



Notice of a meeting of Audit Committee

**Wednesday, 14 June 2017
6.00 pm
Pittville Room - Municipal Offices**

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

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

Agenda

1.	APOLOGIES	
2.	DECLARATIONS OF INTEREST	
3.	THE MINUTES OF THE LAST MEETING 22 March 2017	(Pages 3 - 10)
4.	PUBLIC QUESTIONS These must be received no later than 12 noon on the fourth working day before the date of the meeting	
5.	THE PROVISION OF EMERGENCY MANAGEMENT SUPPORT SERVICES Matt Armstrong (Gloucestershire Fire and Rescue Service)	(Pages 11 - 12)
6.	PROGRESS REPORT AND UPDATE (2016-17) Grant Thornton	(Pages 13 - 24)
7.	ANNUAL AUDIT FEE LETTER (2017-18) Grant Thornton	(Pages 25 - 28)
8.	AUDIT STANDARDS - COMMUNICATING WITH THE AUDIT COMMITTEE Grant Thornton	(Pages 29 - 42)
9.	INTRODUCTION TO SOUTH WEST AUDIT PARTNERSHIP David Hill, Executive Director (SWAP)	

10.		INTERNAL AUDIT ANNUAL OPINION South West Audit Partnership	(Pages 43 - 68)
11.		ANNUAL GOVERNANCE STATEMENT South West Audit Partnership	(Pages 69 - 84)
12.		REVIEW OF DRAFT ACCOUNTING POLICIES 2016-17 Sarah Didcote, Deputy Section 151 Officer	(Pages 85 - 108)
13.		WORK PROGRAMME	(Pages 109 - 112)
14.		ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION	
15.		LOCAL GOVERNMENT ACT 1972 - EXEMPT INFORMATION The committee is recommended to approve the following resolution:- <p>“That in accordance with Section 100A(4) Local Government Act 1972 the public be excluded from the meeting for the remaining agenda items as it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public are present there will be disclosed to them exempt information as defined in paragraph 3 and 5, Part (1) Schedule (12A) Local Government Act 1972, namely:</p> <p>Paragraph 3; Information relating to the financial or business affairs of any particular person (including the authority holding that information)</p> <p>Paragraph 5; Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings</p>	
16.		TREASURY MANAGEMENT MATTER - PROGRESS UPDATE Bryan Parsons, Corporate Governance, Risk and Compliance Officer	(Pages 113 - 114)
17.		DATE OF NEXT MEETING 20 September 2017	

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

Audit Committee

Wednesday, 22nd March, 2017

6.00 - 7.55 pm

Attendees	
Councillors:	Colin Hay (Chair), Steve Harvey (Vice-Chair), Matt Babbage, Paul McCloskey, Jon Walklett and David Willingham
Also in attendance:	Peter Barber (Grant Thornton), Lucy Cater (Acting Head of Audit Cotswolds), Emma Cathcart (Counter Fraud Team Leader), Sarah Didcote (Deputy Section 151 Officer), Sophie Morgan (Grant Thornton), Tony Oladejo (ICT Audit and Compliance Manager) and Bryan Parsons (Corporate Governance, Risk and Compliance Officer)

Minutes

1. APOLOGIES

Councillor Payne had given his apologies and Councillor Harvey had advised that he would be late and subsequently arrived at 6.45pm.

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.

Upon a vote it was unanimously

RESOLVED that the minutes of the meeting held on the 11 January 2017 be agreed and signed as an accurate record.

4. PUBLIC QUESTIONS

No public questions had been received.

5. CYBER SECURITY REPORT

Tony Oladejo, the ICT Audit and Compliance Manager referred members to the report, as circulated with the agenda. It was no longer safe to assume that firewalls and security systems would protect against cyber-attacks all of the time and as such the key objectives were: prevention, detection and recovery. Preventative measures included ICT Policies Framework, next generation Firewalls, Micro segmentation and user awareness training. The detection methods being deployed included improved infrastructure and monitoring and scan and isolation capabilities would be implemented in early 2017. As it was accepted that at some point the council would be compromised, recovery measures were vital and meant having a Disaster Recovery Plan in place and recent testing had been successful. There were also Business Continuity procedures in place, with plans having been recently improved and training

given to relevant officers. The committee were advised that Public Services Network (PSN) compliance for all four partner councils had recently been achieved, though this was an annual assessment and would be repeated in January 2018. New Data Protection requirements would come into force in May 2018 and whilst many of the requirements would remain the same, the fines were likely to be more significant.

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

- The collective (4 councils) approach to PSN was undertaken for the first time this year, with the aim of making the process more efficient. Whilst this proved challenging, an action plan was now in place and PSN was an ongoing process in any case. All 4 Councils have now received its annual PSN compliance certificates which were awarded by Cabinet Office to January 2018.
- A backing-up myriad was undertaken on a daily basis and involved taking a snapshot of all data sensors and back-up to a secure location. Staff awareness and training in relation to dealing with suspect emails was ongoing and guidance notes detailing what to look out for were being developed at the moment. Information was available on the intranet, which members were able to access via Citrix and/or the iPad and members were advised that they should not be forwarding emails received to their Councillor email account to their personal email addresses.
- Verified back-up procedures were undertaken on a daily basis by designated officers and senior officers undertook reconciliation of that data. Full restoration had been carried out as part of a recent training exercise.
- Whilst obliged to respond to Freedom of Information requests the council needed to proceed with caution in relation to any pertaining to IT so as not to compromise security. Exemptions could be applied but the council would need to evidence the security risks.
- The council did comply with all cyber essentials.
- Network switches were tested daily and any anomalies were tested.
- PSN had previously insisted that the council use gcsx accounts but at the time this requirement was not deemed necessary for councillors. PSN has since announced that the Internet was sufficiently secure and this, along with the changes to email classifications, meant that work was in progress to reduce the number of gcsx accounts. Tewkesbury Borough Council and therefore OneLegal had always been outside of this council's PSN system.
- Changes to the classification of emails would soon be implemented and these changes and future requirements would be communicated to all council users (officers and elected members).

- Cheltenham had a number of policies relating to paper records. Retention registers were reviewed on an annual basis and in the last 6 years the council had disposed of 8000 cases from its storage facility, meaning there were now $\frac{3}{4}$ less than before. It was important that members understood that some documents had to be kept for a certain period of time, up to 16 years in some cases.
- Discussions were ongoing with Gloucestershire County Council about the opportunity to provide dual purpose (County and Borough) technology.
- Members had to take responsibility for managing personal information and should not therefore be forwarding such information from their councillor inbox to a private email account.
- Members were able to access the intranet on their iPads and the iPad was never meant to be used for word processing.
- All training would be extended to members.

Members suggested that there should be risks in reference to possible fines for any beaches and the loss of the PSN accreditation.

Upon a vote it was unanimously

RESOLVED that the report be noted.

6. AUDIT COMMITTEE UPDATE

Sophie Morgan from Grant Thornton introduced the Audit Committee update as circulated with the agenda. The update outlined progress and set out a timetable for upcoming work, as well as setting out some technical matters which may be of interest to members of the committee.

Sophie Morgan and the Deputy Section 151 Officer gave the following responses to member questions:

- The main statements in the accounts, including the Comprehensive Income and Expenditure Statement, and the Movement in Reserves statement, would look different following the changes to the CIPFA's 2016-17 Code of Practice on Local Authority Accounting but they would include comparative numbers for the previous year and would include some narrative. The accounts would be more in line with Cheltenham's internal reporting structure under the change to the Code.
- Thought needed to be given to how these changes would be communicated to all members of the council. There was a suggestion that the presentation normally delivered as part of the formal agenda could instead be delivered as part of a member seminar, ahead of the Audit Committee meeting.
- Expenditure would be categorised differently in 2017-18 but it was hoped that the narrative would be helpful.

Members were advised that the latest Grant Thornton report 'The Income Spectrum' included a case study of Cheltenham Borough Council's purchase and lease of Delta Place. This would be circulated electronically to all members.

No decision was required.

7. AUDIT PLAN

Peter Barber from Grant Thornton introduced the Audit Plan as circulated with the agenda. The plan provided an overview of the scope and timing of the audit and included similar risks to those set out in the plan for the previous year. A key development this year was the requirement to bring forward the approval and audit of the financial statements to the 31 July by the 2017-18 financial year in line with the upcoming national change to the deadline. This meant that the September meeting of this committee would move to July in 2018. For the purposes of planning the audit Grant Thornton had determined overall materiality to be £1,646,000 (2% of the Council's gross revenue expenditure), however, due to public interest, the levels for some transactions was lower. A number of significant risks had been identified and it was noted that these risks were in line with other Councils, and also reflected the change to the presentation of the accounts. The VFM conclusion was based on specific criteria, as set out in the plan and the significant risk associated with this was the MTFS, though again, this would be true for many councils given the current economic climate. The findings of the interim audit work were detailed on pages 16 and 17 of the plan and the only issue that had been identified was that the journal entries of the Deputy Section 151 Officer were not regularly reviewed. The management response was included on page 22 of the plan and it was noted that the recommendation for journal authorisation had been implemented.

In response to a member question Peter Barber advised that a company called Hazlewoods was responsible for auditing Gloucestershire Airport Limited as a separate company. From Grant Thornton's perspective, and at this point in time, they simply checked that the Airport was properly reflected in the council's accounts. However, if anything any issues were identified as part of the discussions which were ongoing at the moment, then the plan would be updated to reflect this.

No decision was required.

8. ANNUAL INTERNAL AUDIT PLAN 2017/18

The Acting Head of Audit Cotswolds introduced the Annual Internal audit Plan as circulated with the agenda. The plan which had been developed in January/February and in consultation with the Senior Leadership Team and Grant Thornton, set out the risk based assurance and consultancy work planned for the coming year (2017-18). However, whilst this showed the preferred work, members were reminded that it could evolve in response to any issues that were identified through this time. It was also noted that no counter fraud related audit work had been included in this plan and that the plan would carry through to the South West Audit Partnership once the transfer was complete.

The Acting Head of Audit Cotswolds gave the following responses to member questions:

- It was envisaged that the same team of officers would be supporting Cheltenham once the transfer to SWAP was complete, but this could not yet be confirmed.
- The SWAP Director was expected to attend the next meeting of the committee.
- A review of Gloucestershire Airport Limited could be added to the plan if required.

Upon a vote it was unanimously

RESOLVED that the Internal Audit Plan for 2017-18 be approved.

9. INTERNAL AUDIT MONITORING REPORT

The Acting Head of Audit Cotswolds introduced the Internal Audit Monitoring report, as circulated with the agenda. This report was designed to provide 'through the year' comment and assurance on the control environment and summarised work that had been concluded or was progressing. The committee were advised that Audit Cotswolds staff were due to meet with South West Audit Partnership to discuss terms and conditions the following day (23 March).

In response to a member question, the Acting Head of Audit Cotswolds advised that the review of key contracts including tender processes, plus review of contractor use as part of the Contract Management audit was work that was undertaken in 2015-16. The findings had gone to the Procurement Team and a follow-up piece of work was now in progress. She hoped to be in a position to bring a report to the next meeting of this committee.

Upon a vote it was unanimously

RESOLVED that the Internal Audit Monitoring report be noted.

10. COUNTER FRAUD UNIT REPORT AND REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) UPDATE

The Counter Fraud Team Leader introduced the report as circulated with the agenda. After two years illustrating the financial sustainability and undertaking feasibility work, the Counter Fraud Unit will be a permanent service shared across the partner councils and Tewkesbury Borough Council. Work will also be undertaken for Gloucestershire County, Stroud District and Gloucester City Council's, ensuring a county-wide approach.

Future reports, which would be tabled with this committee on a bi-annual basis, will provide comment and assurances over the counter fraud work being undertaken by the unit and would be Cheltenham specific.

This report also provided an update in relation to RIPA and the Council's existing policies and arrangements.

The Counter Fraud Team Leader gave the following responses to member questions:

- With the increased resources of the Counter Fraud Team it would now be possible to look at more areas and assist / add value than had been possible in recent years. This could include Planning and Licensing.
- A project is underway to review internal systems and overlay information which could help to identify anomalies between departments.
- A key consideration for the team would be avenues for recouping costs, improving cost schedules and raising debts rather than relying on the court system only.

Upon a vote it was unanimously

RESOLVED that the Counter Fraud Unit report be noted.

11. ANNUAL RISK MANAGEMENT REPORT AND POLICY REVIEW

The Corporate Governance, Risk and Compliance Officer introduced the Annual Risk Management report and policy review, as circulated with the agenda. This policy formed an integral part of the council's corporate governance arrangements and enabled better decisions and successful delivery of projects with risk being managed at every stage. There had been a small number of amendments to the policy, which were mainly cosmetic and were shown as track changes. Additional guidance on lower level risks that did not meet the criteria for the Corporate Risk Register has also been included.

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

- In simple terms, the wording relating to risk CR105 meant that consideration would be given to strengthening the reserves in response to any underspends or windfalls before funding of a project was considered.
- The risk register was a living document which was updated every month by the relevant officer responsible for managing the risk, in consultation with the relevant Cabinet Member. SLT and Exec Board reviewed the register monthly and referred any comments to the risk manager and had previously gone to Cabinet on a quarterly basis but there was now a suggestion that this should instead be agreed informally. It would be for this committee to decide if it was comfortable with this approach or whether it wanted Cabinet to consider an alternative approach.

Members were in agreement that there should be a formal record of the risk register having been seen and accepted by Cabinet and/or the relevant Cabinet Member, but were comfortable with Cabinet deciding how they wanted to do this in the future. The Chairman would have a discussion with the Leader and agree an approach with which both were comfortable.

Upon a vote it was unanimously

RESOLVED that the Risk Management Policy 2017-18 be approved and that the Chairman agree a process with the Leader by which the risk register can be formally reviewed and agreed by Cabinet and/or the relevant Cabinet Member in the future.

12. REVISED CODE OF CORPORATE GOVERNANCE

The Corporate Governance, Risk and Compliance Officer introduced the revised Code of Corporate Governance, which had last been approved by this committee in June 2016. CIPFA / Solace published a new framework in 2016 which had necessitated the production of a new Code of Corporate Governance to reflect the new framework and had also allowed for the code to be aligned with the partner councils and reworded to make it easier for staff to understand. There were seven core principles in the framework and these were set out in the report, as well as in the diagram on the second page of the Code. Members were reminded that the Annual Governance Statement formed part of the accounts and Audit Cotswolds/SWAP would be looking at how the council had adhered to the Code.

There were no member questions.

Upon a vote it was unanimously

RESOLVED that the revised Code of Corporate Governance be approved.

13. WORK PROGRAMME

The work plan had been circulated with the agenda. No amendments were required.

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

There were no urgent items for discussion.

15. DATE OF NEXT MEETING

The next meeting was scheduled for the 14 June 2017.

Colin Hay
Chairman

Audit Committee Briefing

By

Gloucestershire County Council Civil Protection Team

on

The Provision of Emergency Management Support Services

14th June 18:00

There is a Service Level Agreement (SLA) between Cheltenham Borough Council and Gloucestershire County Council Civil Protection Team (CPT) for the provision of emergency management support services. The SLA is underpinned by a generic business plan outlining areas of support to provide and a work program which details work priorities.

The SLA provides for the allocation of a Civil Protection Officer to liaise with Cheltenham Borough Council, the CPO spends one day per month working from the Municipal offices. The CPO may represent the Council at meetings and develops and facilitates training for Cheltenham Borough Council Staff. The CPO works closely with the Council's District Emergency Planning Liaison Officer (DEPLO) - Bryan Parsons.

Local Resilience Forum Plans:

CPT takes the lead on developing and reviewing emergency plans for the Local Resilience Forum on behalf of Local Authorities. Although these plans are generic in detail, they allow for the activation of resources and processes which will help to alleviate the impact of major incidents; e.g Major Flooding in 2007 and the explosion in Rosehill Street in 2012. The plans outline the role of all responding agencies. Once developed and reviewed the Borough Council are consulted on the plans.

CBC Emergency Response Guide:

This plan was updated in 2015 and reviewed annually to ensure that the contact details are correct.

Charlton Kings Rapid Response Catchment Plan:

The Environment Agency has identified Charlton Kings as an area prone to flash flooding using a model based on the 2004 Boscastle flood. Engagement and awareness work was carried out in 2014 so it is now deemed appropriate to revisit this and raise the awareness of the risk posed to the community.

