

## Audit Committee

Wednesday, 20th September, 2017  
6.00 - 7.20 pm

Attendees	
<b>Councillors:</b>	Colin Hay (Chair), Steve Harvey (Vice-Chair), Matt Babbage, Paul McCloskey, John Payne and David Willingham
<b>Also in attendance:</b>	Peter Barber (Grant Thornton), Lucy Cater (SWAP), Emma Cathcart (Counter Fraud), Sarah Didcote (Deputy Section 151 Officer), Paul Jones (Section 151 Officer) and Sophie Morgan (Grant Thornton)

## Minutes

**1. APOLOGIES**

No apologies had been received.

**2. DECLARATIONS OF INTEREST**

No interests were declared.

**3. MINUTES OF THE LAST MEETING**

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

The Chairman noted that Agenda Item 2 (Declarations of Interest) should have read: Councillor Willingham declared a non-pecuniary interest in Agenda Item 6 (Progress Report and Update), as a member of the Local Government Pension Scheme from his time as a councillor on Bristol City Council.

The minutes on the website would be amended as necessary.

Upon a vote it was unanimously

**RESOLVED that the minutes of the meeting held on the 14 June 2017, as amended, be agreed and signed as an accurate record.**

**4. PUBLIC QUESTIONS**

None had been received.

**5. AUDIT FINDINGS REPORT - ISA260 INCLUDING FINANCIAL RESILIENCE**

Peter Barber of Grant Thornton (GT), introduced the report as circulated with the agenda. He explained that the report highlighted key findings and opinion on the financial statements. Page 5 of the report identified areas as being 'yet to be finalised', though he was able to report that progress had been made in all areas, with most now being complete. GT had not identified any adjustments affecting the overall accounts or any material errors, however GT had recommended a number of adjustments which they felt would improve the presentation of the financial statements. He referred to the timing of the audit

which had been a month earlier than last year and a year ahead of the statutory timetable change, as the council had been keen to demonstrate their ability to achieve the earlier deadline. He commended this achievement, as well as the good standard of responses GT had received to any queries. GT anticipated being able to provide an unqualified audit opinion in respect of the financial statements but stressed that the audit was not designed to test all internal controls or identify all areas of control weakness, however, he did draw members attention to the two control issues that had been identified on page 6; minor IT control weaknesses and journal entries posted by the Section 151 Officer, though this recommendation had since been implemented. In relation to Value for Money (VFM), GT had to satisfy themselves that the council had put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources and he was pleased to report that GT had concluded that the council did have proper arrangements in place to ensure the it delivered value for money in its use of resources.

Sophie Morgan, also of GT, proceeded to provide more detail and context to the audit work that had been undertaken. She explained that when performing their audit work, GT applied the concept of materiality and overall materiality had been determined to be £1,646,000 (2% of gross expenditure), though this figure was lower for more sensitive disclosures including Audit fees and officer remuneration and exit packages. She referred members to pages 10 - 14 which detailed the risks which had been identified, though the two detailed on page 10 were presumed significant risks which were applied to all audits under auditing standards. Also detailed on these pages was the work that had been undertaken and the details of the assurances that had been gained and any issues arising. As significant components of the Group, a targeted approach was taken in relation to CBH and Gloucestershire Airport, though no significant issues were identified in relation to the significant risks of the group audit. She noted that the Airport had not previously been included but since commencing reporting under the FRS102 financial reporting framework in 2016/17, there had been a significant increase in the value of the Airport's assets, which had led to them being treated as a significant component of the Group. The committee were advised that GT had now received positive confirmation from all third parties and in terms of the issue of IT controls identified on page 20, the work was in progress, though Publica was still yet to be tested. One disclosure change had been identified after the report had been submitted on the 8 September and this related to a lease disclosure; the figure for the Delta House lease was missing but she reported that this had not impacted the balance sheet. She confirmed that the main consideration for GT in arriving at the VFM conclusion was the Council's MTFS and the key findings against this significant risk were detailed on page 26 of the report and GT had made two recommendations relating to the MTFS. Confirmation that certification work on pooled receipts could commence had not yet been received by GT since the submission of this report and this explained why the fee had been marked as 'TBC' on page 29. Pages 34 and 35 set out all recommendations contained within the report and included management responses for each, and page 36 confirmed that GT anticipated providing the council with an unmodified audit report.

