uk and via the LGA and their Principal Advisors.
7. Will there be standard contract terms and conditions?	The audit contracts between PSAA and the audit firms will require firms to deliver audits compliant with the National Audit Office (NAO) Code of Audit Practice. We are aware that authorities would like to understand how performance and delivery will be monitored and managed. This is one of the issues that could be discussed with the stakeholder advisory panel (see Q6).
8. What will be the length of the contracts?	The optimal length of contract between PSAA and firms has not been decided. We would welcome views on what the sector

Question	Response
	considers the optimal length of audit contract. We anticipate that somewhere between three and five years would be appropriate.
9. In addition to the Code of Audit Practice requirements set out by the NAO, will the contract be flexible to enable authorities to include the audit of wholly owned companies and group accounts?	<p>Local authority group accounts are part of the accounts produced under the CIPFA SORP and are subject to audit in line with the NAO Code of Audit Practice. They will continue to be part of the statutory audit.</p> <p>Company audits are subject to the provisions of the Companies Act 2006 and are not covered by the Local Audit (Appointing Person) Regulations 2015. Local authority companies will be able to appoint the same audit firm as PSAA appoints to undertake the principal body audit, should they so wish.</p>
10. Will bodies that opt in be able to seek information from potential suppliers and undertake some form of evaluation to choose a supplier?	PSAA will run the tendering exercise, and will evaluate bids and award contracts. PSAA will consult authorities on individual auditor appointments. The appointment of an auditor independently of the body to be audited is an important feature of the appointing person arrangements and will continue to underpin strong corporate governance in the public sector.
11. Will the price be fixed or will there be a range of prices?	The fee for the audit of a body that opts in will reflect the size, audit risk and complexity of the work required. PSAA will establish a system for setting the fee which is fair to all opted-in authorities. As a not-for-profit organisation, PSAA will be able to return any surpluses to participating authorities after all costs have been met.
12. We have shared service arrangements with our neighbouring bodies and we are looking to ensure that we share the same auditor. Will the appointing person scheme allow for this?	PSAA will be able to make appointments to all principal local government bodies listed in Schedule 2 of the Local Audit and Accountability Act 2014 that are 'relevant authorities' and not excluded as a result of being smaller authorities, for example parish councils.

Question	Response
	<p>In setting up the new arrangements, one of our aims is to make auditor appointments that take account of joint working and shared service arrangements. Requests for the same auditor as other authorities will need to be balanced with auditor independence considerations. As we have set out in our prospectus, auditors must be independent of the bodies they audit. PSAA will have an obligation under the provisions of the Local Audit and Accountability Act 2014 and in compliance with the Ethical Standards issued by the Financial Reporting Council to ensure that every auditor appointment it makes passes this test. We will need information from opted-in authorities on potential independence considerations and joint working arrangements, and will also need information on independence issues from the audit firms. Risks to auditor independence include, for example, an audit firm having previously been engaged to advise on a major procurement which could, of course, later be subject to audit.</p>
<p>13. We have a joint committee which no longer has a statutory requirement to have an external auditor but has agreed in the interests of all parties to continue to engage one. Is it possible to use this process as an option to procure the external auditor for the joint committee?</p>	<p>The requirement for joint committees to produce statutory accounts ceased after production of the 2014/15 accounts and they are therefore not listed in Schedule 2. Joint committees that have opted to produce accounts voluntarily and obtain non-statutory assurance on them will need to make their own local arrangements.</p>
<p>14. How will the appointing person scheme ensure audit firms are not over-stretched and that the competition in the market place is increased?</p>	<p>The number of firms eligible to undertake local public audit will be regulated through the Financial Reporting Council and the recognised Supervisory Bodies (RSBs). Only appropriately accredited firms will be able to bid for appointments whether that is through PSAA or an auditor panel. The seven firms appointed by PSAA and the Audit Commission generally</p>

Question	Response
	<p>maintain a dedicated public sector practice with staff trained and experienced in public sector work.</p> <p>One of the advantages of the appointing person option is to make appointments that help to ensure that each successful firm has a sufficient quantum of work to make it possible for them to invest in public sector specific training, maintain a centre of excellence or hub that will mean:</p> <ul style="list-style-type: none"> • firms have a regional presence; • greater continuity of staff input; and • a better understanding the local political, economic and social environment.
15. Will the appointing person scheme contract with a number of different audit firms and how will they be allocated to authorities?	<p>PSAA will organise the contracts so that there is a minimum number of firms appointed nationally. The minimum is probably four or five (depending on the number of bodies that opt in). This is required, not just to ensure competition and capacity, but because each firm is required to comply with the FRC's ethical standards. This means that an individual firm may not be appointable for 'independence' reasons, for example, because they have undertaken consultancy work at an audited body. PSAA will consult on appointments that allow each firm a balanced portfolio of work subject to independence considerations.</p>
16. What will be the process to feed in opinions from customers of current auditors if there are issues?	<p>PSAA will seek feedback on its auditors as part of its engagement with the sector. PSAA will continue to have a clear complaints process and will also undertake contract monitoring of the firms it appoints.</p>
17. What is the timetable for set up and key decisions?	<p>We expect the key points in the timetable to be broadly:</p>

Question	Response
	<ul style="list-style-type: none"> • establish an overall strategy for procurement - by 31 October 2016; • achieve 'sign-up' of scheme members - by early January 2017; • invite tenders from audit firms - by 31 March 2017; • award contracts - by 30 June 2017; • consult on and make final auditor appointments - by 31 December 2017; and • consult on, propose audit fees and publish fees - by 31 March 2018.
18. What are the terms of reference of the appointing person?	PSAA is wholly owned by the IDeA (the IDeA is wholly owned by the LGA). PSAA will continue to operate as an independent company, although there will be changes to its governance arrangements and its founding documents to reflect the fact that it will be an appointing person rather than a transitional body.
19. Will the appointing person take on all audit panel roles and therefore mitigate the need for there to be one in each individual authority?	Opting into the appointing person scheme will remove the need to set up an auditor panel. This is set out in the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

Question	Response
<p>20. What will be the arrangements for overseeing the quality of audit work undertaken by the audit firms appointed by the appointing person?</p>	<p>PSAA will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.</p> <p>PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the NAO to help ensure that guidance to auditors is updated when necessary.</p>

Cheltenham Borough Council Audit Committee – 11 January 2017 Counter Fraud Unit Update

Accountable Member	Cabinet Member Corporate Services, Councillor Roger Whyborn
Accountable Officer	Paul Jones Chief Finance Officer Paul.Jones@cheltenham.gov.uk
Report Author	Emma Cathcart Counter Fraud Team Leader 01285 623356 Emma.Cathcart@cotswold.gov.uk
Ward(s) affected	All indirectly
Key/Significant Decision	No
Executive summary	<p>The purpose of the report is to present the Audit Committee with a summary of the activity undertaken by the Counter Fraud Unit in order to provide assurance over the counter fraud activities of the Council.</p> <p>Following the successful DCLG bid to fund the set-up of a Gloucestershire wide Counter Fraud Unit, the team has been undertaking feasibility work (both strategic and operational) on behalf of a number of Gloucestershire Authorities, West Oxfordshire District Council and Cheltenham Borough Homes.</p> <p>The attached summary is a final overview of the feasibility work carried out by the Counter Fraud Unit during the pilot period which ends on 31 March 2017.</p> <p>Cabinet approved the Authority's participation in the establishment of a permanent Counter Fraud Unit on 6 December 2016.</p> <p>Subject to decisions at other partner Council's, the Counter Fraud Unit will be a permanent support service from 1 April 2017 serving the partner Councils across the region including Cheltenham Borough Council.</p> <p>Work plans for 2017/2018 will be agreed with Service Managers reviewing high risk areas within which the team can assist.</p> <p>The Counter Fraud Unit will continue to provide Audit Committee with direct updates biannually, for Cheltenham Borough Council this will be at the March and September meetings.</p>
Recommendations	<p>That Audit Committee:</p> <p>Notes the update and makes comment as necessary.</p>

Financial implications	As detailed within the report and Appendix 2. Contact Officer: Paul Jones, S151 Officer Paul.Jones@cheltenham.gov.uk
Legal implications	None specific arising from the report recommendation. Contact officer: Peter Lewis, One Legal peter.lewis@tewkesbury.gov.uk
HR implications (including learning and organisational development)	No direct HR implications arising from the content of this report. Contact officer: Julie McCarthy, HR Manager (West) Julie.mcCarthy@cheltenham.gov.uk
Key risks	If the Council does not have effective counter fraud and corruption controls it risks both assets and reputation.
Corporate and community plan Implications	In administering its responsibilities; this Council has a duty to prevent fraud and corruption, whether it is attempted by someone outside or within the Council such as another organisation, a resident, an employee or Councillor. The Council is committed to an effective counter fraud and corruption culture, by promoting high ethical standards and encouraging the prevention and detection of fraudulent activities, thus supporting corporate and community plans.
Environmental and climate change implications	N/A
Property/Asset Implications	There are no property implications associated with this report. Contact officer: David Roberts, Head of Property Services david.roberts@cheltenham.gov.uk

1. Background

- 1.1. In February 2015 Audit Cotswolds was successful in the Bid for £403k funding from Department of Communities and Local Government (DCLG) on behalf of the Local Authorities in Gloucestershire and West Oxfordshire District Council. The funding is a one off payment to enable the introduction of a Gloucestershire wide Counter Fraud Unit that is able to use data matching to gather intelligence and skilled investigators to help counter all forms of fraud against the Councils and Social Housing Providers in the region.
- 1.2. Following the successful DCLG bid the team has been undertaking feasibility work (both strategic and operational) on behalf of a number of Gloucestershire Authorities, West Oxfordshire District Council and Cheltenham Borough Homes.
- 1.3. The attached summary is a final overview of the feasibility work carried out by the Counter Fraud Unit during the pilot period which ends on 31 March 2017.
- 1.4. A business case has been presented across the partner authorities to reflect the financial sustainability of creating a permanent Counter Fraud Unit.
- 1.5. Audit Committee were asked to review the business case on 21 September 2016 and subsequently Cabinet approved the Authority's participation in the establishment of a permanent Counter Fraud Unit on 6 December 2016.