Cheltenham Race Course:

CBC work closely with Cheltenham Race Course and provide support through licensing at events held on the site. A plan was developed detailing the support that CBC would provide during a major incident at the race course, this plan is reviewed each year to ensure it is current. Further work on the scope of the plan is under way to include smaller race meetings, and other public events such as the half marathon and fireworks display.

Rest Centres;

The plans for the 4 rest centres in Cheltenham have been updated and are current. An exercise involving CBC staff was held in Tewkesbury in February to ensure the procedures are robust and to identify any training requirements

Incident Response;

The CPO will discuss with the heads of each emergency team to ensure that training is carried out at regular intervals and that it is relevant to the team's needs.

Business Continuity Management;

CBC has plans in place detailing the actions required to maintain a service to the public. These plans are tested on a regular basis, this year ICT and the Electoral Register tested their plans. CPT and the CBC DEPLO work hard to ensure that there are robust procedures in place and that key areas of work are prioritised to ensure the service is maintained. CPT facilitated a lessons learnt workshop based on a major fire at South Oxfordshire District Council, this was followed by a tabletop exercise.

Community Resilience;

Work has been carried out by CPT and a Partnership officer Helen Down who represents CBC on the LRF Community Resilience Sub Group to promote Community Resilience Plans. The CPO and Helen presented the concept of the plans to Parish Councillors - at present only Leckhampton and Warden Hill have a plan.

Incidents;

There have been several incidents which have impacted on Cheltenham Borough over the past 12 months, these have ranged from a burst water main at Mythe water works to Gas outages in the St Pauls area. CPT have also notified the DEPLO of wider incidents where Cleavelink went into administration and the Telecare emergency call provider service failed for 24hours.

In an emergency the CPT Duty Officer will receive notification, they will then contact the DEPLO informing them of the situation. The DEPLO will then initiate the appropriate response, supported by CPT and GCC teams when required.

The CBC Emergency Plan;

The CBC Emergency Response Plan relies on officers to provide support in respect of how we react and recover from a major incident. They are managed by four team leaders who provide support in their specialist area; The Coordination Team, The Works Team, The Welfare Team and the Public Protection Team. They meet quarterly with the CPO, the DEPLO, representatives from UBICO and Cheltenham Borough Homes to consider any recent events, training and potential threats.

Audit Committee Cheltenham Borough Council Progress Report and Update Year ended 31 March 2017

June 2017

Peter Barber

Engagement Lead

T 0117 3057 897

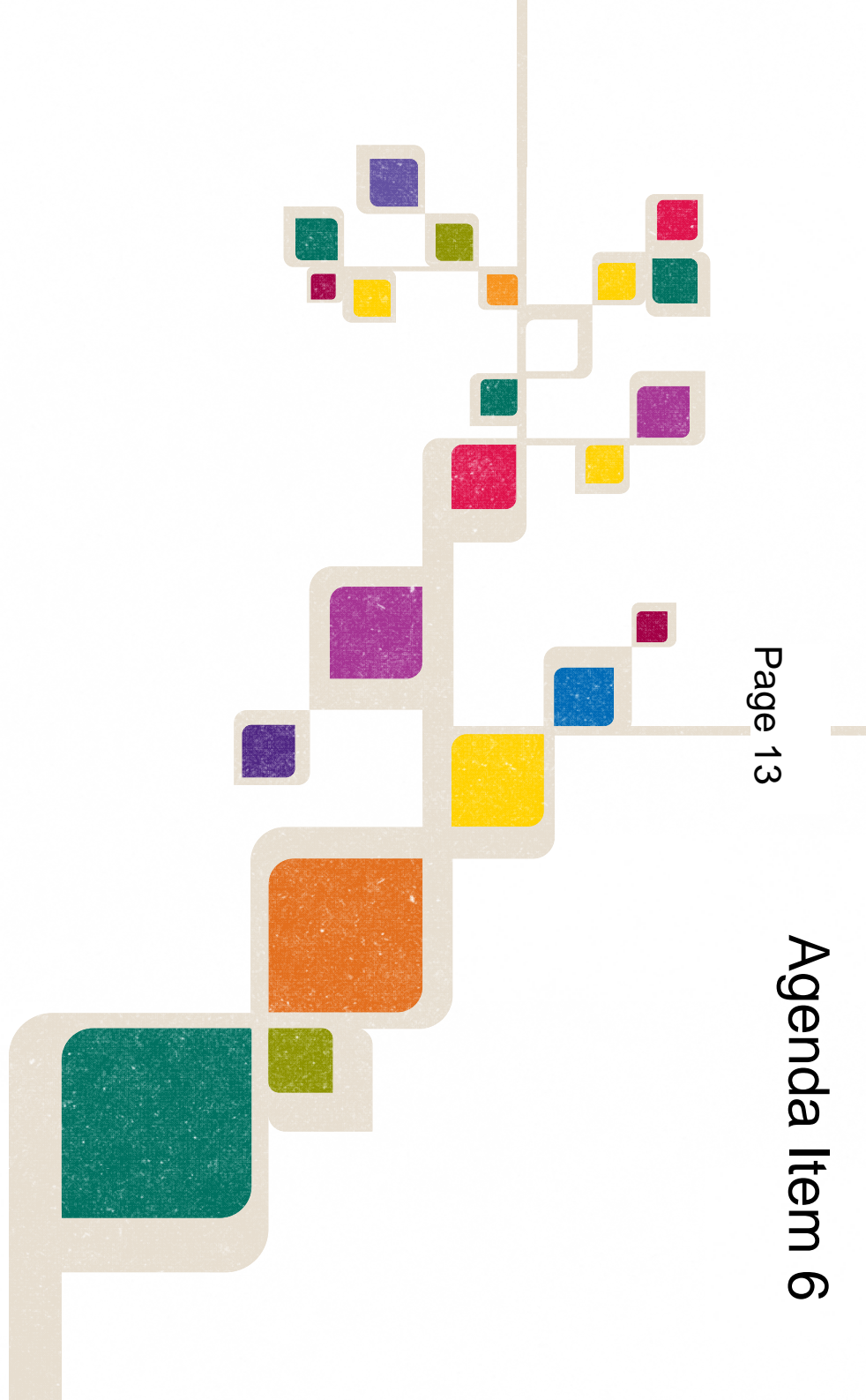
E peter.a.barber@uk.gt.com

Sophie Morgan

Engagement Manager

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

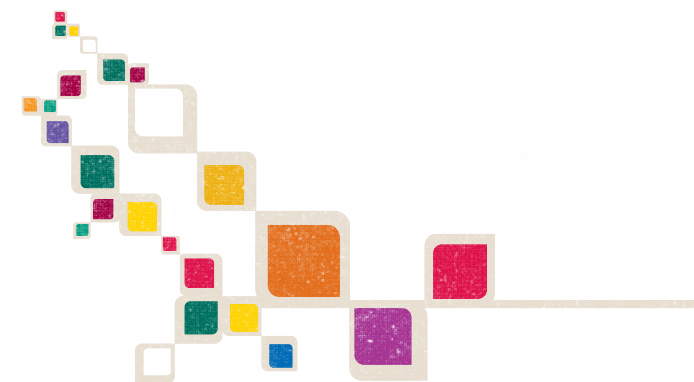
This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

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:

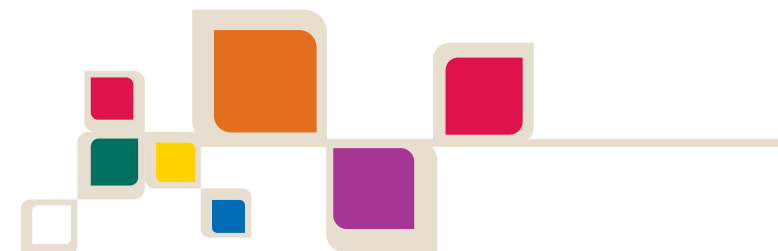
- The Income Spectrum (March 2017)
<http://www.granthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/>
- The Board: Creating and Protecting Value (May 2017)
<http://www.granthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/board-effectiveness-report-2017.pdf>

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.

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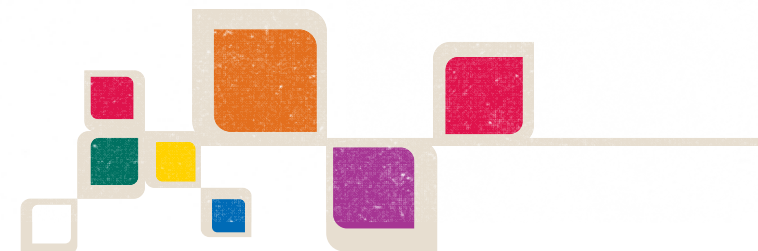


Progress at June 2017



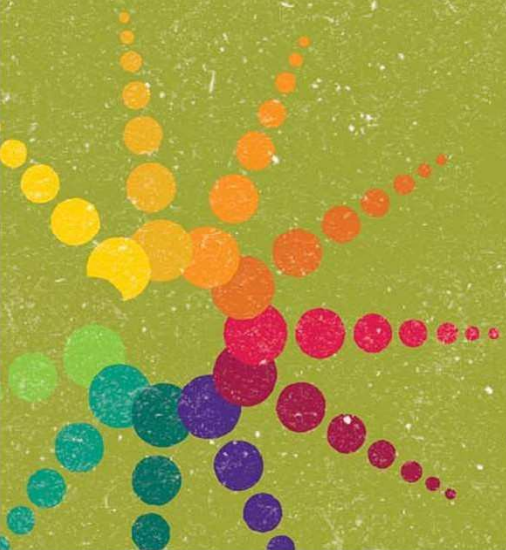
2016/17 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016	April 2016	Yes	The 2016/17 fee letter was issued in April 2016 and considered by the June committee. Our fee letter set out the scope of our 2016/17 work and included 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	Yes	The Audit plan was presented to the Audit Committee in March 2017.
Interim accounts audit Our interim fieldwork visit plan included: <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	Yes	We have built on our knowledge of the Council following our audits over the last few years. Issues arising from our interim visit are set out in the Audit Plan.

Progress at June 2017



2016/17 work	Planned Date	Complete?	Comments
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 consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 	July 2017	No	<p>We will undertake work on your draft financial statements to provide an opinion by the statutory deadline. The final accounts audit is scheduled to start on 3 July 2017.</p> <p>We will work across the four Councils in a joined up way, auditing once and sharing information to ensure an efficient audit.</p> <p>We will report our findings in our Audit Findings Report.</p>
Value for Money (VfM) conclusion The scope of our work is unchanged from 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are: <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	January – March 2017	No	<p>We have carried out an initial risk assessment to determine our approach and we report this in our Audit Plan.</p> <p>We will report our detailed findings in our Audit Findings Report.</p>

Sector issues and developments



Pooling of LGPS

From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'. By pooling investment, costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

Potentially eight pools are to be established across the country with total assets ranging from £13bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/ committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

The funds themselves will retain responsibility for:

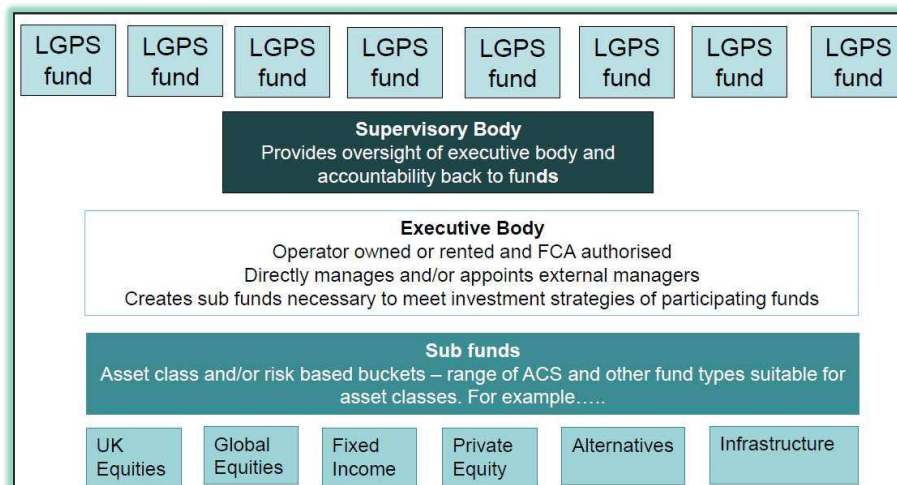
- investment strategy
- asset allocation

- having a responsible investment strategy
- reporting to employers and members

Governance arrangements

There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures.

CIPFA in the recent article [Clear pools: the future of the LGPS](http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps) highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds



typical structure of LGPS Pool

National developments

Challenge question:

- Is your CFO keeping you up to date on developing arrangements in your area?

Link:
<http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps?>

Local Government Association

Below is a selection of reports issued recently which may be of interest to Audit, Governance & Standards committee members. These are available on the website:

<http://www.local.gov.uk/publications>



Provisional LG Finance Settlement for 2017/18

12 January 2017

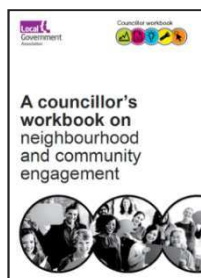
The LGA has published its responses to the DCLG consultation on proposals for the local government finance settlement for 2017 to 2018 and for the approach to future local government finance settlements.

<http://www.local.gov.uk/documents/10180/8150261/Local+Government+Finance+Settlement+1718+LGA+response.pdf/dd8d32e1-ec9f-4314-8121-7aae2195f89f>

A councillor's workbook on neighbourhood and community engagement

11 January 2017

Neighbourhood and community engagement has a rightful place as one of the key processes involved in planning and decision making. As such, it should not be viewed as an additional task, but as a core part of the business.

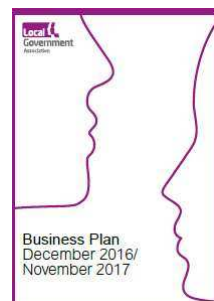


Building our homes, communities and future: The LGA housing commission final report

22 December 2016

The Local Government Association (LGA) Housing Commission was established to help councils deliver their ambition for places. It has been supported by a panel of advisers and has engaged with over 100 partners; hearing from councils, developers, charities, health partners, and many others. All partners agree that there is no silver bullet, and all emphasise the pivotal role of councils in helping provide strong leadership, collaborative working, and longer-term certainty for places and the people that live there.





Business Plan December 2016/November 2017

30 December 2016

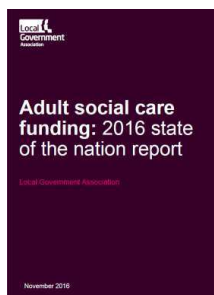
Britain's exit from the EU means that we are reshaping the way our country is run. Our vision is one of a rejuvenated local democracy, where power from Westminster and from the EU is significantly devolved to local level and citizens feel they have a meaningful vote and real reason to participate in civic life and their communities.



Stronger together: shared management in local government

29 November 2016

Around 45 councils across England share a chief executive and senior management team in about 20 different partnerships. Most also share at least some services. These councils have already delivered savings of at least £60 million through greater efficiencies and the other benefits of collaboration, with more savings planned.

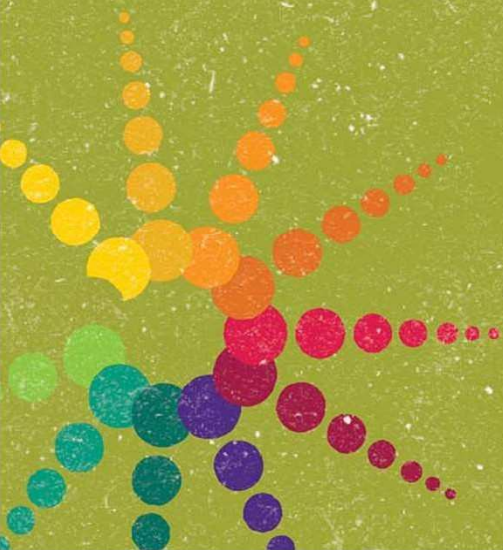


Adult social care funding: 2016 state of the nation report

2 November 2016

Adult social care is an absolutely vital public service that supports some of our most vulnerable people and promotes the wellbeing and independence of many more.