The following responses were given to member questions;

- A member was concerned that statements such as “The culture and ethical frameworks of local authorities, including Cheltenham Borough Council, mean that all forms of fraud are seen as unacceptable” and “As set out in the audit plan, we do not consider this to be a significant risk as our experience shows that expenditure is well controlled and monitored” gave the impression that because something had been right in the past, an assumption had been made that it was right this year. The GT Auditors responded by reminding members that a set of presumed risks were applied to every organisation and GT did not consider these to be significant risks at CBC; because there was not an inherent risk to manipulate revenue to show profits and officer pay was not performance related as was the case in businesses. This was not to say that no auditing had been undertaken in these areas, it had, but it was simply not considered a significant risk.
- Testing of revenue cycles was risk based and as such GT undertook testing in totality in relation to Council Tax; but with an increasing number of other revenue streams sample testing was undertaken. GT were not permitted to rely on Internal Audit work, but would monitor this and take account of it and members were reminded that if a large number of frauds were identified, this would ultimately impact upon the Statements.
- The FRS102 financial reporting was a new accounting framework which was imposed on the commercial sector, which had resulted in changes to how investment property was valued and subsequently resulted in a significant increase to the value of the Airport’s assets. It was noted that the ramifications of this were dependant on the type of assets held by an organisation.
- Cash handling was considered less of a risk in terms of revenue cycles, with income being recognised within the wrong period being a bigger risk. Deliberate misreporting of accounts was fraud.

The Chairman was reassured by the fact that there were no minor adjustments to Property Plant and Equipment valuations, as had been the case in previous years and the committee welcomed the findings by GT.

No decision was required.

Kind regards

## **6. STATEMENT OF ACCOUNTS 2016/17**

The Deputy Section 151 Officer introduced the Statement of Accounts 2016-17 and proceeded to talk through a PowerPoint presentation (Appendix 1) and in addition to the slides, explained that:

- It was important to note that the legislation prescribes a set format by which the statements have to be presented.
- The bad debt provision for the non-recovery of overpayment of housing benefit has increased from 70% to 75%, representing a change to the draft accounting policies approved by the committee at the June meeting.
- The practice and procedures had improved since last year, which had assisted in being able to achieve closedown a month earlier than last year.

- Instructions were actually given to the valuers in July/August rather than in November as stated on slide 5 of the presentation.
- The turnout of staff at workshops held in March was greater than in previous years.
- Much more detailed work was carried out in March, earlier than in previous years, which meant that closedown work could also be completed earlier.
- The date for external audit of the accounts should have shown as July/August 2017 rather than 2016 on the presentation slide.
- The fact that the Comprehensive Income and Expenditure Statement service analysis was now based on the Council structure meant that it could be presented in the same way that it had always been reported throughout the year to members.
- The new Expenditure and Funding Analysis (EFA) note to the accounts was the main change this year.
- The narrative statement was not hugely different to last year but further efforts had been made to ensure that it told the story of the council and highlight any success stories.
- Members were reminded that the Annual Governance Statement had been agreed by the committee in June.
- She highlighted that the Management Outturn had shown an underspend of £571k for the year.
- The EFA allowed the reader to reconcile the management accounts reported to Council to the Comprehensive Income & Expenditure account and the Movement in Reserves Statement reported in the Statement of Accounts, showing year end technical adjustments such as pensions and revaluations. This is aimed at making the statements more useful and understandable.
- It was noted that because the Balance Sheet was a snapshot of a point in time, it could change from one day to the next.
- The £308m net assets at 31<sup>st</sup> March 2017 include £62m of liabilities on pensions.
- Usable and unusable reserves were included as many were then reversed back out and there were notes to support this. (delete line)
- Because early closure had been achieved this year, there was every confidence that this could be replicated next year when the statutory deadline would officially change, subject to any initial changes as a result of the introduction of Group Accounts for Publica Ltd.
- The June meeting of this committee would move to the end of July from 2018 onwards.