- 1.6. Subject to decisions at other partner Council's, the Counter Fraud Unit will be a permanent support service from 1 April 2017 serving the partner Councils across the region including Cheltenham Borough Council.
- 1.7. Work plans for 2017/2018 will be agreed with Service Managers reviewing high risk areas within which the team can assist. This process has commenced.
- 1.8. The Counter Fraud Unit will continue to provide Audit Committee with direct updates biannually; for Cheltenham Borough Council this will be at the March and September meetings.
- 1.9. Future reports will be more specific in relation to work being undertaken for Cheltenham Borough Council to ensure the Committee is updated on progress accordingly.

Appendices	<ol style="list-style-type: none">1. Risk Assessment2. Counter Fraud Unit Update
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Risk Assessment

Appendix 1

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
1	The authority suffers material loss and reputational damage due to fraud	Chief Finance Officer	December 2014	3	3	9	Reduce	Introduce a Counter Fraud Team to reduce the likelihood of the risk materialising and also to help recover losses, thus reducing the impact.	March 2017	Chief Finance Officer	
2	Without dedicated specialist staff in place, the Council may be unable to take effective and efficient measures to counter fraud, potentially resulting in authority suffering material losses due to fraud and error	PJ	September 2016	3	4	12		Retain a specialist Counter Fraud Unit to tackle the misuse of public funds on behalf of the Council.	Ongoing	Chief Financial Officer	
Explanatory notes 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) 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) Control - Either: Reduce / Accept / Transfer to 3rd party / Close											

Summary of feasibility work for the Counter Fraud Unit Project

Cheltenham Borough Council

1. The Counter Fraud Officers currently undertake the single point of contact role and acts as the Department of Work and Pensions liaison following the transfer of Benefit Fraud investigation to the Single Fraud Investigation Service, Department for Work and Pensions. The team also investigate any allegations related to the Council Tax Reduction Scheme (or Council Tax Support) offences on behalf of the Revenues and Benefits Department.

The unit has administered the following sanctions:

- 2 Cautions.
- 4 Administrative Penalties generating £1,100.
- There have been 6 Prosecutions working jointly with the Department for Work and Pensions involving Council Tax Support and Housing Benefit.
 - Sentence - 8 month's imprisonment.
 - Sentence – (2 offenders received 2 years and 4 years imprisonment respectively. The Council were awarded £21,500 in compensation via Proceeds of Crime Confiscation Order.
 - Sentence – Fined £75 / Costs £75
 - Sentence – Fined £800 / Costs £250
 - Sentence – 21 month's imprisonment; suspended for 2 years.
- There is a further trial listed for April 2017.

From cases investigated, in the region of £25,000 in overpaid Council Tax Support has been identified and subsequently re-billed. (Resulting Housing Benefit overpayments are not recorded as this is not within the remit of the CFU).

During the project period, the Counter Fraud Unit received 231 fraud referrals in relation to Housing Benefit and the Council Tax Reduction Scheme. These are referred to the Department for Work and Pensions where appropriate or investigated by the Counter Fraud Unit in relation to the Council Tax Reduction Scheme.

2. Service of Court documents on behalf of Housing Benefit debt recovery:-
 - Customer debts totalling in excess of £20,000 have been served papers.
3. The Counter Fraud Unit has received referrals for 4 extraordinary cases of alleged misconduct and/or fraud; 2 external attempts and 2 internal cases relating to employees. Reports have been issued in relation to findings where appropriate.
4. A review of the Housing Applications list for Cheltenham Borough Council was undertaken:
 - 51 applications were cancelled (7 Gold Band and 44 Silver Band) = £561,000 loss avoidance.
 - 56 applications were downgraded to Bronze banding (low priority need).

Each cancelled application represents a property which can be reallocated to another eligible family. For each reallocation, a figure of £18,000 per annum can be identified as a loss avoidance figure because there is no need for temporary accommodation to be

utilised. (£18,000 is the Audit Commission figure for the average annual cost to a Local Authority when housing a family in temporary accommodation). In the Cheltenham Borough this rate would be considerably lower, approximately £11,000 per year as indicated in the figure above. In addition the result of the band reprioritisation is that those families who are correctly banded have a greater chance of being housed and more speedily.

Following this exercise a review report was produced to summarise the work and make recommendations regarding future processes and system reviews.

5. A sample single person discount review was undertaken for the Revenues (Council Tax) Department. 50 cases were subjected to more robust verification; discounts were removed retrospectively and for the financial year 2016/2017. This increased future liability by £17,500 and generated £22,000 retrospectively.

Council Tax Penalties were not administered but could have been where appropriate generating £70.00 per account approximately £3,000 in fines. There was also the potential to levy a penalty on occupiers who failed to respond to the requests for information – approximately 368 accounts which would have generated £26,000 in fines. In these instances the single person discount of 25% could also have been removed from the start of the financial year generating further liability.

Engagement with Senior Management across the Council has now commenced to establish areas in which the Counter Fraud Unit could focus.

Tewkesbury Borough Council

1. A sample single person discount review was undertaken for the Revenues (Council Tax) Department. 53 cases were subjected to more robust verification; discounts were removed retrospectively and for the financial year 2016/2017. This increased future liability by £17,000 and generated £4,700 retrospectively.

A further data match was undertaken comparing electoral role details and single person discount awards. This increased future liability by £8,600 and generated £8,200 retrospectively.

Council Tax Penalties were not administered but could have been where appropriate generating £70.00 per account.

2. A review of the Housing Applications list for Tewkesbury Borough Council was undertaken:
 - 63 applications were cancelled (3 Emergency, 3 Gold Band and 57 Silver Band) = £630,000 loss avoidance.
 - 32 applications were downgraded to Bronze banding (low priority need).

Each cancelled application represents a property which can be reallocated to another eligible family. For each reallocation, a figure of £18,000 per annum can be identified as a loss avoidance figure because there is no need for temporary accommodation to be utilised. (£18,000 is the Audit Commission figure for the average annual cost to a Local Authority when housing a family in temporary accommodation). In the Tewkesbury Borough this rate would be considerably lower, approximately £10,000 per year as indicated in the figure above. In addition the result of the band reprioritisation is that

those families who are correctly banded have a greater chance of being housed and more speedily.

Following this exercise a review report was produced to summarise the work and make recommendations regarding future processes and system reviews.

3. The Counter Fraud Unit is in the process of completing a review of the list of exempt and empty business units. To date £132,000 of additional revenue has been charged to 31 March 2017 although this is still subject to the provision of various reliefs where applicable. In addition a number of units are still subject to internal decisions or have been referred to the Valuation Office for rateable value.

Overall in the region of £275,000 has been identified by the Unit and referred to the Revenues Team to consider billing or referral.

4. The Counter Fraud Unit is now working with the Environmental and Housing Services Team with the investigation and prosecution of fly-tipping offenders and some proactive deterrent work.
5. A joint investigation with Gloucestershire County Council is underway in relation to care provision and alleged abuse of the Council Tax Reduction Scheme.

West Oxfordshire District Council

The Counter Fraud Unit has received referrals for 5 extraordinary cases of alleged misconduct and/or fraud; all internal cases relating to employees. Reports have been issued in relation to findings where appropriate. 1 Caution has been administered.

Engagement with Heads of Service across the Council has now commenced to establish areas in which the Counter Fraud Unit could focus.

Cotswold District Council

The Counter Fraud Unit has received referrals for 4 extraordinary cases of alleged misconduct and/or fraud; 2 external attempts and 2 internal cases. Reports have been issued in relation to findings where appropriate.

Engagement with Heads of Service across the Council has now commenced to establish areas in which the Counter Fraud Unit could focus.

Forest of Dean District Council

The Counter Fraud Unit received 1 referral of attempted fraud; external attempt. A report has been issued in relation to findings where appropriate.

Gloucestershire County Council

Planning with regard to a verification exercise / proactive fraud drive in relation to social care provision, specifically direct payments, is underway.

Stroud District Council and Gloucester City Council

Discussions to be held in relation to the provision of counter fraud services with both authorities.