Grant Thornton



The income spectrum

Helping local authorities to achieve revenue and strategic objectives to create a vibrant economies

Grant Thornton market insight

Income generation is increasingly an essential part of the solution to providing sustainable local services, alongside managing demand reduction and cost efficiency. Our report gives local authorities the tools needed to maximise their ability to do so.

Our new research on income generation which includes our CFO Insights tool suggests that:

- councils are increasingly using income generation to diversify their funding base, and are commercialising in a variety of ways. This ranges from fees and charges (household garden waste, car parking, private use of public spaces), asset management (utilities, personnel, advertising, wifi concession license) and company spin-offs (housing, energy, local challenger banks), through to treasury investments (real estate development, solar farms, equity investment).
- the ideal scenario to commercialise is investing to earn with a financial and social return. Councils are now striving to generate income in way which achieves multiple strategic outcomes for the same spend; examining options to balance budgets while simultaneously boosting growth, supporting vulnerable communities and protecting the environment.
- stronger commercialisation offers real potential for councils to meet revenue and strategic challenges for 2020 onwards. Whilst there are examples of good practice and innovation, this opportunity is not being fully exploited across the sector due to an absence of a holistic and integrated approach to corporate strategy development (a common vision for success, understanding current performance, selecting appropriate new opportunities, the capacity and culture to deliver change).
- To support local authorities as they develop income generation strategies, the report provides:
 - case study examples
 - local authority spend analysis
 - examples of innovative financial mechanisms
 - critical success factors to consider





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6 April 2017

Dear Pat

Planned audit fee for 2017/18

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

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

From 2018/19 PSAA has been specified by the Secretary of State as an appointing person for principal local government and police bodies, and will make auditor appointments and set fees for bodies that have opted into the national auditor appointment scheme it is developing.

Scale fee

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

There are no changes to the overall work programme for local government audited bodies for 2017/18, following the recent CIPFA/LASAAC announcement that their planned introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities in 2017/18 will no longer proceed. PSAA have therefore set the 2017/18 scale audit fees at the same level as the scale fees applicable for 2016/17. The Council's scale fee for 2017/18 has been set by PSAA at £49,406.

The audit planning process for 2017/18, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors from April 2015. Audits of the accounts for 2017/18 will be undertaken under this Code, on the basis of the [2017/18 work-programme and scales of fees](#) set out on

the PSAA website. Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

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

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

Value for Money conclusion

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

The NAO issued its guidance for auditors on value for money work in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

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

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Certification of grant claims and returns

At the request of the Department for Work and Pensions, auditors appointed by PSAA will continue to certify local authority claims for housing benefit subsidy for 2017/18.

The Council's indicative fee for this certification work has yet to be set by PSAA. We will write to you to confirm the fee when this has been confirmed.

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

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2017	12,351.50
December 2017	12,351.50
March 2018	12,351.50
June 2018	12,351.50
Total	49,406
Housing Benefit Certification	
March 2018	TBC

Outline audit timetable

We will undertake our audit planning and interim audit procedures in January to March 2017. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit, work on the VfM conclusion, and work on the whole of government accounts return will be completed by September 2017.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	November 2017 to February 2018	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June to July 2018	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	February to March 2018 Concluded in July 2018	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	August 2018	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	September 2018	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	September 2018 – November 2018	Grant certification report	A report summarising the findings of our housing benefit certification work

Our team

The key members of the audit team for 2017/18 are:

	Name	Phone Number	E-mail
Engagement Lead	Peter Barber	0117 305 7897	Peter.A.Barber@uk.gt.com
Engagement Manager	Sophie Morgan	0117 305 7757	Sophie.J.Morgan@uk.gt.com
In Charge Auditor	Scott Corboy	0117 305 7616	Scott.F.Corboy@uk.gt.com

Additional work

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

Quality assurance

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

Yours sincerely

A handwritten signature in dark ink, appearing to read 'P Barber', written over a light grey circular background.

Peter Barber

Engagement Lead

For Grant Thornton UK LLP

cc – Paul Jones – Section 151 Officer

Responses from Chair of the Audit Committee:

Auditor question	Response
Have you assessed the risk of material misstatement in the financial statements due to fraud?	<p>Yes.</p> <p>The highest material risk is in respect of Treasury Management activity although this is mitigated through different 'layers' of segregation of duties (initiator, reviewer and approver) and regular internal audit reviews.</p> <p>The internal audit plan includes a risk based audit of the core financial systems that are used in the compilation of the financial statements. These core systems are audited annually and any risks identified that may result in the financial statements being materially misstated due to fraud will be reported to the Corporate Governance Group and the Audit Committee.</p>
What are the results of this process?	I can confirm that at 31st March 2016 I am not aware of any fraud that might cause a misstatement of the accounts.
What processes do you have in place to identify and respond to the risks of fraud?	<p>The Council has a zero tolerance approach to fraud and will investigate any allegations or whistleblowing complaints.</p> <p>The Counter Fraud, Corruption and Bribery Policy, Internal Audit Charter and the terms of reference for Internal Audit are formally agreed by the Audit Committee. These documents set out the role of Internal Audit in the prevention and investigation of fraud. The Audit Committee also approves the risk-based annual audit plan which includes allocation of resources to respond to fraud allegations and prepare audits to consider possible areas where fraud may be a risk.</p> <p>Cheltenham has formally joined the Counter Fraud Unit following the successful bid in February 2015 to the Department of Communities and Local Government (DCLG) for funding. This ensures the authority retains skills and resources to tackle fraud following the Department of Work and Pensions Single Fraud Investigation Service (DWP SFIS) led changes.</p>
Have any specific fraud risks, or areas with a high risk of fraud, been identified, and what has been done to mitigate these risks?	<p>The Council regularly takes part in the National Fraud Initiative (NFI) – no areas of fraud have been identified in 2016/17.</p> <p>Key areas of risks are covered by internal audit. Any serious findings are reported to Audit</p>

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

Auditor question	Response
<p>What arrangements are in place to report fraud issues and risks to the Audit Committee?</p>	<p>The responsibility for the investigation of actual or suspected fraud now lies with the Counter Fraud Unit, who report direct to the Section 151 Officer, who report to the Audit Committee on a quarterly basis.</p> <p>The council has a robust risk management process which requires managers to manage all risks within projects and services with escalation to the corporate risk register (where appropriate) which is reviewed regularly by SLT. All reports to committees require financial implications to be identified and include a template for HR, financial and legal implications and risks to be identified and scored.</p>
<p>How do you communicate and encourage ethical behaviour of staff and contractors?</p>	<p>Code of conduct for employees (link via intranet).</p> <p>Contract procedure rules for contractors.</p> <p>Procurement Strategy.</p> <p>The officer Corporate Governance Group addresses ethical matters as part of its work.</p>
<p>How do you encourage staff to report their concerns about fraud?</p> <p>Have any significant issues been reported?</p>	<p>All employees are periodically reminded of the whistleblowing policy and all staff are expected to sign related party transaction declarations on an annual basis.</p> <p>No significant issues have been reported.</p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p>No – but the Councils constitution requires members to declare any such interests and where appropriate withdraw. Senior decision making officers are also required to declare any related party transactions.</p>
<p>Are you aware of any instances of actual, suspected or alleged fraud, either within the Council as a whole, within specific departments or in other entities within the Group since 1 April 2016?</p>	<p>Mainly Benefit and Council tax fraud, tenancy fraud and Right to buy fraud which are investigated by the Counter Fraud Team and reported to the Audit Committee.</p>
<p>What arrangements do you have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>Managers and team leaders are expected, by virtue of their job descriptions and personal professional development requirements, to keep up to date and comply with laws and regulations as they apply to their duties and those of their teams.</p> <p>In addition, the Council's legal provider, One Legal (which is a shared service between the</p>

Auditor question	Response
	<p>Council and Gloucester City Council and Tewkesbury Borough Council) advises officers and members on laws and regulations.</p> <p>Within One Legal new legislation and regulations are monitored via various electronic resources including Local Government Association updates, Local Government Lawyer, Westlaw and PLC.</p> <p>Key changes in the law are considered by the Senior Leadership Team and, for any legislation that has a significant impact on the functions of the Council, working groups are set up and implementation plans prepared.</p> <p>Any potential non-compliance is reported to the Senior Leadership Team and an action plan put in place.</p> <p>The Annual Governance Statement also identifies areas of concern and areas for improvement.</p>
How does management gain assurance that all relevant laws and regulations have been complied with?	<p>Key changes are reported to the Senior Leadership Team and, for any legislation that has a significant impact on the functions of the Council, working groups are set up and implementation plans prepared.</p> <p>Any potential non-compliance is reported to the Senior Leadership Team and an action plan put in place.</p>
How are you provided with assurance that all relevant laws and regulations have been complied with?	<p>Through the Annual Governance Statement which identifies areas of concern and areas for improvement. In addition, each senior and service manager provides an annual assurance statement.</p> <p>In addition, training sessions are used to explain new legislation. Where the changes would have a significant impact on the Council they will appear on the corporate risk register which is available. Any accounting requirements are explained at the annual workshop to help understand the accounts.</p> <p>For any specific cases a special report is prepared for the Audit Committee.</p>
Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2016?	No.
What arrangements do you have in place to identify, evaluate and account for litigation or claims?	The Council's legal team work with management when any potential claims or litigation are identified; it also provides the Section 151 Officer with details of any litigation or claims for inclusion

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

Responses from Management:

Auditor question	Response
<p>What do you regard as the key events or issues that will have a significant impact on the financial statements for 2016/17?</p>	<p>Revenue Outturn-</p> <ul style="list-style-type: none"> Waste collection & Recycling Income – There is a significant drop in the value of recycled materials, with an estimated net income shortfall against budgets of £165k in 2016/17. In addition the council's share of the estimated Ubico shortfall for 2016/17 is £132k. These overspends are more than offset by surplus car parking, crematorium and development control and planning income, which are expected to continue at the current levels into 2017/18, and by vacancy savings in employee budgets in 2016/17. <p>Balance sheet-</p> <ul style="list-style-type: none"> Increase in the DCLG local social housing adjustment factor of 4% (from 31%-35%) and increase and rebasing of the Land Registry local housing price index applied to the open market value of council dwellings (valued at EUV-SH) , resulting in Revaluation gains of £33.4 million. Re-measurement of the Pension scheme net defined liability (actuarial gains/losses) of £9.7 million, contributing to £8.7 million increase in pension liability.
<p>Have you considered the appropriateness of the accounting policies adopted by the Council/Group? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Annually GO Shared Services review the accounting policies which accompany the statement of accounts. These policies will be reviewed formally by the Audit Committee.</p> <p>The following changes in accounting standards were introduced in the 2016/17 Code:</p> <ul style="list-style-type: none"> Amendments to IAS19 <i>Employee benefits</i> (Defined Benefit Plans: Employee Contributions)

	<ul style="list-style-type: none"> • Annual improvements to IFRSs 2010 - 2012 Cycle • Amendment to IFRS11 <i>Joint Arrangements</i> • Amendment to IAS16 <i>Property, Plant and Equipment</i> and IAS38 <i>Intangible Assets</i> • Annual Improvements to IFRSs 2012 – 2014 Cycle • Amendment to IAS1 <i>Presentation of Financial Statements</i> • Changes to the format of the Comprehensive Income and Expenditure Statement (CIES), the Movement in Reserves Statement (MIRS) and the introduction of a new Expenditure and Funding Analysis (EFA) and notes. <p>With the exception of changes to the format of the CIES and MIRS and introduction of the EFA, these amendments have not had a material impact on the financial statements or balances of the council.</p>
<p>Are you aware of any changes to the Council's/Group's regulatory environment that may have a significant impact on the Council's/Group's financial statements?</p>	<p>Annually, GO Shared Services request that service managers highlight any change to the Council's regulatory environment. None of the responses result in any significant impact on the financial statements although the move to 100% retention of business rates, changes to the allocation of New Homes Bonus and changes to the funding needs assessment may create some volatility in future years.</p>
<p>How would you assess the quality of the Council's/Group's internal control processes?</p>	<p>The Councils Annual Governance Statement is based upon an annual review of its internal controls and the work of internal audit.</p> <p>Internal Audit has considered the governance arrangements in place for each of the council's service areas in preparing the AGS via certificates of assurance from all Senior Managers.</p> <p>One Legal provides advice on the separation of duties in respect of decision making.</p> <p>The governance structures within each of the shared services have been designed to ensure</p>

	<p>that decision making is transparent and based upon sound audit principles.</p> <p>Audit Cotswolds (SWAP from 1st April 2017) provides the Audit Committee with monitoring reports which provide a level of assurance for the Council and for partners within shared services. The opinion in respect of 2016/17 was classified as 'satisfactory' assurance.</p>
How would you assess the process for reviewing the effectiveness of internal control?	<p>Key areas of risks are covered by internal audit. Any serious findings are reported to the Audit Committee.</p> <p>Reliance on audit reports and the Annual Governance Statement which includes officer annual declarations which cover internal control.</p> <p>Internal Audit provide a cyclical effectiveness review which will be reported to the Audit Committee.</p>
How do the Council's/Group's risk management processes link to financial reporting?	<p>The council has a robust risk management process which requires managers to manage all risks within projects and services with escalation to the corporate risk register (where appropriate) which is reviewed monthly by SLT prior to circulation to the Cabinet.</p> <p>All reports to committees require financial implications and risks to be identified.</p>
How would you assess the Council's/Group's arrangements for identifying and responding to the risk of fraud?	<p>The Counter Fraud and Anti-Corruption Policy, the Whistleblowing Policy, Internal Audit Charter and the terms of reference for the Chief Internal Auditor are formally agreed by the Audit Committee. These documents set out the role of Internal Audit in the prevention and investigation of fraud. The Audit Committee also approves the risk-based annual audit plan and prepare audits to consider possible areas where fraud may be a risk.</p> <p>In addition, a permanent shared Counter Fraud Unit has been established following the successful bid in February 2015 to the Department of Communities and Local Government (DCLG) for funding. This ensures the authority retains skills and resources to tackle fraud following the Department of Work</p>

	<p>and Pensions Single Fraud Investigation Service (DWP SFIS) led changes.</p> <p>The overall remit is to prevent, detect and deter the abuse of public funds within the Council by working closely with other public sector organisations.</p> <p>The team will be undertaking reactive investigation work where a referral is received and where necessary, proactive fraud drives in high risk areas.</p> <p>The Council also employs a number of Enforcement Officers within the various service areas who undertake work to tackle abuse of public funds.</p>
What has been the outcome of these arrangements so far this year?	<p>An assessment of fraud risks within the Council was completed in 2014/15 to help inform the bid to DCLG. The result of this work was used to scope the remit of the new Counter Fraud Team and set new performance targets.</p> <p>The 2017/18 work plan builds on the feasibility work that the Counter Fraud Unit undertook during the pilot period considering high risk areas, income generation, loss avoidance work and deterrent.</p> <p>The team is tackling areas of known abuse with Enforcement Teams where appropriate and corporately with the direction of the Corporate Management Team.</p> <p>Audit Committee is updated biannually with regard to the progress of the work plan and any identified fraud risk or abuse through management reports to the Committee.</p> <p>The Council feeds data in to the Cabinet Office National Fraud Investigation process and reviews the information feedback from the data matching process to identify potential fraud for investigation.</p>
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	<p>The Counter Fraud Unit is in its infancy and as such the team are undertaking work with various departments across the authority concentrating on areas which attract a higher risk of fraud; CTAX discount abuse, fraudulent Right to Buy applications / Tenancy Fraud. The</p>

	<p>team are also reviewing possible areas of abuse internally such as incorrect expenses and allowances.</p> <p>Historically the Council has targeted abuse within the Housing Benefit system and there has been little focus elsewhere. The Counter Fraud Unit now has a larger remit to tackle fraud and abuse more holistically.</p>
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	<p>The Counter Fraud Unit has been contacted for advice in relation to referrals from internal members of staff. Any reports would be dealt with correctly and in line with the Whistleblowing Policy.</p> <p>The Counter Fraud Unit have reviewed and redrafted the Whistleblowing Policy to ensure it is current and robust when dealing with these types of referral. This was adopted by the Council in 2016, staff awareness training is planned for this week.</p>
Have any reports been made under the Bribery Act?	<p>An allegation of bribery and corruption was received. The matter was investigated and not upheld although process recommendations were issued to management.</p>
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	<p>The Counter Fraud Unit provides biannual updates to Audit Committee.</p> <p>The Counter Fraud Unit reports to the S.151 Officer and with agreement reports results, risk and control recommendations to the Senior Leadership Team for consideration. .</p>
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	<p>Staff briefings are used to give specific messages although it is widely acknowledged that the Council has a zero tolerance to fraud and has been seen to take action in the past.</p> <p>The Corporate Governance Group receives a report on the level of compliance on declarations of interests and for returns on Gifts and Hospitality.</p> <p>The Counter Fraud Team remit includes staff and member awareness sessions and alerts were necessary. Publicity with regard to identified fraud and error will also be encouraged to act as a deterrent</p>
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	<p>Any significant litigation claims are referred to One Legal who will then advise the relevant</p>