The following responses were given to member questions:

- The purchase order situation was monitored monthly and was greatly improved with between 80% and 90% of invoices received having an appropriate purchase order and admittedly, this had made the closedown process much smoother.
- At least 20% of assets were valued each year as part of a 5 year rolling programme, as well as a paper exercise to look at the rest. Changing market conditions were taken into account and could see certain assets prioritised over others, regardless of value.
- The council held operational assets not only investment assets (i.e. bridges, etc) and whilst the value of that asset would depreciate

annually, it would not always necessarily be something that could be easily sold to a member of the public.

- No questions or issues were raised during the public consultation.
- The Museum collection, which are assets of the council were included under heritage assets, though they have not been formally valued in the last year. The notes in relation to this recognised that it was not always possible to achieve a valuation on some of the items.

The committee commended officers for their hard work and congratulated everyone involved for being able to achieve closedown a month earlier than last year and a year before the statutory change.

Upon a vote it was unanimously

**RESOLVED that:**

- a. The accounts for the year ended 31 March 2017 be approved.**
- b. The Statement of Accounts and letter of representation be signed by the Chairman of the committee and the Section 151 Officer.**

**7. INTERNAL AUDIT MONITORING REPORT**

Lucy Cater, Assistant Director, introduced the Internal Audit Monitoring Report and Internal Audit Charter. The Monitoring Report, which was written at a point in time, highlighted the work that had been completed by Internal Audit and provided comment and assurances on the control environment. She reminded members that the Internal Audit Partnership (Audit Cotswolds) had transferred to the South West Audit Partnership (SWAP) on the 1 April 2017 and the Control Assurance Definitions had changed, as well as the way in which recommendations were prioritised, with Priority 5 being of the highest priority where this had previously been reported to this committee was a Priority 1. A new Internal Audit Charter had been provided by SWAP. She explained that the Charter, which formed part of the requirements of the Public Sector Internal Audit Standards, summarised how the service would operate and provided guidance on authority, accountability, customer care (quality control), independence, reporting, responsibility, and audit standards and the committee were being asked to approve this charter.

The Assistant Director gave the following responses to member questions:

- The Audit Plan was approved in March 2017 and set out the planned work for the forthcoming year. The Monitoring Report had been drafted at a point in time and as a consequence, further progress had been made since, which was not captured in this report. A draft report had been issued on the S106 Agreement and Funds and work had started in relation to Elections and Damages Recovery. She was confident that all planned work would be completed as planned.
- The General Data Protection Regulations (GDPR) were being looked at across all four partners and this work was being undertaken by Senior Computer Auditors. The Director of Corporate Resources was leading on this from a client perspective and had commissioned One Legal to undertake a special piece of work, which was being approached as a project. Unable to offer an answer in relation to what support the

Council was providing to the likes of CBH and Ubico, as well as third sector organisations to whom we awarded funding (Hesters Way Partnership, Big Local, etc), the Section 151 Officer suggested that a representative from One Legal be invited to attend a future meeting of the committee.

- The issue of the Legal Entity Identifier, a code that was unique to a legal entity, was in hand, though it was not yet clear if TECKAL companies would be included.

The committee agreed that an item should be scheduled on the January 2018 agenda in relation to GDPR. It was suggested that a representative from One Legal should attend and provide details of what work had been undertaken to date and this would give the committee the opportunity to understand how this work complimented the work being undertaken by SWAP.

There were no further comments or questions.