GO Shared Services (Cotswold, Forest of Dean and West Oxfordshire District Councils / Cheltenham Borough Council)

Sample of debts checked via the National Anti-Fraud Network to assist in debt recovery on behalf of the Accounts Receivable Team to reduce the number of debts passed for write off.

This was a small sample of 24 cases to test the merits of the exercise. Utilising only the free consent data check on the system, further information was found in 18 cases out of 24 – including email addresses, phone numbers and confirmation in many cases that the debtor was still resident at the address held, and also indications that some customers may have used a false name when registering.

This pilot piece of work is now the subject of an enhanced feasibility study. All Cheltenham Borough Council debts are being passed to the Counter Fraud Unit for trace details prior to write off. Figures will be recorded to include costs and debt recovery with a view to rolling the work out to all other GOSS partners if successful.

UBICO

The Unit is providing counter fraud services where needed. 2 extraordinary cases of alleged misconduct and/or fraud; both internal have been received.

Cheltenham Borough Homes

In partnership with CBH the unit has worked to prevent incorrect or fraudulent applications for properties under the 'Right to Buy' scheme.

The Audit Commission (Protecting the Public Purse report 2014) detailed that the average cost to a Local Authority replacing a Social Housing property lost through the Right to Buy scheme would be in the region of £150,000.

In addition, future rental income is lost and emergency housing costs are increased because the property is no longer available for housing provision and allocation. With insufficient properties to meet demand, more costly temporary accommodation must be found.

To date the Unit has assisted in the prevention/recovery of 5 CBH properties – representing £750,000.

The Unit has also worked with CBH Housing Officers to provide intelligence and investigate abandoned or illegally sub-let property, general tenancy fraud allegations and any suspicious applications for social housing.

This has led to 13 properties being recovered/not allocated – a loss avoidance figure of £143,000 (as per the £11,000 figure for the cost of housing a homeless family from the waiting list).

There is also a very real non-monetary value in ensuring that social housing properties are being let to those tenants who are genuinely in need of assistance and not those who are abusing the system for gain.

There have been 5 successful prosecutions for housing offences and one case is currently listed for Crown Court trial.

Sentence – 21 month's imprisonment; suspended for 2 years

Sentence – Fined £200 / Costs £170

Sentence – 100 hours Community Service / Costs £700

Sentence – 12 month Supervision Order

Sentence – 16 weeks imprisonment; suspended and 200 hours Community Service / Costs £200

Detailed reports have been issued to Cheltenham Borough Homes suggesting high risk areas and proactive fraud drives which the team could assist with. The team also produced a review of work undertaken so far highlighting any risks and learning points with remedial recommendations.

Training

Human Resources, Internal Audit and Investigation staff across the County in relation to undertaking employment and criminal investigations internally. To incorporate any relevant updates or process changes, the team are working with Human Resources.

Criminal Procedure and Investigations Act; refresher and update training being rolled out across the County for all Enforcement, Legal and Internal Audit members of staff.

Regulation of Investigatory Powers Act; refresher and update training being rolled out across the County for all Enforcement, Legal and Internal Audit members of staff.

Proceeds of Crime Seminar conducted by Barristers from Albion Chambers organised for Enforcement, Legal and Internal Audit members of staff across the County. To provide an overview and highlight where this legislation could be utilised within the Councils.

Staff and Member Awareness is being undertaken to introduce the Counter Fraud Team, the new polices which the team have drafted, to include where these are applicable, and general fraud awareness.

Data Warehouse Software

The Counter Fraud Unit is working with Procurement, Legal and ICT Departments and Corporate Management in relation to the procurement of the software and related data sharing agreements.

Specification documentation has been drafted and the tender process is planned for 2017.

This area also involves a large work stream with regard to Fair Processing notices on the internet and paperwork across all partnership Councils.

The team has drafted more extensive fair processing notices and statements to reflect legislative requirements and any future data matching. Draft documentation is being presented to Corporate Management / Senior Leadership Teams for implementation throughout the partner Council's.

Policies

A Counter Fraud and Anti-Corruption Policy has been drafted and approved at a number of the partner authorities.

A Regulation of Investigatory Powers Act (Communications) Policy has been drafted and is undergoing the appropriate consultation and approval process at a number of the partner authorities.

Whistle-Blowing Policy has been drafted and is undergoing the appropriate consultation and approval process at a number of the partner authorities.

A Council Tax, Council Tax Reduction Scheme and Housing Benefit Penalty and Prosecution Policy is being drafted. Consultation and approval process to commence.

Further policies are planned – Prosecution Policy, A Regulation of Investigatory Powers Act (Social Media) Policy, Proceeds of Crime and Anti-Money Laundering Policy.

Other Work Streams

Work is planned in relation to a generic document pack for Gloucestershire for criminal investigation to include all the relevant investigation, interview under caution and prosecution processes.

Paperwork received in relation to signing the memorandum of understanding with HM Revenue and Customs – liaison with all enforcement teams pending.

A work stream to engage the Police and enter into an appropriate joint working mechanism is to be commenced.

A work stream to engage Trading Standards and enter into an appropriate joint working mechanism commences 30 November 2016.

A work stream to engage NHS Counter Fraud Team and enter into an appropriate joint working mechanism to be commenced.

Work on transparency reporting for fraud work – again this involves capturing information from around the organisations across the different sites.

Housing Associations and Registered Social Landlords. Draft Goods and Services Contract developed for engagement with Registered Social Landlords for the provision of Tenancy Fraud work. This work stream is on hold pending business case consideration. Agreement received from Cheltenham Borough Homes to support and endorse this based on results and work undertaken by the team.

Cheltenham Borough Council Audit Committee – 11 January 2017 Internal Audit Monitoring Report

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

Financial implications	<p>There are no financial implications arising from the report recommendations</p> <p>Contact officer: Sarah Didcote, GOSS Business Partner Manager sarah.didcote@cheltenham.gov.uk 01242 264125</p>
Legal implications	<p>Contact officer: Peter Lewis, Head of Legal Services, One Legal peter.lewis@tewkesbury.gov.uk, 01684 272012</p>
HR implications (including learning and organisational development)	<p>Contact officer: Julie McCarthy</p>
Key risks	<p>That weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives, if recommendations are not implemented.</p>

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	Relevant to particular audit assignments and will be identified within individual reports.
Property/Asset Implications	Contact officer: David Roberts@cheltenham.gov.uk

Background

- 1.1 The Annual Audit Plan 2016/17 was aligned with the corporate and service risks facing the Council as identified in the consultation with the Senior Leadership Team and supported by such systems as the risk registers. The role and responsibilities of internal audit reflect that it is there to help the organisation to achieve its objectives, part of the plan has been aligned to elements of this strategy. However, to inform the audit plan we have also reviewed other key documents, such as the Medium Term Financial Strategy, change programme agendas and updates to the business plan, many of which contain risk assessments
- 1.2 There is also a benefit to supporting the work of the External Auditor (Grant Thornton). This is in the form of financial and governance audits to support such activities as value for money.
- 1.3 The audit plan also considered risks that may evolve during the year. The consultation process has sought to identify these areas considering where internal audit could support and add value to the risk control process. This report identifies work we have completed in relation to the planned audit work.

2. Reasons for recommendations

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

3. Internal Audit Output

The internal audit service is continuing to review its operational procedures and processes to ensure they align with the Public Sector Internal Audit Standards (PSIAS).

- 3.1** As Audit Cotswolds have been advised that their bid for providing the Internal Audit service, from 1 April 2017, to the 2020 partnership and each of the four partner councils was unsuccessful, the implementation of the Audit Software Management system has been suspended.

Audit Cotswolds Officers have, to date, had an overview meeting and, subsequently, one to one meetings with Gerry Cox and David Hill from SWAP. A further meeting has been arranged for 13 December 2016 for an insight to their audit system.