	<p>officer. The relevant officer will brief Exec Board / SLT / Members as appropriate.</p> <p>Legal costs will also form part of the quarterly budget monitoring reports.</p> <p>Advice from GOSS Insurance Officer and Zurich Municipal is used to assess level of provision held for excesses. Other liability identified includes MMI write-off provision and contingent liability.</p>
Is there any use of financial instruments, including derivatives?	No.
Are you aware of any significant transaction outside the normal course of business?	No.
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No.
Are you aware of any guarantee contracts?	No.
Are you aware of allegations of fraud, errors, or other irregularities during the period?	<p>The Counter Fraud Unit are conducting a number of investigations in relation to abuse of public funds within or against the authority. This includes allegations of Tenancy Fraud with the Council's arms length organisation, Cheltenham Borough Homes.</p>
Are you aware of any instances of non-compliance with laws or regulations or is the Council/Group on notice of any such possible instances of non-compliance?	<p>The Council's S151 officer, Monitoring Officer, Head of Paid Service and Directors ensure that all legal requirements are met. All complete an annual assurance review which includes compliance with legislation and regulation.</p> <p>Assurance is gained from internal controls within the audit process, VAT and treasury advisers. All of the reports to Cabinet, Council, and other Committees include HR, legal and financial implications which are completed by the relevant professional officer.</p> <p>The Audit Committee is advised by the Council's S.151 Officer, Internal Audit and the Corporate Governance, Risk and Compliance officer who provide assurance regarding compliance with laws, regulation and financial rules. They bring any issues to the attention of the Committee and provide updates on progress against any appropriate action plans.</p>

Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	No.
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	No.
Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?	<p>PPE Valuations are performed by the Authority's in house valuer in line with RICS guidance. A rolling programme of asset revaluation is in place. The remaining useful life of property assets is calculated by the valuer following RICS guidance.</p> <p>For provisions and liabilities an estimate is made of the likely future cost based on a review of the likelihood and risk related to the potential obligation.</p> <p>Where appropriate, information is obtained from the Authority's in house solicitor.</p> <p>For pensions, actuarial valuations of pension liabilities and assets are undertaken annually by the actuary in accordance with IAS 19.</p>
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No.
Has the management team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of that assessment?	<p>SLT receive a 'Bridging the Gap' project highlight report at each of their monthly meetings, which will include any changes to the MTFS or budget strategy. The Council's MTFS was approved by full Council in February 2016 showing the council is a going concern over the next 4 years with plans in place to alleviate the significant reductions in core government funding.</p> <p>The S.151 Officer also provides an independent assessment of the overall financial position as part of the budget setting process (Section 25 report).</p>
Management is required to consider whether there are any material uncertainties that cast doubt on the Council's/Group's ability to continue as a business. What is the process for undertaking a rigorous assessment of going concern? Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?	<p>A report was written to inform Grant Thornton of an assessment of the Council as a 'going concern' for the purposes of producing the Statement of Accounts for 2015/16. The conclusion within that report was that it was considered that having regard to the Council's arrangements and such factors as highlighted in that report that the Council remains a going concern. This assessment will be undertaken annually in the course of preparing the Council's financial statements. The Section 151 Officer does not foresee any reason why the</p>

	statements for 2016/17 will alter that position.
Can you provide details of those solicitors utilised by the Council/Group during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>The legal provider to Cheltenham BC is One Legal which is a shared service between the Council and Gloucester City Council and Tewkesbury Borough Council. The majority of legal work is undertaken internally at One Legal. Locum solicitors are used periodically to cover recruitment shortfalls and peaks in workload.</p> <p>During 2016/2017, specialist external legal support was engaged in respect of planning inquiries, property regeneration, property disputes, airport and housing benefit prosecutions (Crown Court) from: Bevan Brittan, Trowers & Hamlins, Devonshires, Pinsent Masons and Chambers as follows: No. 5 Chambers, No. 8 Chambers, Five Paper, Unity Street Chambers and Francis Taylor Building. As at April 2017 No. 8 Chambers was still being engaged in respect of an ongoing Crown Court case. Also, in 2017/18, advice continues to be obtained from Devonshires in respect of property disputes.</p> <p>In addition, the Council is involved in a number of group claims through the Local Government Association.</p>
Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Capita, Treasury Management advisors. Grant Thornton, general VAT and taxation advice.
Have any of the Council's/Group's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No.

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Cheltenham Borough Council
Audit Committee –14 June 2017
Internal Audit Annual Opinion

Accountable member	Cabinet Member Corporate Services, Councillor Roger Whyborn
Accountable officer	Lucy Cater Acting Head of Audit Cotswolds (2016/17) Assistant Director, South West Audit Partnership (2017/18)
Ward(s) affected	All
Significant Decision	No
Executive summary	<p>The Internal Audit Annual Opinion, Appendix A, gives the opinion, of the Acting Head of Audit Cotswolds and, therefore, the officer responsible for the delivery of the internal audit function, which includes assessing the adequacy and effectiveness of internal control within Cheltenham Borough Council. The opinion is based on the adequacy of control, noted from a selection of risk-based audits carried out during the year and, other advice work on control systems including the proactive work of the service as it supports the control arrangements within change projects. The results of any external inspections also inform the opinion.</p> <p>Throughout the year we have measured the degree of control assurance within the systems or elements of systems we have audited or supported by way of control advice. Overall, the opinion is that a satisfactory assurance level can be given for the controls in place, within the areas where audit activity has taken place, to safeguard these systems which in turn support the delivery of the Council's overall business objectives.</p> <p>Where operational control issues were raised, the risks associated with the control issues raised, in the audit reports, are being actively managed by the responsible Management.</p> <p>Due to the information contained in The Internal Audit Annual Opinion, it was deemed unnecessary to submit a quarterly monitoring report but Executive Summaries for audits concluded since the last Audit Committee are attached at Appendix B.</p>
Recommendations	That the Committee considers the report and comments as necessary
Financial implications	None received.
Legal implications	None received.

HR implications (including learning and organisational development)	There are no direct HR implications arising directly from the content of this report. Contact officer: Julie McCarthy, HR Manager julie.mccarthy@cheltenham.gov.uk, 01242 264355
Key risks	That weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives, if recommendations are not implemented.
Corporate and community plan Implications	<i>“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.” (Chartered Institute of Internal Auditing UK and Ireland).</i> Therefore the internal audit activity impacts on corporate and community plans.
Environmental and climate change implications	None.

1. Background

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

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

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

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

The annual report must incorporate:

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

2. Reasons for recommendations

- 2.1** The Council must ensure that it has sound systems of internal control that facilitate the effective management of all the Council’s functions. The work delivered by Audit Cotswolds, the Council’s

internal audit service in 2016/17, is one of the control assurances available to the Audit Committee, the Senior Leadership Team, and supports the work of the external auditor.

3. Annual Internal Audit Opinion

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

Report author	Lucy Cater, Acting Head of Audit Cotswolds (2016/17) 01285 623340 lucy.cater@cotswold.gov.uk Assistant Director, South West Audit Partnership (2017/18)
Appendices	Appendix A – Annual Internal Audit Opinion Appendix B – Executive summaries of reports finalised since the last Audit Committee
Background information	Internal Audit Monitoring reports presented to the Audit Committee throughout 2016/17



INTERNAL AUDIT REPORT
Cheltenham Borough Council

Annual Internal Audit Opinion 2016/2017

Introduction

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

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

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

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

Responsibilities

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

Opinion on the overall adequacy and effectiveness of the control environment

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

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

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

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

The Council's Annual Governance Statement (AGS)

The opinion, of the Acting Head of Audit Cotswolds on the control environment forms part of the evidence supporting the Council's Annual Governance Statement. The primary basis for this opinion, the work undertaken during the year, is detailed within **Appendix i**. There were matters arising from the work during the year that were deemed a significant control weakness. A 'limited assurance' opinion was issued in these circumstances. The risks associated with the control issues raised in the audit reports are being actively managed by the responsible Management.

Compliance with the Public Sector Internal Audit Standards

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

It is a requirement of the Accounts and Audit Regulations that Local Authorities undertake an annual review of the effectiveness of its internal audit provision. The process and outcome of this review is set out below.

Quality Assurance Arrangements and Performance

There is a two stage review process to ensure the quality of the service.

The first stage has been briefly mentioned above and is in the form of the Audit Partnership Board. The Audit Partnership Board operates under a Terms of Reference that was adopted on the 1st April 2012 as part of the Section 101 Agreement. The Terms of Reference clearly identify under the section 'Responsibility' that there is a requirement for the Partnership Board to monitor performance and effectiveness. The Audit Partnership Board members are the S151 Officers and act as our client officers to ensure quality of service.

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

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

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

Effectiveness of Internal Audit

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

Developing the Internal Audit planning process

The Audit Plan for 2016/17 was developed using a risk based process. In accordance with professional best practice there has been an increasing link between audit activity and the Council's risk management process and several reviews were undertaken on areas identified in risk registers. Although the audit plan approved at the start of the year is the basis for the year's activities the service needs to be responsive to emerging risks.

Resourcing

The service is delivered by Audit Cotswolds. This partnership has enhanced the resilience and skills base of the service. The service through 2016/17 was delivered by a team with the following professional institute backgrounds:

- Chartered Institute of Public Finance and Accountancy (CIPFA)
- Chartered Institute of Internal Auditors (CIIA)
- Association of Accounting Technicians (AAT)

During the year two of our Senior Auditors left following successful recruitment in the Civil Service, we started the recruitment process to ensure the service was fully resourced so we could continue to meet our obligations. Previous experience in recruiting highlighted that it was more beneficial to our Internal Audit service to recruit at Assistant Internal Auditor level and 'grow our own' auditors. This was proved in 2015/16 when we successfully recruited two Assistant Internal Auditors, with excellent transferrable skills from different fields (engineering and leisure), who have now progressed to Internal Auditors and are conducting audits to a very high standard, and they are currently completing their first year of a Masters degree in Audit Management and Consultancy. We followed the same route in 2016/17 and again, successfully recruited two Assistant Internal Auditors who have started to conduct audits on their own and have successfully completed their probations. They will start studying towards a professional qualification in September 2017.

The Head of Audit Cotswolds was absent during 2016/17 and Lucy Cater, Operational Head of Internal Audit, acted up into this role for the year. Duties included ensuring resources were sufficient to complete the audit plans, monitoring of audit plans, reporting to Audit Committees and audit planning for 2017/18.

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

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

Training undertaken during the year

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

- Continuing professional development – CIPFA audit training seminars
- CIIA professional update sessions and attendance at the South West region conference
- Attendance at the CIPFA annual audit conference
- Two members of the team commenced studying for the MSc in Audit Management and Consultancy

Looking forward

During 2016/17 a review of the provision of internal audit services was carried out to identify a single provider of internal audit services to the three 2020 authorities, Cheltenham Borough Council and the existing non-local authority Audit Cotswolds' clients. The South West Audit Partnership (SWAP) was successful with their submission and Audit Cotswolds' staff TUPE Transferred with effect 1st April 2017. The audit team, in the main, will remain the same as will the working locations. Significant local knowledge has been lost, due to the redundancy of a long serving auditor, but we have access to other Senior Auditors within SWAP to assist with the completion of the audit plan. SWAP use audit management software, MKInsight, which will replace the manual systems, word, excel etc. that Audit Cotswolds were using and will make our processes more efficient.

Cotswold DC, West Oxfordshire DC and Forest of Dean DC are progressing with the 2020 Vision Programme, and have created three limited companies. Cheltenham Borough Council will become a shareholder of one of the companies, Publica Group (Support) Ltd, and will receive the same support services

from the company that GO Shared Services are currently providing. Days have been included in the 2017/18 Audit Plan to review the set-up of the company of which CBC is a shareholder, review the monitoring arrangements to ensure CBC are receiving their service requirements and to review CBC's arrangements to effectively manage the relationship of the risks of the services provided by Publica Ltd.

Conclusion

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

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

Lucy Cater MSc, CMIIA, MAAT

Acting Head of Audit Cotswolds (2016/17)

Assistant Director (South West Audit Partnership) (2017/18)

For

Cheltenham Borough Council

Cheltenham Borough Council

Internal Audit Annual Opinion
on the effectiveness of the system of Internal Control for
the year ended 31st March 2017

Roles and responsibilities

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

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

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

In accordance with Public Sector Internal Audit Standards, the Acting Head of Audit Cotswolds is required to provide an annual opinion, based upon, and limited to, the work performed on the overall adequacy and effectiveness of the organisation's control arrangements. This is achieved through a risk-based programme of activities, agreed with management and approved for 2016/17 by the Audit Committee, which should provide a level of assurance across a range of Council activities. The opinion does not imply that the internal audit service has reviewed all risks and controls relating to the Council or the systems it reviews.

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

The opinion for the year ended 31st March 2017 is set out as follows:

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

The **overall opinion** is that

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

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

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

Additional areas of work that support the opinion;

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

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

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

A table of internal audit work in 2016/17 is detailed in **Appendix (i)**

In 2016/17 audit monitoring reports were presented to the Audit Committee. These reports provided details of audit activity quarterly through the year. Within the reports, details of all finalised audit reports were provided for Audit Committee along with information relating to the service.

For some areas identified in the table below no formal assessment in relation to control activity is made, but the general observation and advice given as part of this work feeds into the assessment of the overall control environment. Observations made by Internal Audit and the acceptance of advice have further enhanced the control environment.

There were matters arising from audit reviews during the year that were deemed significant control weaknesses. On these occasions either a 'poor' or 'limited' assurance opinion was issued. The risks associated with the control issues raised in the audit reports are being actively managed by the responsible Managers. Therefore, due to the positive response to the findings and recommendations in these audits and the number of satisfactory and high assurance opinion audits being finalised during the year, the overall opinion for CBC is **Satisfactory Assurance**.