Upon a vote it was unanimously

**RESOLVED that monitoring report be noted and the Internal Audit Charter be approved.**

**8. COUNTER FRAUD UNIT REPORT AND COUNCIL TAX, HOUSING BENEFIT AND COUNCIL TAX SUPPORT PENALTY AND PROSECUTION POLICY**

Emma Cathcart, Counter Fraud Manager, introduced the Counter Fraud Unit report, as circulated with the agenda. The 2017/18 work plan had been agreed by the Chief Finance Officers and Senior Leadership Team and detailed areas of focus for Cheltenham. She noted that since the last meeting of the committee, four investigators had been appointed to permanent positions and highlighted that this service would not form part of Publica but staff would instead be employed by Cotswold District Council and seconded to Cheltenham, with Publica also being a client. The investigators now had a base at the Municipal Offices and worked closely with CBH given that they managed the housing stock on behalf of the council. A new Council Tax, Housing Benefit and Council Tax Support Penalty and Prosecution Policy had also been included for comment by the committee. This policy would replace the Housing and Council Tax Benefit Sanctions policy and covered both criminal and civil aspects. Members were asked to comment ahead of approval by Cabinet.

A member commended the counter fraud team on the successful prosecution in relation to a false RTB application. This had been a high profile case and he felt that the result represented justice having been done. He also felt that stories such as this would undoubtedly deter others from committing, or attempting to commit fraud against the authority.

Whilst members were pleased to see that the draft policy suggested penalising those who were guilty of abusing the Council Tax Reduction Scheme; they were concerned by the lack of independent appeal method when dealing with a civil penalty. The policy stated that reconsideration of a decision to impose a civil penalty would be undertaken by a Senior Manager within the organisation and the committee felt that this should be undertaken by a Senior Officer at a partner authority or at the very least, a Senior Manager from another service

area within the authority. The Counter Fraud Manager responded by explaining that historically, reconsideration of any such decision would be undertaken by a Senior Officer within the service rather than being referred back to the DWP, however, she could see no reason why an element of independence could not be included. The Chairman reminded members that they had fulfilled their role by raising the issue and it was for Officers and the Cabinet Member to decide whether they wanted to justify the process as it stood or modify it.

Upon a vote it was unanimously

**RESOLVED that:**

- a) **The work plan be noted.**
- b) **The committee's comments on the Council Tax, Housing Benefit and Council Tax Support Penalty and Prosecution Policy be shared with Cabinet.**

**9. WORK PROGRAMME**

The work programme had been circulated with the agenda.

Members were reminded that the June meeting would move to July from 2018 onwards.

An item on GDPR would be added to the January 2018 meeting. The Section 151 Officer would arrange for a representative of One Legal to attend.

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

There were no urgent items requiring a decision.

**11. LOCAL GOVERNMENT ACT 1972 - EXEMPT INFORMATION**

Upon a vote it was unanimously

**RESOLVED that in accordance with Section 100A(4) Local Government Act 1972 the public be excluded from the meeting for the remaining agenda items as it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public are present there will be disclosed to them exempt information as defined in paragraph(s) 3 and 5, Part (1) Schedule (12A) Local Government Act 1972, namely:**

**Paragraph 3; Information relating to the financial or business affairs of any particular person (including the authority holding that information)**

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

**12. EXEMPT MINUTES OF THE LAST MEETING**

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

It was noted that the Chairman, whilst present at the meeting, was not showing as being in attendance. This would be amended.

Upon a vote it was unanimously

**RESOLVED that the exempt minutes of the meeting held on the 14 June, as amended, be agreed and signed as an accurate record.**

**13. DATE OF NEXT MEETING**

The next meeting was scheduled for the 10 January 2018.

Colin Hay  
**Chairman**



**Cheltenham Borough Council**  
**Audit Committee, 20 September 2017**  
**2016/17 Statement of Accounts**

Sarah Didcote, GO Shared Services



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**Areas to be covered**

- Role of Audit Committee
- Accounting practices and procedures
- Changes to Financial Statements in 2016/17
- Format of Statements
- Financial Statements
- Notes to the Accounts
- Early Closure
- Questions

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**Role of Audit Committee**

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

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**Role of Audit Committee (cont'd)**

- Review suitability of accounting policies and treatments
- Seek assurances from Section 151 Officer and External Audit – review Auditor's Opinion
- Sign approval of Statements by 30<sup>th</sup> September 2017
- Consider if any major concerns arising from Statements or External Audit to bring to attention of Council.