3.2 Background

Below summarises some of Internal Audit's work in progress to date:

Since the last Audit Committee we have finalised:

- Treasury Management and Bank Reconciliation 2016/2017
- Main Accounting and Budgetary Control 2016/2017
- Green Waste (including FoDDC) 2016/2017
- Human Resources – Controlling Starters and Leavers 2016/2017
- ICT Public Services Network (audit conducted by SWAP)
- Social Media follow-up
- Follow-up of the 2014/2015 Payment Channels and Income Streams Review
- Security Audit
- Planning Application Processes 2016/2017
- Risk Management 2016/2017

Progress on the 2015/2016 brought forward and the 2016/2017 audit plans:

- NNDR Relief – Draft Report
- Fleet Management – Draft Report

- 3.3** Progress against the 2015/2016 brought forward and 2016/17 audit plan, updated with progress and assurances given, is set out in **Appendix 1**

- 3.4** Executive summaries of finalised audits in can be found in **Appendix 2**

- 3.5** The assurance levels are set out in **Appendix 3**

Report author	<p>Lucy Cater, Acting Head of Internal Audit</p> <p>Lucy.cater@cotswold.gov.uk</p> <p>01285 623340</p>
Appendices	<p>1. Audit Plan Progress</p> <p>2. Executive Summaries</p> <p>3. Assurance levels</p>

Cheltenham Borough Council (CBC) Internal Audit Monitoring Report

Audit Theme / Service Area	Specific Topic or Activity	Status	Assurance
Audits outstanding as in the 2015/2016 Internal Audit Opinion			
NNDR	Year 2 module of 3 year programme	Final Memo	Satisfactory
Housing Benefits	Year 2 module of 3 year programme	Final Memo	Satisfactory
Council Tax	Year 2 module of 3 year programme	Final Memo	Satisfactory
GOSS – Finance Systems	Payroll	Final Report	Satisfactory
GOSS – Procurement, Insurance, Health & Safety	Health and Safety audit undertaken as part of Security Audit	Final Report	Limited
Accommodation and property management	Review of strategy and property management	Work to be completed in 2016/17	
Security	Review of buildings and personal security	Final Report	High
Safeguarding Adults and Children	Support the Safeguarding peer review and audit	Draft Report	
Contract Management	Review of key contracts including tender processes, plus review of contractor use	Final	Limited
Performance Management	Completion of 2014/2015 audit. Review concentrated on Staff Performance	Final	Satisfactory
Art Gallery and Museum	Follow-up of the recommendations made in the Art Gallery report	Follow up in progress	
Car Parking	Follow-up of the report submitted to Audit Committee in September 2015	Draft Report	
2016/2017 Internal Audit Plan			
Section 1 - Core Governance and Core Finance Audits			
Annual Governance Statement	Support for and review of the production of the Annual Governance Statement and sample elements of the supporting information	Complete	
Audit Committee Effectiveness (Annual)	Annual review of the Audit Committee against appropriate guidance and standards	Commenced	
Internal Audit Self-Assessment (Annual)	Annual self-assessment of Internal Audit's performance against the Public Sector Internal Audit Standards (PSIAS)		
Risk Management	Selection of risks from registers and mitigating controls and actions to test their effectiveness	Final Report	Good
ICT Audit to be conducted by SWAP	Public services Network	Final Report	SWAP – Reasonable Audit Cotswolds - Satisfactory

Audit Theme / Service Area	Specific Topic or Activity	Status	Assurance
	Further scope of 2016/17 audit to be confirmed		
Council Tax Benefit	A review of an element of the Council Tax Benefit process, the programme of activity ensures full coverage of the service over a 3 year cycle	In progress	
Council Tax	A review of an element of the Council Tax process, the programme of activity ensures full coverage of the service over a 3 year cycle	In progress	
NNDR (Business Rates)	A review of an element of the NNDR process, the programme of activity ensures full coverage of the service over a 3 year cycle	In progress	
GO Shared Service (GOSS) Audits	Days allocated to the following Audits are CBC's element of the GOSS Audit Plan		
Main Accounting, Budgetary Control and Capital Accounting	A review of an element of the operating systems, the planned programme of activity ensures full coverage over a 3 year cycle. Assurances are sought for the GOSS controls operating in respect of its Clients and transactional testing is performed for each of the Clients	Final Report	High
Treasury Management and Bank Reconciliations		Final Report	High
Payroll		In progress	
Accounts Receivable (Debtors)		In progress	
Accounts Payable (Creditors)	Transactional Testing for each client, assurance over GOSS controls to be informed by SWAP auditors (the Forest of Dean DC's Internal Audit Team)	Draft Report	
Systems Administration of Agresso Business World (ABW)	A review of the operating system and the controls in place		
Human Resources Review to include FoDDC	A review of a Human Resources area. Scope for 2016/17 audit to be determined with GOSS Officers Scope of the audit is the Starters and Leavers process and will include HR and ICT Processes	Final Report	Satisfactory
Other GOSS Area	A review of Procurement / Health and Safety / Insurance. 2016/17 audit to be determined with GOSS Officers		
Section 2 - Risk Based Audits			
Employee Turnover	Review of the controls in place to mitigate against loss of staff. How are management addressing the risk, identification of the reasons for staff turnover, are mitigating actions effective	In progress	
Risk and Control Implications of Meeting the Funding Gap	Achievement of proposed financials in MTFS looking at the assessment of risks and achieving these projections (income / savings)		
Garden Waste Review to include FoDDC	Review of the processes and systems used for the charging of green waste. Looking at efficiencies, standardising processes etc.	Final Report	N/A
Business Rates Pooling Audit to be conducted by SWAP	Audit of pooled assets (what / how / how are they reported), calculation of appeals. Suggestion from CBC Audit Committee		
NNDR (Business Rate) Reliefs	Review of NNDR Reliefs ensuring that the correct relief has been added to accounts in accordance with legislation	Draft Report	
Fleet Management	Review of the management of fleet by Ubico on behalf CBC (and CDC) to include the replacement of vehicles, purchase and recharging	Draft Report	

Audit Theme / Service Area	Specific Topic or Activity	Status	Assurance
Planning Application Process	Review of the planning application process to ensure compliance with statutory legislation in respect of the processing cycle	Final Report	Satisfactory
Food Safety Review to include FoDDC	Review of the policies and procedures in place in respect of Food Safety to ensure compliance with the introduction of the new act which comes into effect from 1st April 2016		
Section 3 - Advice and Consultancy			
New Housing and Planning Act	Review of the introduction of the New Housing and Planning Act - ensuring the Council is ready / prepared for the new act	On-going	
Community Infrastructure Levy (CIL)	Support for the CIL process ensuring that the Council is prepared for the introduction of CIL	On-going	
Charging Mechanisms	Review of the charging mechanisms to include statutory and discretionary charges and the potential generating, or increasing income, from some service areas		
Review of the outcomes of the Gloucestershire Joint Waste Committee Audit to be conducted by SWAP	A review to ascertain if the Gloucestershire Joint Waste Committee is delivering the outcomes envisaged when it was established		
2020 Vision Programme	Support for the 2020 Vision Programme and Projects	On-going	
Change Programmes	Support for other change programmes / projects	On-going	
Section 4 - Other			
Management	Preparation of IA Monitoring Reports and preparation and attendance at Audit Committee. Annual Audit Planning. Attendance at Governance and Risk Groups. High level programme monitoring. Liaison meetings with CFOs and Management Teams.	On-going	
Payment Channels and Income Streams Follow-Up	Follow-Up testing of a 'Limited Assurance' Audit	Complete	Not all recommendations implemented
Contract Management	Follow-Up testing of the 2015/16 'Limited Assurance' Audit		
GOSS – Health and Safety	Follow-Up testing of the 2015/16 'Limited Assurance' Audit		
Enforcement Tender Review	Ad-hoc piece of work. Review of enforcement tenders (CDC, CBC, WODC, TBC, FoDDC) due to one point difference in scoring. Days to be taken from Contingency	Complete	
Follow Up Audits	Follow Up of Previous Year Audits	On-going	
National Fraud Initiative	On-going Support for the Scheme	On-going	
Contingency	New Work and Investigations		
Audit Management Software	Design and Build the new Internal Audit Management Software to our specifications	Complete	
Audit Cotswolds 2020 Proposal	Drafting the proposal for providing the Internal Audit service to 2020 and the four partner Councils	Complete	

Executive Summary for Security 2015/2016	
Assurance	High
<p>Introduction</p> <p>This review of Council Security was undertaken as part of the 2015/2016 risk based internal audit plan, approved by Audit Committee. The focus of this audit was on:</p> <ul style="list-style-type: none"> Highlighting strengths and weaknesses in the Councils' current physical security measures to protect their physical and financial assets. Reviewing Council policies and service areas' processes relating to security, to ensure they are current and mitigate all perceived risks effectively. Resources used in accordance with policies/procedures are adequate. <p>The Council has a responsibility to protect the security of its assets, information it holds, and the personal safety of its employees and customers. During this review we identified a number of recommendations relating to personal security of the Council's customer facing officers. These have been reported directly to the Council's Health and Safety Manager (part of GO Shared Services) to address the recommendations made.</p> <p>Overview of Key Audit Findings and Recommendations</p> <p>Intruder and fire alarms are located throughout the Municipal offices. These are managed by Property & Asset Management and evidence of regular servicing and testing is available. The GOSS Insurance Officer advised that there have been no insurance claims due to break ins in the previous three years.</p> <p>Weaknesses were observed in primary access controls, however back up controls have been implemented to prevent unsolicited access. CCTV cameras are located in a number of key areas around the Municipal offices; however consideration should be given to ensuring all customer facing areas have CCTV coverage to protect both the public and the staff.</p> <p>Cash collection and income receipting systems are secure.</p> <p>In conclusion, we can confirm the review identified there are procedures in place to mitigate security risks, however improvements could be made to further increase the control environment, which are reflected in the recommendations made. We are able to offer a 'high' assurance opinion at this current time.</p> <p>Management Response</p> <p>The recommendations and action plan show that 2 of the 3 recommendations are complete and that the third has a target date of 31 March 2017 and therefore work is on-going.</p> <p>With regard to CCTV and that consideration should be given to ensuring it covered all customer facing areas, i.e. including the planning reception, the report contained insufficient evidence as to the risk exposure which gave rise to this element of the recommendation. However, the REST transformation project will involve a review of the existing customer service arrangements for the division, including the location of the planning reception, its future role and therefore CCTV provision will be reviewed as part of that work.</p>	