The assessments reported from other inspection processes

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

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

Other assessments considered

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

Lucy Cater MSc, CMIIA, MAAT

Acting Head of Audit Cotswolds (2016/17)

Assistant Director, South West Audit Partnership (2017/18)

For

Cheltenham Borough Council

Appendix (i)

Table of Internal Audit work in 2016/17

AUDIT ACTIVITY / REVIEW AREAS AND ASSURANCE LEVELS

The following table provides a summary of the Internal Audit Service activities and assurances gained

Ref	Audit Activity	Focus of assignment	Status	Type of Audit & Opinion
Audits outstanding as in the 2015/16 Internal Audit Opinion				
1	NNDR (Business Rates)	Year 2 module of 3 year (2015/16) programme	Final Memo	Assurance – Satisfactory
2	Housing Benefit	Year 2 module of 3 year (2015/16) programme	Final Memo	Assurance – Satisfactory
3	Council Tax	Year 2 module of 3 year (2015/16) programme	Final Memo	Assurance – Satisfactory
4	GOSS – Finance Systems	Payroll	Final Report	Assurance – Satisfactory
5	GOSS – Procurement, Insurance, Health and Safety	Health and Safety Audit undertaken as part of Security Audit	Final Report	Assurance – Limited
6	Contract Management	Review of key contracts including tender processes, plus review of contractor use	Final Report	Assurance – Limited
7	Performance Management	Focus on performance of projects and programmes in particular the role and responsibilities of SLT and Cabinet	Final Report	Assurance – High
8	Performance Management	Completion of 2014/15 audit. Review concentrated on Staff Performance	Final Report	Assurance – Satisfactory
9	Security	Review of buildings and personal security	Final Report	Assurance – High
10	Safeguarding Adults and Children	Support the Safeguarding peer review and audit	Final Report	Assurance – Limited
11	Art Gallery and Museum	Follow-Up of the recommendations made in the Art Gallery and Museum Report	On-going	Recommendations continue to be monitored as part of IA's involvement with the Cem and Crem Redevelopment Project and will continue into 2017/18
12	Car Parking Follow-Up	Follow-Up of the report submitted to AC	On-going	Review conducted but recommendations depend on the implementation of the new parking strategy. Further IA review included in 2017/18 plan

Ref	Audit Activity	Focus of assignment	Status	Type of Audit & Opinion
2016/17 Internal Audit Plan				
Section 1 – Core Governance and Core Finance Audits				
13	Annual Governance Statement	Support for and review of the production of the Annual Governance Statement and sample elements of the supporting information 2015/16	Complete	Assurance – Satisfactory
14	Audit Committee Effectiveness	Annual review of the Audit Committee against appropriate guidance and standards	Review commenced, no issues identified	Further reviews will be undertaken by SWAP
15	Internal Audit self-assessment (Annual)	Annual self-assessment of Internal Audit's performance against Public Sector Internal Audit Standards (PSIAS)	Complete	
16	Risk Management	Selection of risks from registers and mitigating controls and actions to test their effectiveness	Final Report	Assurance – Good
17	ICT Audit Audit conducted by South West Audit Partnership (SWAP)	Public Services Network (PSN)	Final Report	SWAP Assurance – Reasonable (Satisfactory)
18	ICT Audit Audit conducted by South West Audit Partnership (SWAP)	Data Handling	Review deferred by Head of Service in consultation with the Chief Financial Officer	Review to be included in 2017/18 EU General Data Protection Regulations
19	ICT Audit Audit conducted by South West Audit Partnership (SWAP)	Disaster Recovery Planning	In Progress	
20	Council Tax Support	A review of an element of the Council Tax Support process, the programme of activity ensures full coverage of the service over a 3 year cycle	Final Report	Assurance – High
21	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	Final Report	Assurance – High
22	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	Final Report	Assurance – High
	GO Shared Services (GOSS) Audits	Days allocated to the following Audits are CDC's element of the GOSS Audit Plan		
23	Main Accounting, Budgetary Control and Capital Accounting	A review of the 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	Assurance – High
24	Treasury Management and Bank Reconciliations		Final Report	Assurance – High
25	Payroll		Final Report	Assurance – Good

Ref	Audit Activity	Focus of assignment	Status	Type of Audit & Opinion
26	Accounts Receivable (Debtors)		Final Report	Assurance – High
27	Account Payable (Creditors) Audit conducted by SWAP	Transactional Testing for each client, assurance over GOSS controls to be informed by SWAP auditors (the Forest of Dean DC's Internal Audit Team)	Final Report	SWAP Assurance – Reasonable (Satisfactory)
28	Systems Administration of Agresso Business World (ABW)	A review of the operating systems and the controls in place	Review deferred in consultation with Head of Finance due to planned system build for Publica Ltd	Audit involvement required during 2017/18 for the design and build of Business World for Publica Ltd
29	Human Resources Review to include FoDDC	A review of a Human Resources area. Scope of the audit is the Starters and Leavers process and included HR and ICT processes	Final Report	Assurance – Satisfactory
30	Other GOSS Area – Insurance	A review of Insurance service provided by GOSS to its Clients	Final Report	Assurance – Good
Section 2 – Risk Based Audits				
31	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	Final Report	Consultancy – N/A
32	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)	Final Report	Assurance – Good
33	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	Advice note
34	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	Final Report	Advisory
35	NNDR (Business Rate) Reliefs	Review of NNDR Reliefs ensuring that the correct relief has been added to accounts in accordance with legislation	Final Report	Assurance – High
36	Fleet Management	Review of the management of fleet by Ubico on behalf CBC (and CDC) to include the replacement of vehicles, purchase and recharging	Final Report	Assurance – Satisfactory
37	Planning Application Process	Review of the planning application process to ensure compliance with statutory legislation in respect of the processing cycle	Final Report	Assurance – Satisfactory
38	Food Safety	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	Final Report	Assurance – Satisfactory
Section 3 – Advice and Consultancy				
39	New Housing and Planning	Review of the introduction of the New	On-going	Consultancy

Ref	Audit Activity	Focus of assignment	Status	Type of Audit & Opinion
	Act	Housing and Planning Act - ensuring the Council is ready / prepared for the new act		
40	Community Infrastructure Levy (CIL)	Support for the CIL process ensuring that the Council is prepared for the introduction of CIL	On-going	Consultancy
41	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 Deferred	To be included in 2017/18 audit reviews for Place and Economic Development
42	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	Final Report	Consultancy
43	2020 Vision Programme	Support for the 2020 Vision Programme and Projects	On-going	Consultancy
44	Cemetery and Crematorium Programme	Support for the Cemetery and Crematorium Programme. Attendance at Project Boards and Gate Reviews.	On-going	Consultancy
45	Development Taskforce	Support for the Development Taskforce, attendance at meetings	On-going	Consultancy
46	Neighbourhood Projects	Advice on sourcing resource to undertake a review of the projects, inputs, outcomes etc	Complete	Advice – N/A
47	Change Programmes	Support for other change programmes / projects	On-going	
Section 4 – Other				
48	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	N/A
49	Payment Channels and Income Streams Follow-Up	Follow-Up testing of a 'Limited Assurance' Audit	Complete	Further Follow-Up planned for 2017/18 as not all recommendations actioned
50	GOSS – Health and Safety	Follow-up testing of the 2015/16 'Limited Assurance' Audit	Complete	One recommendation remains outstanding, two have been partly completed and seven have been actioned. Further Follow-Up planned for 2017/18 for outstanding recommendations
51	Contract Management	Follow-up testing of the 2015/16 'Limited Assurance' Audit	Draft Memo	Further Follow-Up planned for 2017/18 as not all

Ref	Audit Activity	Focus of assignment	Status	Type of Audit & Opinion
				recommendations actioned
52	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	N/A
Section 5 – Follow-up Audits (follow-up of previous years Audits)				
53	Social Media		Complete	Further Follow-Up planned for 2017/18 as not all recommendations actioned
54	Data Protection		Complete	All recommendations actioned
55	Members Allowances		Complete	All recommendations actioned
Section 5 - Other work undertaken by the Internal Audit Department				
56	National Fraud Initiative	On-going support for the scheme	On-going	N/A
57	Audit Management Software	Design and build the new Internal Audit Management Software to our specifications	Complete	N/A
58	Audit Cotswolds 2020 Proposal	Drafting the proposal for providing the Internal Audit service to 2020 and the four partner Councils	Complete	N/A
59	SWAP Transfer	Officer time allocated to the Internal Audit (Audit Cotswolds) service transfer to SWAP	Complete	N/A
60	Internal Investigation	Auditor time allocated to a complex internal investigation	Complete	N/A

Executive Summary for Payroll 2016/2017**Assurance****Good****Overview and Key Findings**

The audit of Payroll is carried out over a three year cycle. 2016/2017 is the third year of this cycle; the detail of the areas that have been included in the year three audit can be seen below. The areas to be reviewed are drawn from the "Services in Scope" document defining those services which GO Shared Services (GOSS) will provide.

Areas covered in the Year 3 internal control system review are as follows:

- Calculation of payrolls and accuracy assurance
- Reconciliation of deductions from payroll and the distribution to third parties
- Generation and distribution of relevant tax forms
- Year-end reconciliations and transfer of appropriate returns / forms

Key systems controls reviewed every year are:

- Reconciliation of payroll system to the general ledger
- Periodic reconciliation of the payroll system to personnel records
- Periodic circulation of establishment lists to budget holders
- Production and independent review of exception reports – eg. Movement in net pay >10%

In addition we conducted transaction testing on a sample basis to ensure that changes to the payroll system were undertaken in accordance with policy, appropriately authorised, completed accurately and in a timely manner.

We also checked that the recommendation arising from our 2015/2016 audit had been implemented. Our review of the areas covered in Year 3 found that sound processes operated which were in accordance with HMRC requirements.

Our review of key systems controls found there is no regular, routine check whereby officers not involved in payroll processing are required to check ABW periodically. This control is firstly to see whether the names of staff charged to cost centres are recognised (this is to identify "ghost" or "dummy" employees on the payroll), and secondly to check that the pay charged appears reasonably in line with what is expected. We were advised that Finance keep a "watching brief" upon budgets throughout the year, and review staffing budgets at budget time each year. Although these may be classified as compensating controls to some degree they are not formal regular, routine checks.

We also identified that periodic reconciliation of the payroll system to personnel files was not operating. There was some degree of checking undertaken but this does not provide sufficient assurance that payroll records agree to records held in personnel files.

Other than the above we can confirm that key system controls are operating.

We also commented upon potential risks to the Council as a result of the findings of our transactional testing.

We verified that the recommendation arising from our 2015/2016 audit had been implemented.

On the basis of our audit work, and in view of the issues described above, we assign a **Good** level of assurance.

Executive Summary for Insurance 2016/2017**Assurance****Good****Overview and Key Findings**

This audit was carried out as part of the core audit programme planned for 2016/17 as approved by the Audit Committees of Cotswold District Council (CDC), Cheltenham Borough Council (CBC), and the Audit and General Purposes Committee of West Oxfordshire District Council (WODC). As GO Shared Services (GOSS) also provides services to the Forest of Dean District Council (FoDDC), this audit also covers insurance management arrangements pertaining to that Council as organised by GOSS.

The areas covered during this audit were as follows:

- Responsibilities
- Insurance Officer
- Procedures
- Review of insurances
- Insurer
- Self-insurance
- Cover
- Sums insured
- Claims
- Recharges
- Performance and reporting
- Risk
- Fraud
- Working with/for other Councils (including 2020)
- Advisory roles
- Empty property insurance

Those issues which we feel specifically need to be brought to management's attention are summarised in the list below.

- There is no written procedural guidance for officers to follow (recommendation made)
- There is no regular, routine reporting of insurance matters to Members at Committee or Council, or to senior officer management teams, in any of the four Local Authorities or Ubico; however we have not found that this is general or common practice so the Local Authorities and Ubico are not out of step in this respect. (recommendation made)
- There is no close coordination involving the Insurance Officer in the risk management processes of the Local Authorities and Ubico. (recommendation made)
- Currently there is no other officer who could carry on the main body of the Insurance Officer's work if he were to be absent for a lengthy period or if he were to leave at short notice. The Head of GOSS has recognised this risk and is considering options to mitigate it, putting funding in place to finance these.
- The Insurance Officer has not been consulted on insurance matters relating to 2020 but we understand that this is planned to take place.

We made three recommendations which are shown, together with management responses in Appendix B. We have been able to provide a **Good** level of assurance.

Executive Summary for Risk and Control Implications of Meeting the Funding Gap 2016/2017**Assurance****Good****Overview and Key Findings**

This audit on the Risk and Control Implications of Meeting the Funding Gap was carried out in accordance with the 2016/2017 Audit Plan as approved by Audit Committee in March 2016.

Cheltenham Borough Council (CBC) currently has a projected shortfall against the Medium Term Financial Strategy (MTFS). Bridging the Gap is the budget monitoring programme that has been implemented to manage the budget and identified funding gap.

From our testing and the evidence supplied, we can confirm the risks to achieving the projected medium term outcome are identified, assessed and recorded through;

- Monthly Bridging the Gap Highlight reports.
- CBC Corporate Risk Register.
- Annual Section 25 report.
- Quarterly Budget Monitoring reports.
- Regular meetings of SLT, Cabinet and the Bridging the Gap Programme Board.

Evidence confirms CBC's budget is monitored by Officers and Members regularly enabling any changes to the status of work stream commitments and the overall programme to be discussed. We were advised that not all work streams in the Savings Strategy warranted having a project in place; these are managed as part of the overall Bridging the Gap programme.

Section 25 of the Section 151 Officer's report (i.e. the report of the Councils Chief Finance Officer) confirms the officer is satisfied the current budget is balanced and meets the legal requirement based on the estimates and projections. Meeting minutes confirmed that Members considered this report before approving CBC's final budget.

CBC currently has no replacement income generator and all savings initiatives are included within the Savings Strategy monitored by the Bridging the Gap Programme. The Final Budget (2017/18) confirms CBC is taking an 'invest to save' approach, with a longer term view of closing the funding gap through economic growth. This approach has the potential to deliver financial benefits to the Council but could also expose it to additional risk if economic growth is not achieved.

On the basis of our findings we can confirm that risk identification, assessment and control arrangements for income and saving projections are in place to monitor the MTFS and identified funding gap; however, CBC faces potential risks if it's aim to deliver an under spend is not appropriately managed.

We are able to give a **Good** level of assurance at this current time.

Executive Summary for Food Safety 2016/17**Assurance****Satisfactory****Overview and Key Findings**

A review of Food Safety was undertaken as part of the 2016/2017 Internal Audit plan, approved by the Audit Committee in April 2016. This is a follow up of recommendations made by the Food Standards Agency in their audit completed in February 2016.

During the course of the Audit, discussions were held with the Public & Environmental Health Team Leader. Walkthrough testing was carried out on the systems in place, along with examination of evidence provided to support the processes.

On the 10th and 11th February 2016 the Food Standards Agency (FSA) conducted an Audit on Cheltenham Borough Council's operation of the Food Hygiene Rating Scheme (FHRS). The FHRS allows consumers to compare hygiene ratings across establishments within the local authority area as well as other authority areas.

Local authorities have a duty under the 1990 Food Safety Act to ensure food premises within its area are operating with good standards of hygiene. This is carried out in accordance with the Food Law Code of Practice and the FSA Framework Agreement on Food Law Enforcement.

The FHRS is a way of businesses advertising good hygiene practice and is run by the FSA in partnership with local authorities. Currently businesses in England do not have to display the rating. The FSA audit, although identifying some strong areas, made 11 recommendations of key areas to improve.

This audit objective is to: Review the February 2016 Food Standards Agency audit report recommendations to ensure the implementation, monitoring and reporting of the agreed recommendations.

The FSA were scheduled to return to complete a follow up audit in January 2017, therefore we have, where possible, taken assurance from their work. We have also examined and tested the robustness of the data and information that supports, evidences and ensures agreed actions have been implemented effectively and are being maintained.

Overall we can confirm that good progress has been made and that six of the 11 recommendations have been completed. The remaining five are in progress with four expected to be completed by the end of the financial year 2016/2017. These recommendations relate to:

- the identification of all service requirements within service plans
- lead officer qualification requirements
- the frequency of interventions/inspections
- contact details on inspection reports
- accompanied visits

On the basis of our findings we can confirm we are able to give a **Satisfactory** level of assurance at CBC at this current time.

Executive Summary for Business Rates Pooling 2016/17**Assurance****Consultancy review conducted by SWAP****Overview and Findings**

This audit has been undertaken using an agreed risk based audit. This means that:

- the objectives and risks are discussed and agreed with management at the outset of the audit
- the controls established to manage risks are discussed with key staff and relevant documentation reviewed
- these controls are evaluated to assess whether they are proportionate to the risks and evidence sought to confirm controls are operating effectively
- at the end of the audit, findings are discussed at a close-out meeting with the main contact and suggestions for improvement are agreed

The scope of this audit covered the rationale/formula used for the 2016/17 and 2017/18 NNDR1 forms in the following areas:

- Bad debt provision
- Appeals provision
- Estimated growth

This is an advisory report. Whilst no significant issues have been identified with the methods that each Local Authority is using, differences have been identified across Local Authorities and it has been concluded that the accounting estimates/assumptions used to model Pool surpluses/deficits and calculate outturn are not consistently applied across the three Local Authorities that have been involved in this review.

Differences in process and rationale have been identified in the estimates/assumptions used to calculate the bad debt and appeals provision. The Authorities may wish to use the information and comparisons provided in this audit report to consider and ensure a more generic way of working is in place.

Whilst a difference has been identified in the process rationale, overall, there is little difference when considering these figures as a percentage of the net rates payable, shown in Appendix B. There is a risk that some authority's calculations may be less accurate than others if a generic way of working is not in place. Appendix E shows the impact on the provision of appeals figures for the 2016/17 NNDR1 for each authority if they were to use each authority's method of calculation.

Generally, the three authorities follow the same process for calculating growth, however as it would be expected, growth between authorities will differ depending on the local environment for development within each authority.