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**Accounting Practices and Procedures**

- October 2016 – GOSS review of 2015/16 closedown process
- November 2016 – Instructions to Valuers
- December 2016 – Pre meeting with External Auditors to discuss issues / changes to statements for 2016/17
- February 2017 - Year end timetable and Guidance notes produced - agreed by key officers, budget holders and external parties
- March 2017 - Workshops held for all relevant staff

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**Practices and Procedures (continued)**

- March 2017 – Budget monitoring to identify issues and expected year end position
- March 2017 – Timetable and Guidelines re-sent to all staff
- March 2017 – Final reconciliation of suspense and control accounts, preparation for year end
- April / May 2017 – Accruals accounting and production of management year end outturn position
- May 2017 – Production of statement of accounts, including technical adjustments

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## Practices and Procedures (continued)

- 31<sup>st</sup> May 2017 – Accounts signed by Section 151 Officer and submitted to External Audit
- Public inspection period 5<sup>th</sup> June to 14<sup>th</sup> July 2017
- July 2017 – Cabinet / Council year end Outturn report
- July/August 2016 – External audit of accounts
- August 2017 – close out meeting with External Audit
- 20<sup>th</sup> September 2017 – Review and sign off of Statements by Audit Committee

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## Changes in 2016/17

- Change to format of Comprehensive Income & Expenditure Statement – service analysis now based on Council structure / management reports rather than CIPFA standard classification
- New major note - Expenditure and Funding Analysis (EFA)
- Further 'decluttering' and improvement of Narrative Statement

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## Format of Statement of Accounts

### • Narrative Statement

- Council vision and priorities and performance management
- Developments in service delivery
- Management revenue outturn and Capital Expenditure
- Financial Challenges ahead
- Introduction to main statements

About telling the story of the council, behind the statutory accounts

### • Statement of Responsibilities for the Statements

- Outlines the Council's and Section 151 Officer's responsibilities
- Section 151 Certification – "True and Fair View"
- Audit Committee approval - sign off by Chair

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## Format of Statement of Accounts (continued)

### • Main Financial Statements and notes

- Comprehensive Income & Expenditure Statement (CIES)
- Balance Sheet
- Movement in Reserves Statement
- Cash Flow Statement
- Collection Fund – Business Rates and Council Tax
- Group Accounts
- Housing Revenue Account

### • Other notes to accounts

- Including pensions, officer remuneration, audit fees, members allowances, Expenditure Funding Analysis (EFA), related third parties

### • Glossary of Terms

### • Annual Governance Statement

### • Independent Auditor's Report – Grant Thornton

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## Comprehensive Income & Expenditure Statement (CIES)

### • Management Outturn:

- represents general fund service costs funded by taxation
- measures underspend against approved budget

### • Comprehensive Income & Expenditure Statement (CIES):

- reports total accounting cost of Council services, for GF and HRA
- includes year end technical adjustments
- Gross income and expenditure categorised by service as reported to management / Council

### • Expenditure & Funding Analysis (EFA) note to accounts provides reconciliation between CIES and movement in GF and HRA usable reserves, as reported in the management outturn

### • Technical Adjustments to CIES reversed out to usable and unusable reserves through the Movement in Reserve Statement, therefore no impact on council tax payer

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## Balance Sheet

### • Shows value of assets and liabilities at the balance sheet date

### • Snapshot of a point in time, showing net assets matched by reserves

### • Land and Property valuations in accordance with 5 year rolling programme, with reasonability check for other material assets

### • Reserves – split into usable (including earmarked) reserves and unusable reserves e.g. pension reserve, revaluation reserve

### • Full breakdown of each element of balance sheet supported by notes to statements

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## Other Main Financial Statements

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

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## Early Closure of Statement of Accounts

### Statutory Changes

- 2016/17 - draft accounts produced by 31st May 2017
- 2017/18 – draft accounts to be prepared by 31<sup>st</sup> May 2018
- External Audit to be completed by 31<sup>st</sup> July 2018 (30<sup>th</sup> September for 16/17 accounts)
- Audit Committee approval of audited accounts by 31<sup>st</sup> July 2018 (30<sup>th</sup> September for 16/17 accounts)

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## Any Questions?



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