Executive Summary for Main Accounting System and Budgetary Control 2016/2017	
Assurance	High
<p>Overview and Key Audit Findings</p> <p>The audit of the Main Accounting System is carried out over a three year cycle. 2016/2017 is the third year of the three year cycle. The areas to be reviewed are drawn from the “Services in Scope” document defining those services which GO Shared Services (GOSS) Finance will provide. There are certain areas which we will continue to audit each year.</p> <p>We examined the Medium Term Financial Strategy (MTFS) document for each Authority as presented to Members, and confirmed that all took account of material factors, and that the sources of assumptions made in respect of interest rates and inflation were reasonable.</p> <p>We verified that budget monitoring reports are presented to each Authority’s Cabinet on a quarterly basis.</p> <p>None of the three Local Authorities produce a traditional formal “Budget Book” in electronic or paper form.</p> <p>We confirmed that annual budget setting processes are sound.</p> <p>We confirmed that 2015/2016 Revenue and Capital Outturn, and the 2016/2017 Revenue Account Budget returns had been submitted to Government, and obtained copies of each for all three Authorities as evidence.</p> <p>We verified that the Treasury Management Statistics form had been completed and returned to Cipfa in respect of 2014/2015 and obtained copies of these for all three Authorities as evidence.</p> <p>We confirmed that the outcome of four Key Performance Indicators relating to GOSS Finance performance was satisfactory.</p> <p>We verified that the recommendation arising from our 2015/2016 audit had been implemented.</p> <p>We were able to give a High level of assurance as a result of the audit work carried out.</p>	

Executive Summary on Public Services Network (audit conducted by SWAP)	
Assurance: SWAP Audit Cotswolds	Reasonable Satisfactory
<p>This extract was taken from the Final Report produced by the SWAP ICT Auditor.</p> <p>Objective</p> <p>To provide assurance to the Senior Information Risk Owner (SIRO) that details contained within the Public Services Network (PSN) Commitment Statement, including the supporting information is complete, accurate, and can be submitted in the time-scale agreed with the PSN authority.</p> <p>Overview and Key Findings</p> <p>As part of the 2020 Partnership, Information Technology will be a shared service across the four Partner Councils - Cheltenham Borough Council, Forest of Dean District Council, Cotswold District Council and West Oxfordshire District Council. The revised structure will provide a central approach across all Partners.</p> <p>There were resource and established processes to ensure that information security was maintained, and it was found that ICT Change and Customer Services were making positive steps in moving towards an ISO27001:2013 organisation, which will further support the Partnership in maintaining PSN compliance.</p> <p>At the time of our initial review, not all submission documentation had been completed by the ICT Change and Customer Services Team. The original plan, formally communicated to the Cabinet Office and Heads of Partnership, was to submit the PSN Commitment Statement and all supporting information during the week 11th-15th July 2016; the delay was partially due to the fact that the Internal ICT Health Check was not carried out until after the June referendum, to minimise the risk to the Electoral systems. Further work was carried out by the ICT Change and Customer Services Team, to evaluate the risks highlighted by this review and to transfer to a formal action plan. Consequently, the actual date of the PSN submission was the 5th August 2016.</p> <p>There had, however, been liaison between the ICT Change and Customer Services, the key stakeholders of the 2020 Partnership, and the PSN team at the Cabinet Office to inform them of the change in submission date.</p> <p>A further review was carried out, post submission, and concluded that all mandatory documentation had been submitted to the PSN authority and that care had been taken in ensuring that only accurate information had been entered onto the PSN Commitment Statement. The results were accurately transferred onto a Remediation Action Plan (RAP) from the Internal and External ICT Health Checks.</p> <p>Assurance was taken on the effectiveness of the design of the security controls from the independent Internal and External ICT Health checks, the response to the security risks that had been identified, and a review of a sample of the joint information security policies, risk registers, and interviews with key staff.</p> <p>There were no 'Critical' issues raised during the Internal and External ICT Health Checks that required resolution. Out of the 18 High risk issues raised 13 actions remained open. In addition, 46 Medium risks were raised, of which 28 actions remained open, and 37 Low risks were raised, of which 13 remained open.</p> <p>The total of 101 risks had been added to the remediation plan, and all 54 open actions had been assigned an owner, target date and had been given a service desk incident number to enable the progress of all actions to be monitored by the ICT Audit and Compliance Manager.</p>	

There were four security gaps detailed in the PSN Commitment Statement. Resource had been made available to address these gaps in compliance, or partial compliance, and these had all been documented in the Commitment Statement that had been sent to the PSN Team at the Cabinet Office, together with action plans. One of the four gaps identified, 'Cloud computing', represented no current risk, as this technology is not currently being used, however a Cloud computing policy is being drafted, so that the Partnership is ready for future considerations of this technology.

In addition to the PSN pre-submission documents, a sample of the ICT Shared Service policies was reviewed. Work has been carried out to cross reference the policy and procedural documentation set to the PSN expected controls. There is now a full suite of policies and procedures that reference the PSN Control set, and work is continuing to develop these to deliver consistent, ICT operational processes across the partnership.

During the review of the joint Commitment Statement, network diagram, RAP, and policies, a small number of minor observations were made; recommendations for improvement were fed back directly to the ICT Audit and Compliance Manager. These recommendations are outside the framework of this report.

It was found that risks were assessed and communicated across service and corporate risk registers and that mitigating controls listed on those registers were monitored and evidenced. However, one Priority 3 recommendation was made that, when implemented, will further improve the recording of, and assessment of, risks identified during the ICT Health Checks.

There were no significant findings raised.

Executive Summary for Treasury Management and Bank Reconciliation 2016/2017**Assurance****High****Overview and Key Audit Findings**

The audit of Treasury Management is carried out over a 3 year cycle. 2016/2017 is the third year of the three year cycle; the detail of the areas that have been included in the year three audit can be found at Appendix B. The areas to be reviewed are drawn from the "Services in Scope" document defining those services which GOSS Finance will provide.

The audits of Bank Reconciliation and Cash and Bank are conducted every year.

We were able to verify that the aspects of Treasury Management which we reviewed this year were operating satisfactorily. Existing contracts with TM advisers end in 2017 and before expiration of these a decision will have to be made by senior officers and/or Members about action to be taken as regards re-tendering.

We verified that bank reconciliations are being completed on a timely basis, and that these are being checked by an Accountant who signs and dates the statement to evidence this check.

Cash files are uploaded daily from Civica into the Agresso General Ledger (GL). The two figures are reconciled daily and Civica and GL figures are recorded each day in a spreadsheet which also shows any daily differences. There is no formal management check (and evidencing of this by signature) to ensure this reconciliation is being done on a timely and accurate basis, and critically reviewing differences. However this would not be seen as a key control, as differences between the cash book and GL will be shown up in the bank reconciliation, and formal management check of this.

The results of our review were satisfactory in all areas covered and we are able to give a **High** Audit Assurance Opinion Level. We made no recommendations as a result of this audit.

Executive Summary for HR – Controlling Starters and Leavers 2016/2017**Assurance****Satisfactory****Overview and Key Audit Findings**

A core governance review was undertaken of the controls over the starters and leavers processes and procedures, as approved in the 2016/17 Audit Plans of each of the partner authorities (including the Forest of Dean District Council). This audit covers a review of control arrangements in place in respect of the dissemination of information when an employee starts or leaves, that protect the Council from undue risk and loss.

A review was carried out of current process operated at each authority (under GOSS), as well as a review of the forms used for recording method and design. The following sample was taken of starters and leavers from ABW:

Partner Authority	Starters	Leavers
Cotswold District Council	10	8
Cheltenham Borough Council	10	4
West Oxfordshire District Council	10	5
Forest of Dean District Council	6	4

The corresponding HR personnel and payroll files were reviewed for consistency as part of testing. ICT procedures regarding starters and leavers were also analysed.

Cheltenham Borough Council (CBC) & Forest of Dean District Council (FoDDC)

During testing, it was acknowledged by the HR/Payroll Business Centre (West) that the FoDDC 'Checklist for new appointment' format needs updating to the same format as the equivalent CBC checklist.

The lack of completed Payroll information from the Authorisation to Appoint form – especially the 'checked by' field – could mean that information is not verified and may lead to input mistakes not being highlighted. Non-completion of the HR 'office use only' section on the leavers form indicates that crucial actions in the process could be omitted.

The GOSS forms are not used consistently across all authorities, despite being branded for their use. The abundance of forms in use can be confusing and has the added risk of forms not being completed. The grouping of the fields on the forms, in terms of subject, is unclear. An example of this is the GOSS Authorisation to Appoint form, where post information (Division, Commencement Date) is mixed with personal information (Name, Home address).

The GOSS HR/Payroll Business Centre (East) has advised that Line Managers often need prompting to complete forms and follow process correctly. This can cause delays, is time consuming and could ultimately result in necessary information not being obtained.

The presence of guidance notes is a positive factor, especially for Line Managers who may be following the process for the first time or as a reminder for those who have not done so in some time. This guidance does, however, need to be relevant and up-to-date. In addition, guidance notes and related resources should be accessible and easy to find. Currently, forms and documentation are located using a different path on each intranet site, which can be confusing and adds to the risk of forms not being completed.