Improvements are required in the maintenance and retention of working papers across the authorities. It has been identified that clearer audit trails are needed with appropriate explanations and reasoning to ensure it is clear what rationale has been used to obtain figures for the NNDR1 form.

The Local Authorities part of the 2020 partnership, that were part of the scope of this review, may benefit from sharing the results of this audit with the other members of the Pool to identify if there are any further inconsistencies in process.

Executive Summary for Review of the Outcomes of the Gloucestershire Joint Waste Committee 2016/17	
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Assurance	Consultancy review conducted by SWAP
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Overview and Key Findings

As part of the 2016-17 audit plan a review to ascertain whether the JWC has delivered what it was established for was agreed. However, this review has been undertaken to consult with representatives from other joint waste partnerships from within the SWAP Partnership, where finances are pooled, managed and monitored by a single accountancy function. This approach would help identify the positive and negative outcomes, including aspects done well and lessons learnt.

The Joint Waste Partnership (JWP) consists of the Gloucestershire County Council, Forest of Dean District Council, Cheltenham Borough Council, Cotswold District Council and Tewkesbury Borough Council. In addition, Stroud District Council and Gloucester City Council are permitted to attend and participate in Joint Waste Committee (JWC) meetings without being part of the JWC. However, participation does not extend to the decision making and voting process of the JWC.

This review has been a fact-finding exercise to increase the JWC knowledge of the way other waste partnerships have progressed whilst operating a pooled financial arrangement. The output as viewed by internal audit is summarised below.

One significant difference identified between the Gloucestershire JWP and the other waste partnerships is that from the outset funds have been pooled. Responses from the Gloucestershire authorities indicate that no other option was considered. However, the JWP has shown progress can be made, although at a much slower pace, which may delay the realisation of savings in the future.

Currently, shared decision making is in respect of the JWC business plan and the actions within it. Any choices for retained decisions to be made for example, budget setting, service charges, collection/disposal method and procurement need to be referred to the partner Councils.

At the 2017-2020 business plan approval meeting (February 2017), a significant step forward was made when the partners concurred that the case for closer service alignment should be considered subject to a business case and risk assessment.

To date the JWC has seen improvements in waste collection, recycling and disposal into landfill, largely in line with government projections. However, there is limited information on financial savings realised, which is an important requirement alongside improved waste management and resilience of the service. The Gloucestershire JWP questionnaire responses support the principle of further integration, with one exception, provided the business case and risk assessment undertaken demonstrated a positive way forward. Furthermore, only one partner did not give a favourable response to financial integration. The other partners were open to the idea provided the business case confirmed this was the correct direction of travel. In addition, in line with the other waste partnerships a fair distribution of costs and savings would be required along with transparency of the information.

One partner suggested collaborative procurement which may be a good trial to identify key issues, highlighting shortfalls which need to be addressed. This approach could be educational, utilising the knowledge of the Gloucestershire JWP and the information from the other waste partnerships as a guide to prevent costly mistakes being made.

There was consensus that the operation could be improved through consistency and standardisation of approach throughout the JWP. It is recognised that to consider any level of standardisation of operations across the authorities the current arrangements need to be understood. Once this exercise is complete an evaluation can be undertaken to determine where conformity can be put in place. In addition, the recruitment of a full-time Head of Service for the JWP is an opportunity to develop a clear routemap to align services and steer the partnership forward.

Executive Summary for Employee Turnover 2016/17**Assurance****Consultancy Review****Overview and Key Findings**

This consultancy review was carried out as part of the internal audit programme planned for 2016/2017 as approved by the CBC's Audit Committee.

Concerns had been raised that there may be a risk to CBC in that it could become an employment competitor of Publica for some key retained services. Publica is developing a rewards package which may offer greater short term staff incentives than CBC will be able to offer. In the longer term CBC will continue to offer the LGPS whereas Publica will offer an alternative stakeholder pension. The impact of these differing short or long term benefits will be unknown so CBC will need to determine how it will react to this emerging risk.

The purposes of the audit were to review how management:

- records risks due to staff turnover
- monitors staff turnover
- plans to mitigate against the possible risk of loss of staff to Publica
- plans to deal with single post vulnerabilities
- identifies the reasons for members of staff leaving the employ of the Council
- budgets for staff turnover

Evidence does show that in general terms CBC's staff turnover is low when compared to the national average. However the views of individual service managers do demonstrate more specific concerns about staffing, particularly around uncompetitive salaries and employment packages, and the absence of key staff for lengthy periods. However the Council's planned list of single post dependencies (see below) will help to address these. There is no overarching corporate risk in CBC's risk register relating to staff turnover.

From our reading of the OD Programme v0.1 and discussions about this, the work envisaged appears to be well founded and, if carried out as per programme, should address risks which may arise in relation to staff turnover. As with any such work, it is important to ensure that the success indicators/measures are captured, recorded, evaluated and reported, in order to assess whether the Council achieved what it set out to do.

Mitigating actions which the Council intend to take:

- Identifying the reasons for members of staff leaving the employ of the Council to be considered for inclusion in the OD work
- Developing a list of single post dependencies and acting on this.

Audit recommendations arising from this review are as follow:

- Develop a link with the Business Continuity Plan and the single post vulnerabilities exercise.
- Assess concerns raised by individual service managers in their own risk registers to see whether these translate into corporate issues which should be included in the corporate risk register.
- Analyse and evaluate the outcomes of exit interviews/questionnaires, in order to plan any necessary remedial action.

As this was a consultancy review the issuing of an Audit Assurance Opinion Level is not appropriate.

Executive Summary for Accounts Payable 2016/17	
Assurance	Reasonable – SWAP Assurance Satisfactory – Audit Cotswolds Assurance
Overview and Key Findings <p>As part of the 2016/17 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place for Accounts Payable (AP) Core Functions.</p> <p>SWAP reviewed controls operated by the GOSS AP service confirming that generally risks are well managed with a number of well controlled areas, but some processes require the introduction or improvement of internal controls, for example, documenting procedures and evidencing checks to ensure the achievement of objectives.</p> <p>Our analysis of compliance with the 'No PO, No Pay' policy can confirm that purchase order (PO) usage has increased. At the time of review we identified 69% of eligible payments were made using purchase orders, we have since been advised that this figure has risen to 91%.</p> <p>Our transactional testing identified that internal controls and improvements to existing measures are required in relation to the identification of duplicate suppliers and payments. We have been advised that increased monitoring and change in process is being addressed.</p> <p>We found that some payments were being made using the sundry supplier code rather than setting the supplier up on the system. Again, this is being addressed by the AP team.</p>	

Executive Summary for Accounts Receivable 2016/17	
Assurance	High
Overview and Key Findings <p>The review of Accounts Receivable (AR) is undertaken over a three year cycle. 2016/2017 is the third year of the three year cycle. The areas covered in this review are detailed below:</p> <ul style="list-style-type: none"> • The recovery timetable • Legal recovery processes • Customer relations <p>Key system controls reviewed annually are:</p> <ul style="list-style-type: none"> • Income management and control (including instalment administration arrangements) • Cancellations and write-offs management and control • Performance management and reporting <p>In addition, we undertook transactional testing covering a range of cost centres at each client to establish that invoices raised by service areas were in accordance with agreed fees and charges, and that appropriate evidence was maintained to support the debt raised. Discussions were held with a number of officers to establish, the processes underpinning the raising of debtor/subscription invoices.</p> <p>We also undertook testing to confirm that evidence was available on customers' AR account to support charges raised on the subscription invoices.</p> <p>Our review of the AR system has found that robust controls are operating which ensure system objectives are achieved. There are no recommendations to be made.</p> <p>On the basis of our findings we can confirm we are able to give a High level of assurance.</p>	

Appendix 3Assurance 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>

Cheltenham Borough Council Audit Committee – 14 June 2017 Annual Governance Statement

Accountable member	Cabinet Member Corporate Services, Councillor Roger Whyborn
Accountable officer	Lucy Cater Acting Head of Audit Cotswolds (2016/17) Assistant Director, South West Audit Partnership (2017/18)
Ward(s) affected	All
Significant Decision	No
Executive summary	<p>The Council has a statutory duty to prepare an Annual Governance Statement (AGS) (Appendix 2) to be approved as part of the Annual Statement of Accounts.</p> <p>The AGS is for the period 1st April 2016 to 31st March 2017 and indicates how the Council is meeting the requirements of the Accounts and Audit (Amendment) (England) Regulations 2011 and, from 1st April 2015 the Accounts and Audit Regulations 2015 in relation to the publication of a Statement on Annual Governance.</p> <p>In addition to this CIPFA issued a 'Statement on the Role of the Chief Financial Officer in Local Government (2015)'. The Annual Governance Statement reflects compliance with the CIPFA statement for reporting purposes.</p> <p>The CIPFA / SOLACE Guidance was amended for Annual Governance Statements produced for the year ended 31st March 2017, this AGS has been updated to reflect the new best practice framework.</p> <p>The Audit Committee needs to satisfy itself that the AGS fairly reflects the arrangements within the Council, and that the suggested action plan will address the significant governance issues identified by the review.</p>
Recommendations	<ol style="list-style-type: none"> 1. That the Audit Committee approve the AGS, and 2. Recommend to the Lead of the Council and Head of Paid Service that they sign the AGS so that it can be included in the Annual Statement of Accounts 2016/17
Financial implications	<p>There are no financial implications arising directly from this report.</p> <p>Contact officer: Sarah Didcote, GOSS Business Partner Manager sarah.didcote@cheltenham.gov.uk, 01242 264125</p>
Legal implications	None received.

HR implications (including learning and organisational development)	None received.
Key risks	If the Council fails to have an effective review of its governance arrangements especially during a period when it is continually modernising and improving its services then there is a risk that it will not maintain its good conduct and high ethical standards.
Corporate and community plan Implications	Good governance helps to deliver the Council aspirations to be an excellent, efficient and sustainable Council. It also ensure that risks are identified and managed to protect its assets and workforce.
Environmental and climate change implications	None.

1. Background

- 1.1 The Accounts and Audit (England) Regulations 2011 regulation 4 requires councils to conduct an annual review of the effectiveness of their system of internal control, including the arrangements for the management of risk. Following the review the Council must approve an Annual Governance Statement (AGS), and from 1st April 2015 the Accounts and Audit Regulations 2015 in relation to the publication of a Statement on Annual Governance.
- 1.2 The AGS should be prepared and included as part of the Annual Statement of Accounts; and that it be authorised by the Leader of the Council and the Head of Paid Service.
- 1.3 A draft AGS for the 2016/17 financial year relating to the governance of the Council is attached at Appendix 2. It has been drawn up with regard to the Code of Practice on Local Authority Accounting in the UK 2016/17. It also has regard to guidance issued by CIPFA / SOLACE framework Delivering Good Governance and the Council's Local Code of Corporate Governance.
- 1.4 The AGS highlights where progress has been made in reducing risks within the Council over the period 2016/17 or where further work is planned for 2017/18. This included a review of the Local Code of Corporate Governance which was approved in March 2017 by the Audit Committee.
- 1.5 The Local Code of Corporate Governance is consistent with the principles of the CIPFA / SOLACE framework Delivering Good Governance (2016).
- 1.6 The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to manage the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 1.7 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise

the risks to the achievement of Cheltenham Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

- 1.8** The Audit Committee reviewed, and approved, the Council's Risk Management Policy in March 2017.

1.9 The 2016/17 Annual Review of Effectiveness

- 1.10** Every local authority has a responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive directors within the authority who have responsibility for the development and maintenance of the governance environment, the Acting Head of Internal Audit's annual report, and also by comments made by the External Auditors and other review agencies and inspectorates.
- 1.11** Each March, assurance statements and evidence tables are issued to Directors for completion. The evidence tables act as internal control checklists which confirm / review the existence and adequacy of governance and control arrangements, and any significant absence of, or weakness in, the control. The areas covered by the checklist are not exhaustive and any other significant weaknesses must be reported in the Certificate of Assurance.
- 1.12** In addition to the Directors review, Client Officers also undertake a review for services provided by Cheltenham Borough Homes, GO Shared Services, ICT Shared Services, OneLegal, The Cheltenham Trust and Ubico Ltd. The outcome of these reviews is discussed by the Client Officer with the Director responsible for the commissioning of the service. If necessary an action plan is agreed with the service provider to address any weakness, the commissioner then signs an assurance statement.
- 1.13** Once complete, the evidence tables and the certificates are reviewed to identify any governance or control improvements which should be included in the significant issues action plan for the forthcoming year. They also draw on evidence from internal and external audit reports, and other relevant evidence including external reviews. The AGS is considered by the Senior Leadership Team and the Corporate Governance Group before it is submitted to this committee ahead of its approval as part of the process for the preparation of the Annual Statement of Accounts.
- 1.14** The AGS is a high level statement regarding the review of governance that has been undertaken and a description of the governance frameworks in place such as the work of the Audit Committee, internal and external audits and external reviews.
- 1.15** The review of effectiveness identified a number of control issues, and these are highlighted in the AGS action plan which will be addressed by the respective Directors and Services. The Corporate Governance Group will monitor progress and report back to the Audit Committee.

2. Reasons for Recommendations

- 2.1** The AGS will form part of the Annual Statement of Accounts that will be considered by the Audit Committee for approval on 20th September 2017. head which was approved by Cabinet i and the Council's Local Code of Corporate Governance in Local Government. Under the CIPFA Public Sector Internal Audit Standards the chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:

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

3. Alternative Options Considered

3.1 None

4. Consultation and Feedback

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

5. Performance Management – Monitoring and Review

5.1 A monitoring report will be brought to Audit Committee in March 2018.

Report author	Lucy Cater, Acting Head of Audit Cotswolds (2016/17) 01285 623340 lucy.cater@cotswold.gov.uk Assistant Director, South West Audit Partnership (2017/18)
Appendices	Appendix 1 – Risk Assessment Appendix 2 – Annual Governance Statement
Background information	None

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
	If the Audit Committee fails to recommend the approval of an Annual Governance Statement then it could delay the publishing of the Councils annual accounts.	Director of Resources And Projects	31/03/2017	3	2	6	Reduce	Prepare an Annual governance Statement based upon the review of its governance framework	31/05/17	Acting Head of Audit Cotswolds	
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											

DRAFT ANNUAL GOVERNANCE STATEMENT 2016/2017

1. SCOPE OF RESPONSIBILITY

Cheltenham Borough Council is responsible for ensuring that:

- Its business is conducted in accordance with the law and proper standards;
- Public money is safeguarded and properly accounted for
- Public money is used economically, efficiently and effectively; and
- There is a sound system of governance, incorporating the system of internal control

The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging these responsibilities, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and including arrangements for the management of risk.

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

In addition to this, CIPFA issued its *Statement on the Role of the Chief Finance Officer in Local Government (2015)*. The Annual Governance Statement (AGS) reflects compliance of this statement for reporting purposes. The Council's Chief Finance Officer is the Statutory Section 151 Officer (S151 Officer).

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to:

- Identify and prioritise the risks to the achievement of the Council's policies, aims and objectives;
- Evaluate the likelihood of those risks occurring;
- Assess the impact should those risks occur; and
- Manage the risks efficiently, effectively and economically

3. THE GOVERNANCE FRAMEWORK

The key elements of the Council's governance arrangements are outlined in the Local Code of Corporate Governance, which is reviewed on an annual basis; the latest version was approved by the Audit Committee in March 2016. The governance framework includes arrangements for:

- Identifying and communicating the Council's vision of its purpose and intended outcomes for citizens and service users
- Reviewing the Council's vision and its implications for the Council's governance arrangements
- Measuring the quality of services for users, ensuring that they are delivered in accordance with the Council's objectives and ensuring that they represent the best use of resources
- Defining and documenting the roles and responsibilities of the executive (Cabinet), non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the Council and partnership arrangements
- Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff
- Reviewing and updating Financial Rules, Contract Rules, Constitution, Scheme of Delegation and supporting procedure notes / manuals, which clearly define how decisions are taken and the processes and controls required to manage risks
- Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained
- Ensuring effective management of change and transformation
- Ensuring the Council's financial management arrangements conform with the governance requirements of the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015)* and, where they do not, explain why and how they deliver the same impact
- Ensuring the Council's assurance arrangements conform with the governance requirements of the *CIPFA Statement on the Role of the Head of Audit (2010)* and, where they do not, explain why and how they deliver the same impact
- Ensuring effective arrangements are in place for the discharge of the Monitoring Officer function
- Ensuring effective arrangements are in place for the discharge of the Head of Paid Service function
- Undertaking the core functions of an Audit Committee, as identified in CIPFA's *Audit Committees: Practical Guidance for Local Authorities*
- Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful
- Whistleblowing and for receiving and investigating complaints from the public
- Identifying the development needs of members and senior officers in relation to their strategic roles, supported by the appropriate training
- Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation
- Incorporating good governance arrangements in respect of partnerships, including shared services and other joint working and reflecting these in the Council's overall governance arrangements.