Conclusion

There are processes in place within the HR and ICT departments at all partner authorities to control the starter and leaver process. However, the areas of inconsistent and inefficient practices identified such as the lack of clear guidance for Line Managers, the amount and variety of forms used across the GOSS partnership, the lack of communicating starter/leaver information to all interested parties, etc. increases system weaknesses. We have made recommendations and suggestions for improving current processes which, if implemented, will help to improve the overall control environment.

Management Comments

Management have accepted the recommendations, many of these will be taken forward and addressed in line with the 2020 Programme work stream.

Executive Summary for Social Media Follow-Up	
Assurance	Good
<p>Overview and Key Audit Findings</p> <p>This review has been carried out as part of a follow-up to the 2014/15 CBC Social Media audit. The follow-up work was approved by Audit Committee in March 2016.</p> <p>The purpose of this audit review is to provide Members and senior officers with sufficient levels of assurance that the agreed risk and control recommendations have been implemented by management.</p> <p>We requested updates from responsible officers on actions taken to implement the audit recommendations.</p> <p>We were forwarded an updated version of the 'Social Media and Social Networking Guidance for employees' in which HR's codes of conduct and two ICT policies (Information Security Policy and Guidance) are referenced. Additional guidance had also been included on the approval process and building the social media site's network through 'liking' or 'following' other social media sites. No additional guidance had been supplied regarding security, specifically the use of passwords on personal devices; however, according to the Web Editorial officer this is a risk that has been identified. Additional wording within the guidance could be included to mitigate this risk.</p> <p>Although CBC have not fully engaged with the 2020 vision programme they do have some shared officers and have the potential for increased shared working. It would be best practice to adopt shared guidance documents for issues such as social media usage. CDC/WODC already have shared social media guidance, which has recently been reviewed and approved by senior management. To provide consistency to shared officers each partner council within the 2020 vision project could collaborate to develop a single shared social media guidance document.</p> <p>A search of CBC's intranet was conducted to determine if any communication had been made to CBC staff since the Social Media report. 'Social Media and Social Networking Guidance' documents, one for staff and another for managers, were last reviewed in 2014. The most current 'posts' on the intranet news feed in reference to social media were from 2012 and 2013. No evidence was supplied by responsible officers that any effort had been made to increase awareness of the Social Media Strategy, therefore we conclude this recommendation has not been actioned.</p> <p>According to the amended version of the social media guidance, the Web and Communications team manage a central register of all corporate social media accounts and provide ICT with account information for recovery purposes. The register maintained by the Web and Communications team was provided as part of this review and was shown to have been recently updated. However, prior to this latest update the register appears not to have been reviewed for over a year. At the time of this review there was no link with ICT regarding account recovery or business continuity arrangements.</p> <p>Through discussions with the Web and Communications team it was concluded there are no council owned social media accounts that are registered by officers using their personal email addresses. There are some council owned Facebook pages that are administered by officers using personal Facebook accounts, however, there is no visible link between Council pages and the profile of the administrators. Officers with access to Council owned accounts are recorded as part of the central register and therefore their access could be removed if they were to cease Council employment. Additional security issues associated with using personal accounts to manage corporate pages, such as password management, should be addressed as part of the guidance review.</p> <p>The 2014/15 audit gave a '<u>Satisfactory</u>' level of assurance over the management of the Council's social media. Although it is evident a number of actions to the recommendations have only recently been carried out, due to the follow-up review, most of the original recommendations have now been implemented to some degree. Based on the work completed as part of this follow-up review, we now offer an audit assurance opinion of: <u>Good</u>.</p>	



Memo

To: Paul Jones, S151 Officer

From: Jaina Mistry, Risk Assurance Manager

CC: Tim Atkins, MD Place & Economic Development
Mike Redman, Director of Environment
Tracey Crews, Director of Planning
Lucy Cater, Head of Internal Audit (Operational)

Date: 22nd September 2016

Subject: Follow-Up of the 2014/15 Payment Channels & Income Streams Review

1. Introduction

This follow up review was undertaken to assess progress of the agreed recommendations from the 2014/15 Payment Channels & Income Streams 'limited' assurance report, as agreed in the 2016/17 Audit Plan.

2. Audit Findings

Rec 1 – The Civica cash receipting system to be used at the Cemetery & Crematorium

We can confirm that all income receipted at the Cemetery & Crematorium is via the Council's cash receipting system.

Rec 2 – Reconciling the Cemetery & Crematorium system to the main accounting system in accordance with the Financial Rules

The service is still not reconciling their operating systems to the Council's main accounting system, Agresso (ABW). We are aware that training has been provided and that there are some operational matters that need to be resolved, which the Customer Services team is assisting with. However, given that we initially identified this in the summer of 2014, it is essential that reconciliation processes are introduced without further delay,

Rec 3 – Introduction of card payments at Shopmobility

Management advised that a review of the service is being undertaken and therefore changes in process are not viable at this current time.

Rec 4 – Staff security at the Cemetery & Crematorium

We can confirm processes have been implemented for the secure storage of cash and other physical security measures also introduced to ensure staff are not left vulnerable.

Rec 5 – Reconciling Green Spaces – Allotments system to the main accounting system in accordance with the Financial Rules

The recommendation has been implemented and reconciliation processes are being undertaken for allotments income.

Rec 6 – Receipting Planning income in the Cash Hall

We can confirm arrangements are in place for planning income (cash only) to be paid into the Cash Hall, which minimises the risk of potential theft.

Rec7 – Reconciling Planning systems to the main accounting system in accordance with the Financial Rules

We were advised that some progress has been made to reconcile planning income to the general ledger, however, the service area do not believe that it will be possible to go beyond an approximation. We are just commencing a Planning Applications audit and will be reviewing reconciliation processes which we will report in due course.

3. Conclusion

Based on the work completed and our review of supporting evidence we can confirm that 4 out of our 7 recommendations have been implemented and 1 where management have accepted the risk.

There are 2 service areas who are still not complying with the Financial Rules. We have been advised that work is in progress; however, it is important to ensure that the Council's Financial Rules are complied with as soon as possible.

As part of our follow up procedures, we will review recommendations not implemented in six months' time.

Executive Summary for Green Waste 2016/2017	
Assurance	N/A
<p>Overview and Key Audit Findings</p> <p>The purposes of this audit were to:</p> <ul style="list-style-type: none"> • Review of the processes and systems used in Cotswold District Council (CDC), Cheltenham Borough Council (CBC), and Forest of Dean District Council (FoDDC) for the charging of green waste. • Assess whether efficiencies could be achieved • Assess whether processes could be standardising. • Advise West Oxfordshire District Council (WODC) of the findings of this audit prior to that Authority's introduction of green waste charges in 2017/2018. <p>We looked at a number of areas, as follows:</p> <ul style="list-style-type: none"> • System • Income Collection • Charges • Discounts • Subscription period • Licences • Non-payment • Renewals • Customer Services • Payment • Refunds • Recurring payments • Staff resourcing • Sacks • Reconciliation <p>There are a number of areas where operational and policy differences are evident between Authorities. Some element of standardisation may be possible in these. In particular, Customer Services functions regarding Green Waste, and collection of licence fee income will fall within the 2020 programme (for CDC, FoDDC, and WODC), thus creating common systems.</p> <p>We have issued one recommendation relating to CBC as a result of our review, this relates affixing licences to bins.</p> <p>As this is a consultancy review we have not issued a formal audit opinion.</p>	

Executive Summary for Planning Application Processes 2016/2017	
Assurance	Satisfactory
<p>Overview and Key Audit Findings</p> <p>This review of the Planning Application Process was undertaken in accordance with the 2016/17 Audit Plan as approved by Audit Committee in March 2016.</p> <p>The objective of this review was to assess the adequacy and effectiveness of internal controls operating within the Planning Application process and also to ensure processes are operated in compliance with legislation and internal policies.</p> <p>We established by discussion with the Development Management (Applications) Team Leader (DMTL) and the Planning Services Manager (PSM) how the Cheltenham Borough Council (CBC) Planning Applications Process functions.</p> <p>Planning Applications can be made electronically via the Planning Portal and i-Apply or using hard copy paper application forms available for applicants to download from the CBC website.</p> <p>All planning applications are processed in Uniform. Application fees can be paid by cash, cheque or credit / debit card. Credit / Debit card payments are taken using Civica. CBC's finance system is Agresso.</p> <p>The timescales for processing applications are 8 weeks for minor developments and 13 weeks for major developments; this is from validation to determination.</p> <p>Applicants should be notified within 1 week of receipt if their application is invalid.</p> <p>A decision notice is not issued unless payment has been received.</p> <p>We selected a random sample of Householder developments and Pre-applications. We also looked at a sample of refunds from this period.</p> <p>Applications were validated promptly and in over half of cases, were validated within 1 day of receipt.</p> <p>Testing confirmed applications had the correct official signed application form along with the correct supporting plans which were attached to the planning application in Uniform.</p> <p>All applications in our sample had decision notices issued, this was seen in the Documents Log of each application.</p> <p>Cash and cheques received for planning applications are banked as they're received using the 'Daily listings of postal income remittances' form.</p> <p>Conclusion</p> <p>On the basis of our findings we can confirm that processes are in place for the areas reviewed and have made recommendations / observations that if implemented should help to improve the control environment. We are able to give a Satisfactory level of assurance at this current time.</p> <p>Management Comments</p> <p>The audit on the planning applications process has been a helpful piece of work confirming that appropriate measures are in place. The observation and recommendations identified are understood and suggested way forward to rectify will be in place in line with the action plan.</p>	

Executive Summary for Risk Management 2016/2017**Assurance****Good****Overview and Key Audit Findings**

This audit on Risk Management was carried out as part of the risk based audit programme planned for 2016/17 as approved by the Audit Committee in March 2016. The audit of risk management is undertaken using a modular approach with one third of the process being examined and tested each year. The module for this review is the 'Risk Control Environment' focussing on the identification and assessment of controls, monitoring the effectiveness of controls and programming actions to manage the risks.

Our review has examined processes used for corporate risks, service based risks, project related risks, and risks that rest with external partners or organisations that would have an adverse impact on the Council if they were to materialise. We can confirm that risks are identified, assessed and control activities reviewed on a regular basis by the appropriate risk manager or team in the areas covered by our review.

The Corporate Risk Register is maintained electronically on the TEN system, service based and project risks are documented in separate divisional / project risk registers. We were advised that external partners administer their own risk management systems and that the Council gets its assurance from determining that relevant business continuity plans are in place; via contract monitoring processes to mitigate the risk of service delivery failure.

With the increase in partnership working and different delivery models, the Council may wish to consider consolidating the documenting of service delivery risks to ensure that these risks are captured and not lost within contract monitoring activity. We noted that the Risk Management Policy was reviewed and approved in March 2016; however, the policy published on the Council's website is the 2015 version and so needs to be updated.

On the basis of our findings we can confirm that processes are in place for the areas reviewed and have made recommendations / observations that if implemented should help to improve the control environment. We are able to give a Good level of assurance at this current time.

Management Response

CBC thanks Audit Cotswolds for this Risk Management and for confirming a level of assurance as 'Good' which we accept as being reasonable. The Corporate Governance, Risk and Compliance Officer (CGR&C) has considered the findings and the recommendations and confirms that in respect of Recommendation;

1. It is accepted that the wording of the policy in respect of escalating risks that have a score under 16 can also be escalated to SLT could be made clearer, this will be updated as part of the annual review of the policy and approved by the Audit Committee on the 22 March 2017.

2. A request had been made to the web team in April 2016 to update the policy on the website and this version has now been uploaded.

3. The Ten Risk System was originally developed to record and share Divisional and Project risks, however shortly after the risks were recorded onto the system the authority underwent a major management restructure which impacted on who was responsible for the risks and the way that they could be updated. It proved impractical for the continued use of the Ten Risk system to be used for this purpose and Divisions and Projects reverted to recording these risks within the Divisions and Projects. Unfortunately there has not been time to remove out of risks from system but they will be removed when the developer undertakes its annual housekeeping work on the system before April 2017.

4. The CGRC officer can confirm that a reminder has been sent to all Directors, Service managers and Project Managers reminding them that they must record the date that the risk was last updated. Directors have also been reminded that they should monitor the frequency of risk reviews through their 1-2-1, Project or DMT meetings as appropriate.

Assurance Levels 2016/2017

Assurance levels for all audits follow a standard methodology to ensure reliability and validity of Internal Audit opinion. The table below set out the rationale for the opinion and suggested management action timescales.

Assurance Level	IA Opinion - Controls
High	Compliance with policies and procedures is good and adhered to, in the areas reviewed. Internal controls, in place, operate effectively. Risks against the achievement of the client's objectives are well managed.
Good	There is a sound system of compliance and internal control, designed to achieve the client's objectives, in the areas reviewed. The control processes tested are being consistently applied. Although risks are well managed and there is no fundamental threat, internal controls still need to be monitored.
Satisfactory	Some evidence of non-compliance identified and / or weaknesses in the system of internal control, in the areas reviewed. The level of non-compliance could present a risk to the achievement of the client's objectives. Introduction or improvement of internal controls is required.
Limited	Sufficient evidence of non-compliance and / or weaknesses in the system of internal control, in the areas reviewed. Essential action needed by management to reduce the level of risk to the achievement of the client's objectives.
No	No assurance can be given over compliance and / or internal controls. Immediate action needed by management to address the risk issues, in the areas reviewed.
Not Applicable	Assurance level is not applicable due to the nature of the work undertaken.

Priority Ratings 2016/2017

Priority Ratings are attached to each recommendation made in an audit review. The table below sets out the rationale for the priority ratings and the suggested timescale for the implementation or action for the agreed recommendation

Priority Rating	Description
Critical	<p>A significant and serious control weakness in the system of internal control.</p> <p>This will also include, for example: No evidence of policies and procedures, non-compliance with legislation or authority policies or non-compliance with authority financial and procurement rules.</p> <p>Immediate action is essential.</p>
High	<p>A weakness which could undermine the system of internal control and compromise its operation.</p> <p>Action is required as soon as possible.</p>
Medium	<p>An improvement to the system of internal control in order to comply with best practice, or which offers efficiency savings.</p> <p>Action date to be agreed.</p>
Low	<p>Recommendations requiring action by management to improve control, although the achievement of objectives is not fundamentally threatened.</p>
Observation	<p>Observations presented for management consideration only, as they represent a suggested improvement in management of the risks.</p>

Audit Committee 2016-17 work plan

Item		Author
11 January 2017		
Briefing (agree agenda): 21 November 2016		Report deadline: 3 January 2017 (due to xmas)
Annual audit letter (2015-16)		Grant Thornton
Certification of grants and returns (2015-16)		Grant Thornton
Audit committee update		Grant Thornton
Internal audit monitoring report		Internal Audit
Office of Surveillance Commissioners - RIPA inspection report		Bryan Parsons
Future provision of External Audit		Paul Jones
Counter Fraud Unit update		Counter Fraud
Purchase Order monitoring - 6 month follow-up (briefing note)		Sarah Didcote
22 March 2017		
Briefing (agree agenda): 7 February 2017		Report deadline: 10 March 2017
Audit committee update		Grant Thornton
Audit plan (for the current year)		Grant Thornton
Auditing Standards – communicating with the Audit Committee		Grant Thornton
Annual plan (for the upcoming year)		Internal Audit
Internal audit monitoring report		Internal Audit
Counter Fraud update and future work provision		Counter Fraud Unit
Annual review of risk management policy		Bryan Parsons
Annual review and approval of RIPA guidance policies		Counter Fraud Unit
Approval of the Code of Corporate Governance		Bryan Parsons
14 June 2017		
Briefing (agree agenda): 24 April 2017		Report deadline: 2 June 2017
Audit committee update		Grant Thornton
Internal audit opinion (for the previous year)		Internal Audit
Internal audit monitoring report		Internal Audit
Annual governance statement		Bryan Parsons
Annual Audit Fee letter for the coming year		Grant Thornton

Audit Committee 2016-17 work plan

Item	Author

ANNUAL ITEMS (standing items to be added to the work plan each year)		
January	Audit committee update	Grant Thornton
	Annual audit letter (for the previous year)	Grant Thornton
	Certification of grants and returns (for the previous year)	Grant Thornton
	Internal audit monitoring report	Internal Audit
	Annual governance statement – significant issues action plan	Internal Audit (from 2017)
March	Audit committee update	Grant Thornton
	Audit plan (for the current year)	Grant Thornton
	Auditing Standards – communicating with the Audit Committee	Grant Thornton
	Annual plan (for the upcoming year)	Internal Audit
	Internal audit monitoring report	Internal Audit
	Counter Fraud update and future work provision	Counter Fraud Unit
	Annual review of risk management policy	Bryan Parsons
	Annual review and approval of RIPA guidance policies	Counter Fraud Unit
	Approval of the Code of Corporate Governance	Bryan Parsons
June	Audit committee update	Grant Thornton
	Internal audit opinion (for the previous year)	Internal Audit
	Internal audit monitoring report	Internal Audit
	Annual governance statement	Internal Audit
	Annual Audit Fee letter for the coming year	Grant Thornton
September	Audit committee update	Grant Thornton
	Audit highlights memorandum - ISA 260 (for the previous year) inc. Financial	Grant Thornton

Audit Committee 2016-17 work plan

Item		Author
	Resilience	
	Internal audit monitoring report	Internal Audit
	Counter Fraud update and future work provision	Counter Fraud Unit
	Review of annual statement of accounts	Finance Team

*Future dates to be agreed in April 2017

Briefing Note: Audit Committee, 11 January 2017**Update - 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 C.

Following a request by Audit Committee at its meeting on 23rd March 2016 for compliance with this policy to be monitored and reported to the committee; this information is now produced and monitored by Go Shared services on a monthly basis, using an Agresso report specifically written for this purpose. This also meets the action required under the Annual Governance Statement 2015/16. This report identifies services which are non-compliant and GOSS offer additional training and support to staff, with the aim of improving performance.