The main areas of the Council's governance framework, and key evidence of delivery, are set out below, under the headings of the seven CIPFA/SOLACE principles of governance:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

The roles and responsibilities of elected members and all office holders are set out in the Council's Constitution. The Constitution also sets out how decisions are made and the procedures that are followed to ensure these are efficient, transparent and accountable to local people. The Constitution is supported and underpinned by defined Codes of Conduct for Members and Officers, in addition to specific codes for example, dealing with planning and licensing matters. There is also a Protocol for Member/Officer Relations. The Constitution is reviewed regularly to reflect legislative changes, guidance and best practice.

The Council has key policies stipulating roles and responsibilities for both elected members and officers, which provide guidance on expected behaviours and practices. These policies are reviewed on a regular basis and are available on the Council's intranet.

The Council has a Standards Committee to maintain and promote high standards of conduct by observing and monitoring the operation of the Code of Conduct.

A comprehensive induction programme provides further assistance to Members and Officers as to their roles and responsibilities. Officers also undergo annual performance appraisals.

The Code of Conduct requires declarations to be made at meetings; these are recorded in meeting minutes. Declarations are made by both Members and Officers.

Registers of interest are completed annually by Members and Officers and a register of gifts and hospitality is maintained.

Statutory Officers' responsibilities are defined in the Council's Constitution and are employed in accordance with statutory guidance.

The S151 Officer leads the promotion and delivery of good financial management through the Senior Leadership Team, the Bridging the Gap programme, attendance at Cabinet and Committee meetings and specialist workshops / training for officers and Members.

The Asset Management Plan and the Capital Strategy aims to ensure that investment is linked to strategic objectives

Internal audit reviews are designed to ensure services are complying with internal and external policies and procedures / statutory legislation. Where non-compliance is identified, this is reported to Management and Members via the Audit Committee.

Whistleblowing and Counter Fraud & Anti-Corruption policies are in place which have been approved by Cabinet. A counter-fraud unit has been established to help prevent and detect fraud and corrupt practices, including the misuse of power.

A 3 stage complaints procedure is available to members of the public and explains the ways that a complaint can be made and the responsibility of the Council.

B. Ensuring openness and comprehensive stakeholder engagement

Annual accounts are published on a timely basis to help communicate the Council's financial position and performance. In addition, an Annual Report, which summarises financial and other performance is published on the Councils' website.

The Council has a Transparency Policy statement and publishes its data such as payments to suppliers, senior officers' salaries and structure, contracts and tenders, etc., in line with the local government transparency code which is available on the Council's website.

All committee meeting agendas and minutes are published in accordance with the Forward Plan. Publication of agendas is made in accordance with the Local Government Act 1972.

The Overview and Scrutiny committee promotes open and transparent decision making, democratic accountability and holds the Cabinet to account for its actions.

As part of the budget setting process, the Council consults with a public panel to gain an understanding of the communities' views. Final budgets are discussed by Cabinet and approved by Council at the appropriate budget setting meeting.

Consultation events are held with public and voluntary services, Cheltenham Business Partnership and The Cheltenham Partnership.

Consultation with the public is undertaken through public meetings, surveys and other mechanisms as required throughout the year.

The Council has published a Statement on Community Involvement which sets out the opportunities by which the public and organisations can engage with the planning system, including the procedures and methods used to consult on planning applications.

Consultation with staff is undertaken via employee workshops/engagement sessions.

The Cheltenham Partnership includes council officers working with a wide range of partners including Gloucestershire County Council, Gloucestershire Police and County NHS organisations to identify local needs and deliver priorities through an agreed action plan.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The Council's vision and four Priority Outcomes are set out in the Corporate Strategy which is reviewed and updated on an annual basis. The document sets out the context of the year ahead in terms of needs, challenges and opportunities, any proposed commissioning intentions, the actions to deliver the priority outcomes and the milestones, indicators and risks by which progress will be measured.

One of Council's Priority Outcomes is 'Cheltenham's environmental quality and heritage is protected, maintained and enhanced'. Proposed actions within the Corporate Strategy demonstrate the commitment to sustainable economic, social and environmental benefits.

Progress on the Council's performance is reported to the Overview and Scrutiny Committee and Cabinet on a quarterly basis for review and challenge.

The financial implications of delivering against the Council's Priorities are included within the Medium Term Financial Strategy, Revenue budgets and the Capital Programme. These key financial documents are updated annually in advance of the forthcoming financial year.

The Council is in the process of producing its Local Plan which sets out the detailed plans for delivering sustainable economic, social and environmental benefits across the Borough.

The Cheltenham Development Task Force is an advisory body bringing together the private, public and voluntary sectors in partnership, as a way to progress the challenges and opportunities to improve the town for its citizens and businesses. The Council's MD for Place and Economic Development is a member of the Task Force. The management of key strategic risks are

<p>monitored by the Risk and Accountability group which includes the Council's Director of Resources. This arrangement provides independent challenge to ensure outcomes can be achieved.</p>
<p>D. Determining the interventions necessary to optimise the achievement of the intended outcomes</p> <p>The Council's Medium Term Financial Strategy highlights the requirements for the Council to make further savings and efficiencies in order to balance its revenue budget over the medium term.</p> <p>In order to realise future savings the Council is developing a commercial focussed approach to delivering services within the Place and Economic Development division.</p> <p>Further savings were identified through outsourcing the internal audit function to the South West Audit Partnership.</p> <p>In addition to commissioning services, the Council continues to secure savings through its procurement processes and through making changes to service delivery.</p> <p>The Council has processes in place to identify and respond to external changes, for example, changes to legislation and regulation, emerging risks and opportunities, etc. Corporate processes such as risk management, development and delivery of the Corporate Strategy, performance management processes, budget monitoring and other management processes are designed to capture and incorporate these external factors and to enable the Council to respond appropriately.</p> <p>Outcome based measures and key service measures have been developed which are reported on a quarterly basis.</p> <p>The Asset Management Plan and the Capital Strategy aims to ensure that investment is linked to strategic objectives.</p> <p>Financial stewardship in respect of both capital and revenue proposals are reviewed and challenged by the Budget Scrutiny Working Group and considered regularly by the Senior Leadership Team.</p> <p>All projects linked to corporate objectives are supported by their own governance arrangements that are documented within a Project Initiation Document.</p>
<p>E. Developing the entity's capacity, including the capability of its leadership and the individuals within it</p> <p>All Members have an induction and training program, corporate training needs are identified through the Democratic Services Team.</p> <p>The Member Development Program provides a structured approach to member development to ensure all members are supported in their role.</p> <p>The Council supports staff development which is delivered primarily by GOSS Learning and Development Team, through programs such as the Institute of Leadership and Management.</p> <p>Officers are appointed to positions with job descriptions which specify essential or desirable qualifications and experience. Human Resource processes also validate the applicants statements in their job applications and references are sought before employment commences.</p> <p>Officers undertake regular performance reviews by way of an appraisal process. Review meetings</p>

are held to ensure key objectives are being met and a final review at year end to discuss officer performance. Officers are encouraged to complete Continuing Professional Development as relevant to their professional qualifications and training is undertaken to maintain skills and knowledge.

F. Managing risks and performance through robust internal control and strong public financial management

The Audit Committee reviews and approves the Risk Management Policy on an annual basis; the latest approval was undertaken on 22 March 2017. The Corporate Risk Register is reviewed and managed by the Senior Leadership Team on a monthly basis and then reported informally to Cabinet. Service area risk registers are also maintained, any high scoring risks are escalated to the Senior Leadership Team for review and potential inclusion within the Corporate Risk Register.

Risks identified whilst undertaking internal audit reviews are reported when necessary.

Cheltenham Borough Council is a commissioning authority and a high proportion of its services are delivered by either a shared service arrangement or a standalone organisation. Examples include, housing delivered by Cheltenham Borough Homes, Ubico deliver waste management, leisure and culture delivered by The Cheltenham Trust. Detailed contracts and agreements are in place with each of these organisations which include performance management and reporting arrangements. Client officers monitor contractual requirements and key performance measures and report findings to the Senior Leadership Team on a quarterly basis.

Performance is scrutinised by the Senior Leadership Team and by the O & S Committee and subsequently reported to Cabinet. Milestones, performance indicators and outcomes are reviewed against the corporate objectives within the Corporate Strategy. Minutes of meetings are published and highlight the challenge made by Members to Officers/Cabinet Members.

A calendar for all meetings is created annually in advance and published on the Council's website.

During 2016/17 there was an in-house audit team who undertook internal audit reviews and offered advice and consultancy when necessary.

A risk based Audit Plan is drafted annually following consultation with Officers, Members and the S151 Officer. The Audit plan is approved by the Audit Committee prior to the beginning of the financial year.

Audit reports, once completed are discussed with the service manager. Executive summaries, including findings, and progress are reported to Audit Committee, including progress on the Audit Plan, on a quarterly basis.

Recommendations made in audit reports are followed up 6 months after the completion of the audit and findings reported to Audit Committee.

The Audit Committee's Terms of Reference are contained within the Constitution, Members have experience of a scrutiny role and training is provided when appropriate

A Counter Fraud Unit has been established across the Gloucestershire local authorities, West Oxfordshire District and other third parties. The team will liaise with Internal Audit where investigations identify possible improvements to the internal control framework, ensuring that improvements are implemented by Management.

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

The Council publishes an Annual Report which reports on the Council's activities for the previous

financial year. The report is published on the website.

Data in respect of transparency is published on the Council's website.

The Council's Statement of Accounts is produced and published annually in accordance with statutory legislation. Aligned with this is the production of the Annual Governance Statement which identifies how the Council has met its governance reporting obligations.

External Audit recommendations are reported to Audit Committee, following the completion of their annual audit process, follow-ups of recommendations is also reported.

Internal Audit processes ensure compliance with Public Sector Internal Auditing Standards. Internal Audit recommendations are followed-up and reported to Audit Committee, further follow-up is planned if recommendations haven't been actioned in full.

4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers, the annual opinion from the Head of Audit Cotswolds* and comments made by the external auditors and other review agencies and inspectorates.

The Council's process for maintaining and reviewing the effectiveness of the governance framework has included the following:

Senior managers complete Annual Assurance Certificates at the end of the financial year. These governance declarations provide appropriate management assurance that key elements of the system of internal control are in place and are working effectively and help to identify areas for improvement.

The Senior Leadership Team (including the S151 Officer and the Monitoring Officer) review the Corporate Risk Register on a quarterly basis.

The Acting Head of Internal Audit provides the Audit Committee, as the Committee charged with governance, with an Annual Opinion on the control environment of the Council, which includes its governance arrangements.

Investigation of, and decisions on, allegations of failure to comply with Members Code of Conduct are considered and determined by an Independent Person(s) / Standards Committee.

Induction processes are carried out for newly elected members.

The S151 Officer ensures training and awareness sessions are carried out for the Audit Committee periodically.

The External Auditors (Grant Thornton) present progress reports to Audit Committee.

The External Auditor's Annual Audit Letter and follow-up of management responses to issues raised in the Letter or other reports are overseen by the Audit Committee.

Quarterly performance reports, including the Corporate Risk Register and budget position, are presented to Overview and Scrutiny Committee and Cabinet, demonstrating performance

management against agreed milestones, performance indicators, outcomes and budgets.

The Council's Code of Corporate Governance is reviewed annually by the Audit Committee and is available on its website.

The Audit Committee review the Annual Governance Statement.

The Audit Committee review the Annual Statement of Accounts, the Treasury Management Strategy and reports from both Internal Audit (Audit Cotswolds) and External Audit (Grant Thornton), including quarterly progress reports.

Full Council approves the annual budget, reviews and approves the Treasury Management Strategy, following recommendations from the Audit Committee.

Internal Audit monitors the quality and effectiveness of systems of internal control. Audit reports include an opinion that provides management with an independent judgement on the adequacy and effectiveness of internal controls. Reports including recommendations for improvement are detailed in an action plan agreed with the relevant Service Manager / Head of Service.

The Annual Internal Audit Opinion for 2016/17, in respect of the areas reviewed during the year, was 'Satisfactory'.

The Council's Financial Rules and Contract Rules are kept under review and revised periodically.

Other explicit review / assurance mechanisms, such as the Annual Report from the Local Government Ombudsman and reports from Internal Audit or Grant Thornton.

**From 1st April 2017, Internal Audit was outsourced to SWAP (South West Audit Partnership)*

5. SIGNIFICANT GOVERNANCE ISSUES DURING 2016/2017

In preparing this statement and reviewing the effectiveness of our governance arrangements we have identified areas where we need to focus attention and improvement work over the next financial year. These areas of work are planned to strengthen the control framework and are set out in the table below.

No.	Key Area of Focus	Planned Actions
1	Contract Management – compliance matters (2020 / Publica)	Some internal audit reviews are highlighting that there is a degree of non-compliance with Council policies and procedures. As service delivery will transfer to the Publica companies during 2017/18, the Council needs to ensure that Publica takes steps to address compliance issues to minimise risk to the Council.
2	Records Maintenance – Safeguarding training	A number of recommendations were made to improve Safeguarding arrangements in place at the Council
3	Health & Safety processes – Personal Security	Due to the timing of the Health and Safety (Personal Security) audit, a follow-up review was conducted during 2016/17. The follow-up has identified that a number of recommendations are in progress and remain outstanding but good progress is being made by the services. Further follow-up will be planned for 2017/18.
4	Publica governance	Plan for and implement any changes to governance arrangements that arise from Publica becoming the deliverer of some Council services

5	General Data Protection Regulation (GDPR)	The Data Protection Regulatory framework is due to change in May 2018. The Council needs to take action to ensure it is compliant with the new requirements.
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The Annual Internal Audit Opinion, as drafted by the Acting Head of Audit Cotswolds, lists sixty pieces of audit work being conducted during 2016/17, which includes consultancy and advisory services. Twenty Eight assurance reviews were completed with only three scoring “limited assurance”, therefore there is a sound system of internal control at the Council which will continue to help mitigate any risks to the organisation going forward.

The three “Limited assurance” audit reports which were issued during the year are captured in 1 to 3 above. Recommendations and actions have been agreed with Management, follow-up reviews have been planned for 2017/18 to ensure actions are being implemented for all audit reviews conducted during 2016/17.

Due to the timing of the original Contract Management and Health and Safety (Personal Security) audits, follow-up reviews have been conducted during 2016/17. Our follow-ups have identified that a number of recommendations remain outstanding but good progress is being made by the services. Further follow-up will be planned for 2017/18.

We conducted follow-up reviews during 2016/17 on areas where weaknesses were identified in the previous year. Some recommendations have not been actioned and therefore a further follow-up will be undertaken during 2017/18.

6. APPROVAL OF LEADER AND HEAD OF PAID SERVICE

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Signed on behalf of Cheltenham Borough Council:

Steve Jordan
Leader of the Council

Pat Pratley
Head of Paid Service

Date:
(END)

Date:

Cheltenham Borough Council

Audit Committee – 14 June 2017

Review of Draft Accounting Policies 2016/17

Accountable member	Councillor Rowena Hay, Cabinet Member for Finance
Accountable officer	Sarah Didcote, Deputy Section 151 Officer
Ward(s) affected	All
Key Decision	Yes
Executive summary	To update Members on the Council's draft accounting policies included in the 2016/17 draft Statement of Accounts, providing members with the opportunity to review these policies ahead of the approval of the final audited 2016/17 Statement of accounts in September 2017.
Recommendations	That Audit Committee note the content of these draft accounting policies and make any comments as necessary.