The summary report for November 2016 and also the cumulative position from 1st April 2016 to 30th November 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 52% of all eligible payments being raised by purchase orders in November 2016 compared with 33% in April 2016.

This statistic includes repairs related expenditure generated from Property Services division and CBH, using stand-alone systems. However, although these systems are not integrated with Agresso, they are works order systems used to manage repairs purchases and contracts and comply with financial rules in that purchase work orders are being raised and monitored. When such payments are excluded from the Agresso statistics, this shows the percentage of eligible payments using purchase orders through Agresso to be **80%** in November, compared to 68% in April 2016.

Work is planned to investigate the possibility of an interface between Agresso and the Uniform system operated by Property Services, to incorporate property orders into the council's main procurement arrangements.

Appendix B to this note provides the list of payments not in compliance with the purchase order policy in November. This is made up of 61 payments, equating to 20% of eligible payments. This list has been circulated to the Senior Leadership Team and Service Managers, to review and discuss to ensure compliance with the policy.

GO Shared Services will continue to monitor the performance and circulate the results. Further training will be given where necessary and all relevant staff will be required to attend finance workshops in February / March 2017, to stress the importance of compliance with the policy which will enable the earlier closedown of the 2016/17 Statement of Accounts by 31st May 2017.

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

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

Breakdown of all invoice payments November 2016	November
Purchase Order Payment	27.11%
Supplier Payment	6.80%
Supplier Payment - CBH	5.94%
Supplier Payment - Maintenance	12.74%
Supplier Payment - Permitted	47.41%
Total Creditor payments	100.00%

Invoice payments November 2016 (excluding exemptions)	November
Purchase Order Payment	51.54%
Supplier Payment	12.94%
Supplier Payment - CBH	11.29%
Supplier Payment - Maintenance	24.23%
Average Total	100.00%

Invoice payments 2016/17 to date (excluding exemptions, CBH & maintenance)	April	May	June	July	August	Sept	Oct	Nov	Average Total
Purchase Order Payment	68.12%	67.36%	72.45%	71.34%	80.97%	84.66%	68.24%	79.94%	74.13%
Supplier Payment-excluding repairs	31.88%	32.64%	27.55%	28.66%	19.03%	15.34%	31.76%	20.06%	25.86%
Average Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

20.06% of payments expected to be raised using Agresso purchase orders are non-compliant

NON COMPLIANT SUPLIERS PAYMENTS NOVEMBER 2016

APPENDIX B

Department	Cost Centre	TransNo	Ap/Ar ID(T)	Text	£
Car Parks - Off Street Operations	CPK001	14048469	Parkeon Limited	PAY AND DISPLAY MACHINE	7,443.00
		14048709	Traffic Enforcement Centre	DEPOSIT FOR DEBT REGISTRATIONS	2,500.00
		14048780	Industrial Medical & Safety Services (IMASS) Limited	OH SERVICES	355.83
		14048837	Parkeon Limited	SERVICES FOR PARKING EQUIPMENT	2,098.48
		14048889	Verrus (UK) Limited (Pay By Phone)	OFF STREET	3,189.34
		14048954	Parkeon Limited	PARKING EQUIPMENT	100.11
Community Alarms	SPP002	14048664	Herefordshire Housing Limited	MONITORING ALARMS	12,847.12
Crematorium Scheme: New Build	CAP601	14049095	Pick Everard	cbc new crematorium	7,832.22
Household Waste	WST001	14048750	Gloucestershire County Council	JWT STAFF COSTS	7,422.60
Community Welfare Grants	GBD001	14048531	Envesca Limited	COURSE 2 FOOD SAFETY	577.75
		14048533	The Rock	DISBURSEMENTS 050116-220716	750.86
		14048775	The Cheltenham Trust	TOWN HALL HIRE	3,004.00
		14048915	Cheltenham West End Partnership Limited	room hire	261.60
		14049123	Cheltenham Civic Society	COM PRIDE TRICENTENARY	300.00
		14049125	Cheltenham West End Partnership Limited	COM PRIDE CWEP	1,700.00
Printing Services	SUP022	14049127	Ricoh UK Limited	ict services	4,728.56
Joint Core Strategy	PLP101	14048540	Tewkesbury Borough Council	ENGAGEMENT OF NOTE TAKER JCS EIP W/E 220716	261.56
		14048542	Tewkesbury Borough Council	ENGAGEMENT OF NOTE TAKER FOR JCS EIP W/E 080716	132.53
		14048547	Tewkesbury Borough Council	DOCMail COSTS	3,253.95
		14048552	Tewkesbury Borough Council	TEMPORARY STAFF UDSED DURING JCS HEARING SESSIONS	571.95
Cemetery, Crematorium and Churchyards	CCM001	14048998	Comensura Limited	TEMPORARY STAFF	994.25
		14048999	Comensura Limited	TEMPORARY STAFF	2,727.69
Bulking Facility	RYC008	14048840	South Wales Wood Recycling Ltd	W/E 311016	924.00
		14048841	South Wales Wood Recycling Ltd	W/E 231016	817.30
		14049179	South Wales Wood Recycling Ltd	W/E 061116	1,889.80
ICT	SUP005	14046953	Vodafone Limited	IPHONE	300.00
		14049137	Vodafone Limited	(blank)	2,531.97
Land Charges	BUC004	14048491	Gloucestershire County Council	LAND CHARGES	2,440.00
Community Development	COM001	14049154	Deborah Jeremiah	SEPTEMBER & OCTOBER	2,028.60
Parks & Gardens Operations	OPS001	14048863	D A Jones Landscapes	BALANCE DURE ON ORDER-PATH CONSTRUCTION	1,659.00
Human Resources	SUP003	14048862	Gloucestershire Counselling Service	ASSESSMENT	140.00
		14048914	Flu Xpress Limited	flu vaccines	751.96
		14049153	Gloucestershire Counselling Service	CBC CLIENT JF	350.00
Registration of Electors	ELE001	14048827	Alpha Response Print & Mail Limited	CANVASSER HEF FORM	1,212.00
Sports & Open Spaces Operations	OPS002	14048121	Stow Agricultural Limited incorporating Wildcare	GRASS SEED	158.36
		14048122	Stow Agricultural Limited incorporating Wildcare	PARTS	565.78
		14048843	Stow Agricultural Limited incorporating Wildcare	WOODEN STILE	273.32
		14048844	Stow Agricultural Limited incorporating Wildcare	POSTCRETE	134.40
Individual Electoral Registration	ELE010	14048826	Alpha Response Print & Mail Limited	OCT IER MAILINGS	984.95
		14049152	Alpha Response Print & Mail Limited	EMAIL CAMPAIGN	104.50
Community Safety (Crime Reduction)	CCR001	14048831	Bridgegate Security (GB) Limited	cheltenham taxi marshalls 281016 & 291016	240.00
		14048960	Bridgegate Security (GB) Limited	CHELTENHAM TAXI MARSHALLS	240.00
		14049175	Bridgegate Security (GB) Limited	CHELTENHAM TAXI MARSHALLS	324.00
		14049258	Bridgegate Security (GB) Limited	CHELTENHAM TAXI MARSHALLS 181116 & 191116	240.00
Licensing	REG002	14048528	Idox Software Limited	EDMS DOCUMENT RETENTION	1,011.00
War Memorials	CUL002	14049260	Gooch Group Limited	SWEEP AWAY LEAVES/WASH & CLEAN WAR MEMORIAL	737.00
Accountancy	SUP009	14048955	Alpha Colour Printers Limited	GUMMED ENVELOPES	549.00
Democratic Representation and Management	DRM001	14048838	Alpha Colour Printers Limited	AGENDA DOCUMENT	400.00
Building Control - Fee Earning Work	BUC001	14048780	Industrial Medical & Safety Services (IMASS) Limited	OH SERVICES	326.25
Housing Standards	HOS004	14048754	Orbis Protect Limited	STEEL HIRE	147.00
		14048956	Orbis Protect Limited	STEEL HIRE	147.00
Planning Policy	PLP001	14049430	Men in Sheds	MANUFACTURE PLYWOOD FRAM E	286.00
Legal	SUP004	14048904	Tewkesbury Borough Council	PASS ON HMCTS MONEY RE ALI GRAMI	125.00
		14049210	Tewkesbury Borough Council	a grami	125.00
Urban Design	URB101	14048853	Signway Supplies Limited	SIGNAGE WORKS & NAMEPLATES	243.00
Abandoned Vehicles	STC011	14048892	Harry Buckland	VW TRANSPORTER	100.00
		14048893	Harry Buckland	VAUXHALL CORSA	140.00
Cheltenham Municipal Offices	ADB101	14049259	Shred-it Limited	SHREDDING 21.11.16	201.35
Health & Safety	SUP019	14049101	Indicator Limited	subscription to the newsletter	164.00
Environmental Health General	REG001	14048780	Industrial Medical & Safety Services (IMASS) Limited	OH SERVICES	100.42
Corporate Management	COR001	14048798	Michael Broussine (Organizational Research and Consultancy)	SERVICES OF M BROUSSINE	100.00
Grand Total					86,265.36

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.