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

1. Background

- 1.1 Audit Committee is requested to review the council's accounting policies, as included in the statement of accounts, on an annual basis. The council's auditors, Grant Thornton have recommended that this review is done prior to the review and sign-off of the council's final audited statement of accounts in September of each year. This is to aid the committee's understanding of the policies in place and their application in the statement of accounts.
- 1.2 This report therefore includes the draft accounting policies included in the draft statement of

accounts, submitted to External Audit by the statutory deadline of 30th June 2017.

2. Accounting Policies

- 2.1** The statement of accounts are prepared in accordance with proper accounting practices and regulations by following the CIPFA Code of Practice on Local Government Accounting ('The Code') and the CIPFA Service Reporting Code of Practice (SeRCOP), supported by International Financial Reporting Standards (IFRS's) and International Accounting Standards (IAS's).
- 2.2** The council's accounting policies outline the relevant accounting principles and methodologies adopted by the council, in order to meet these statutory requirements. They can be used to aid understanding of the statements as well as providing a comparison to other organisations. Any changes to accounting policies from previous financial years are disclosed as a separate note to the accounts.
- 2.3** GO Shared Services have completed a thorough review of the accounting policies for 2017/18 to ensure they are up to date and relevant to the statements, a copy of which is included as Appendix A to this report.

Presentational Changes:-

- 2.4** The main change in accounting policies from 2015/16 relates to the changes to the format of the Comprehensive Income and Expenditure Statement (CIES), the Movement in Reserves Statement (MIRS) and the introduction of a new Expenditure and Funding Analysis (EFA) and notes.
- 2.5** The change to the format of the CIES has resulted in a restatement of the segmental section for 2015/16 only, with no change to the Cost of Services, Surplus on the Provision of Services or Total Comprehensive Income and Expenditure. Consequently there is no change to the movement in reserves or balances of the council for the year. The change means reportable segments are now based on those most commonly reported to management for the purposes of resource allocation and performance monitoring (i.e. the council's directorates), rather than on the segment classification determined by the CIPFA Service Reporting Code of Practice (SeRCOP). These amendments have not had a material impact on the financial statements or balances of the council.
- 2.6** The changes to the 2015/16 original published figures are given below. The nature of services provided by each Directorate is detailed in the narrative report to the statement of accounts, to provide clarity to readers.

2.7

Presentational restatement of 2015/16 cost of services

	Gross expenditure £'000	Gross Income £'000	Net expenditure £'000
As reported in the Comprehensive Income and Expenditure Statement 2015/16:			
Central Services to the public	1,773	(537)	1,236
Cultural and related services	8,753	(940)	7,813
Environment and Regulatory services	8,637	(4,750)	3,887
Planning Services	3,782	(2,064)	1,718
Highways and Transport Services	3,407	(4,154)	(747)
Local Authority housing (HRA)	16,724	(20,888)	(4,164)
Other housing services	33,372	(32,821)	551
Corporate and Democratic Core	4,817	(3,220)	1,597
Non-Distributed costs	1,053	-	1,053

Cost of Services	82,318	(69,374)	12,944
As restated 2015/16:			
Head of Paid service	13,007	(5,231)	7,776
Environmental and Regulatory Services	14,458	(9,939)	4,519
Resources Directorate	37,969	(33,316)	4,653
Housing Revenue Account (HRA)	16,884	(20,888)	(4,004)
Cost of Services	82,318	(69,374)	12,944

- 2.8** The objective of the new Expenditure and funding Analysis is to demonstrate to council tax and rent payers how the funding available to the authority (government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those shown in the Comprehensive Income and Expenditure Statement (CIES) in accordance with generally accepted accounting practices.
- 2.9** The Expenditure and Funding analysis is then supplemented by segmental reporting notes in the accounts, which reconcile to the management outturn position included in the narrative report to the statement of accounts, to be reported to Cabinet and Council in July 2017.
- 2.10** A new segmental note for Expenditure and Income analysed by nature in the accounts presents the net cost of services by expenditure type, which supplements the presentation by Council Directorate.

Other changes to accounting policies:-

- 2.11** Group Accounts, Gloucestershire Airport -The financial statements of the Airport have now been prepared under the historic cost convention (except for certain items that are shown at fair value) in accordance with Financial Reporting Standard 102 (FRS102).

Since Investment Property and Property, Plant and Equipment (PPE) assets held by the airport have been valued at fair value, no adjustments are required to the value of non-current assets on consolidation with the council's accounts. Unlike in the airport accounts, however, where any gains in value over historic cost are credited to the Profit & Loss Account, such gains are credited in the group accounts to the Revaluation Reserve (for PPE assets) and the Capital Adjustment Account via the Group Income and Expenditure Statement (for Investment Property), in line with the council's accounting policies.

- 2.12** Overheads and Support services - Any surplus or deficit on overhead and support service accounts arising at the year-end is no longer reallocated to services, but remains as a support service net expenditure or income within the relevant Directorate. This is consistent with the way financial performance is reported to management, as required by the Code.
- 2.13** Fair Value – An additional paragraph (Appendix A, 1.21) has been included to further explain the council's policy on fair value measurement, although this is for clarification only and is not a change in accounting policy.

3. Conclusion

- 3.1** It should be noted that the draft accounting policies may be updated as part of the final audited statement of accounts. Audit committee will have the opportunity to review the final version as part of the approval of the overall statement of accounts in September 2017.

Report author	Contact officer: Sarah Didcote sarah.didcote@cheltenham.gov.uk, 01242 264125
Appendices	Appendix A - Draft Accounting Policies 2016/17
Background information	Code of Practice on Local Authority Accounting in the UK 2016/17 Accounts Accounts and Audit Regulations 2015

EXTRACT – DRAFT STATEMENT OF ACCOUNTS 2016/17

1. ACCOUNTING POLICIES

1.1 GENERAL PRINCIPLES

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

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

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

1.2 ACCOUNTING CONCEPTS

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

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

- Relevance
- Reliability
- Comparability
- Materiality

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

Accruals of Income and Expenditure

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

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

EXTRACT – DRAFT STATEMENT OF ACCOUNTS 2016/17

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

Going Concern

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

Primacy of legislative requirements

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

1.3 EMPLOYEE BENEFITS**Benefits Payable during Employment**

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

Termination Benefits

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

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

EXTRACT – DRAFT STATEMENT OF ACCOUNTS 2016/17**Post-Employment Benefits**

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

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

EXTRACT – DRAFT STATEMENT OF ACCOUNTS 2016/17

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

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

Discretionary Benefits

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

1.4 GRANTS AND CONTRIBUTIONS

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

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

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

1.5 OVERHEADS AND SUPPORT SERVICES

The agreed estimated cost of overheads and support services for the financial year are charged to those service segments that benefit from them, based on a variety of methods including officers' estimated time allocations, fixed charges per unit of service and, for administrative building costs, area occupied.

Any surplus or deficit on overhead and support service accounts arising at the year-end is not reallocated to services. This is consistent with the way financial performance is reported to management.

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1.6 COUNCIL TAX RECOGNITION

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

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

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

1.7 NATIONAL NON-DOMESTIC RATES (NNDR) INCOME RECOGNITION

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

1.8 ACQUISITIONS AND DISCONTINUED OPERATIONS

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

1.9 VAT

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

1.10 FOREIGN CURRENCY TRANSLATION

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

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1.11 NON-CURRENT ASSETS - RECOGNITION OF CAPITAL EXPENDITURE

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

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

The initial cost of an asset is recognised to be:

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

Measurement

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

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

- Dwellings – Current value, using the basis of existing use value for social housing (EUV-SH)
- Other Land and Buildings – Current value, using the basis of existing use value (EUV) where an active market exists or Depreciated Replacement Cost (DRC), where there is no active market for the asset or it is specialised
- Infrastructure – depreciated historic cost
- Community assets – historic cost (where known). The cost of many of the council's parks, gardens and open spaces is not known and they are therefore shown at Nil value. The Code offers the option for authorities to measure community assets at valuation, which is the requirement for Heritage assets. The council has so far not adopted to change its accounting policy in this way as it does not currently have the management information to make reasonable valuation estimates of community assets.
- Assets under construction – historic cost
- Surplus Assets – Current value, using the Fair Value basis (see paragraph 1.21 *Fair Value Measurement*).
- In the case of assets that have short useful lives or low values (or both) i.e. Vehicles, Plant and Equipment, depreciated historic cost is used as a proxy for current value.

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

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

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

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

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

Impairment

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

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

Where there are no gains in the Revaluation Reserve or an insufficient balance to meet the impairment loss, the remaining loss is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

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

Depreciation

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

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Depreciation is calculated on the following bases:

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

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

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

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

Componentisation

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

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

1.13 NON-CURRENT ASSETS - HERITAGE ASSETS

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

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

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

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

Statues and Monuments

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

Archaeology

The council cannot obtain reliable cost or valuation information for its archaeological collection. This is because of the diverse nature of the assets held and lack of comparable market values.

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Consequently the council does not recognise these assets on its balance sheet.

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

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

1.14 NON-CURRENT ASSETS - INVESTMENT PROPERTY

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

Investment properties are measured initially at cost and subsequently at fair value (see paragraph 1.21 *Fair Value Measurement*). Properties are not depreciated but are revalued annually as necessary dependent on changes in market conditions in the year. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Such gains and losses, however, are not permitted by statutory arrangements to have an impact on the General Fund Balance and are therefore reversed out in the Movement in Reserves Statement and credited to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

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

1.15 NON-CURRENT ASSETS - INTANGIBLE ASSETS

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

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

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

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

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

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

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

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

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

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

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

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1.17 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

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

1.18 CHARGES TO REVENUE FOR NON-CURRENT ASSETS

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

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

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

1.19 LEASES

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

Defining a Finance Lease

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

- If the lessee will gain ownership of the asset at the end of the lease term (e.g. in the case of hire purchase)
- If the lessee has an option to purchase the asset at a sufficiently favourable price that it is reasonably certain, at the inception of the lease, that it will be exercised
- If the lease term is for the major part of the economic life of the asset, even if title is not transferred. The economic life of the asset is deemed to be consistent with the useful life of the asset in the depreciation policy. The council recognises the major part to be 75% of the life of the asset, unless on an individual case basis this would not give a true representation of the substance of the transaction

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- At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. The present value of the minimum lease payments is calculated by discounting at the rate inherent in the lease. If this rate cannot be determined the incremental borrowing rate applicable for that year is used. The council recognises “substantially all” to mean 90% of the value of the asset. In some circumstances, a level of 75% is used if the council believes that using this level will give a result that better reflects the underlying transaction
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications
- If the lessee cancels the lease, the lessor’s losses associated with the cancellation are borne by the lessee
- Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (e.g. in the form of a rent rebate equalling most of the sales proceeds at the end of the lease)
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

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

Lessee Accounting for a finance lease

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

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

Lessor Accounting for a finance lease

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

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

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

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

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

Defining an Operating Lease

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

Lessor Accounting for an operating lease

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

Lessee Accounting for operating leases

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

1.20 FINANCIAL INSTRUMENTS

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

Financial Liabilities

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

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

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

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

Financial Assets

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

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

Loans and Receivables

Loans and receivables are initially measured at fair value and carried at amortised cost. Where interest is receivable this is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. Normally this means, for the council's loans and investments, the amount recognised in the Balance Sheet is the outstanding principal receivable plus any accrued interest, and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year stated in the loan agreement.

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

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

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

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

EXTRACT – DRAFT STATEMENT OF ACCOUNTS 2016/17**Available-for-sale financial Assets**

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

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

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

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

1.21 FAIR VALUE MEASUREMENT

The authority measures certain non-financial assets (Surplus Assets, Investment Property and Assets Held for Sale) and its Available-for-sale financial assets at fair value at the balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest. In the case of a non-financial asset, the authority takes into account the market participants' ability to use the asset in its 'highest and best use' or by selling it to another market participant that would use the asset in its 'highest and best use'.

Inputs to the valuation techniques used in measuring fair value are categorised within the fair value hierarchy as follows:

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 - directly or indirectly observable inputs other than quoted prices
- Level 3 - unobservable inputs for the asset or liability.

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1.22 INVENTORIES

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

1.23 CASH AND CASH EQUIVALENTS

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

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

1.24 PROVISIONS

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

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

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

1.25 CONTINGENT LIABILITIES

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

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

1.26 RESERVES

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

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back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure in that year.

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

1.27 CONTINGENT ASSETS

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

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

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

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

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

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

1.29 EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

1.30 ESTIMATION TECHNIQUES

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

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1.31 JOINTLY CONTROLLED OPERATIONS

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

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

1.32 INTERESTS IN COMPANIES AND OTHER ENTITIES – GROUP ACCOUNTS

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

Basis of Consolidation

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

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

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

At 31st March 2017 the council also had a 14.29% shareholding in Ubico Ltd., a local authority owned company which has seven members, providing environmental services to the shareholder councils. Previously the company was jointly owned and controlled with Cotswold District Council. Since the council no longer has control or joint control or significant influence over the company, from 2015/16 its accounts have not been consolidated into the group accounts, however full disclosure notes are provided.

Accounting Policies

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

Cheltenham Borough Homes (CBH)

The financial statements for CBH have been prepared under the historical cost convention in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including Financial

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Reporting Standard 102 (FRS102) and the Housing SORP 2014: Statement of Recommended Practice for Registered Social Housing providers.

Consequently dwellings owned by CBH are initially valued at historic cost. For the purposes of the group accounts they have been re-valued at Current value to bring them into line with the council's accounting policies, using the existing use value for social housing (EUV-SH) appropriate to the dwellings' tenure as affordable homes. Any revaluation gains or losses are treated as described in paragraph 1.12 (Measurement).

In the company accounts capital grants are written off to the Income and Expenditure account over the estimated life of the asset in line with depreciation. However in the group accounts such grants are treated in accordance with paragraph 1.4, whereby they are credited to the Income and Expenditure account when any conditions attaching to the grant are met.

Gloucestershire Airport Ltd

The financial statements of the Airport have been prepared under the historic cost convention (except for certain items that are shown at fair value) in accordance with Financial Reporting Standard 102 (FRS102).

Since Investment Property and Property, Plant and Equipment (PPE) assets held by the airport have been valued at fair value no adjustments are required to the value of non-current assets on consolidation with the council's accounts. Unlike in the airport accounts, however, where any gains in value over historic cost are credited to the Profit & Loss Account, such gains are credited in the group accounts to the Revaluation Reserve (for PPE assets) and the Capital Adjustment Account via the Group Income and Expenditure Statement (for Investment Property), in line with the council's accounting policies.

Audit Committee 2017-18 work plan

Item	Author
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14 June 2017	
Briefing (agree agenda): 24 April 2017	Report deadline: 2 June 2017
Audit committee update (2016-17)	Grant Thornton
Internal audit opinion (2016-17)	Internal Audit
Annual governance statement	Internal Audit
Annual Audit Fee letter (2017-18)	Grant Thornton
Introduction to SWAP	David Hill
Auditing Standards – communicating with the Audit Committee (moved from March)	Grant Thornton
The Provision of Emergency Management Support Services	Matt Armstrong (Glos. Fire and Rescue)
Treasury Management Matter – progress report (EXEMPT)	Bryan Parsons
Review of Draft Accounting Policies (2016-17)	Sarah Didcote
20 September 2017 (tbc)	
Briefing (agree agenda):	Report deadline:
Audit committee update	Grant Thornton
Audit highlights memorandum - ISA 260 (for the previous year) inc. Financial Resilience	Grant Thornton
Internal audit monitoring report	Internal Audit
Counter Fraud update and future work provision	Counter Fraud Unit
Review of annual statement of accounts	Finance Team
Modern Slavery Reception Centre Protocol	Tracy Brown
10 January 2018 (tbc)	
Briefing (agree agenda):	Report deadline:
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

Audit Committee 2017-18 work plan

Item	Author
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21 March 2018 (tbc)	
Briefing (agree agenda):	Report deadline:
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
13 June 2018 (tbc)	
Briefing (agree agenda):	Report deadline:
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

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

Audit Committee 2017-18 work plan

Item		Author
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
	Annual governance statement	Internal Audit
	Annual Audit Fee letter for the coming year	Grant Thornton
	Review of annual statement of accounts	Finance Team (from 2018)
September	Audit committee update	Grant Thornton
	Audit highlights memorandum - ISA 260 (for the previous year) inc. Financial Resilience	Grant Thornton
	Internal audit monitoring report	Internal Audit
	Counter Fraud update and future work provision	Counter Fraud Unit

