



CHELTENHAM

BOROUGH COUNCIL

Notice of a meeting of Audit Committee

Wednesday, 18 April 2018
6.00 pm
Pittville Room - Municipal Offices

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

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

Agenda

1.	APOLOGIES Councillor Hay (Chair)	
2.	DECLARATIONS OF INTEREST	
3.	MINUTES OF THE LAST MEETING 10 January 2018	(Pages 3 - 8)
4.	PUBLIC QUESTIONS These must be received no later than 12 noon on the fourth working day before the date of the meeting	
5.	GENERAL DATA PROTECTION REGULATION POLICY Corporate Governance, Risk and Compliance Officer	(Pages 9 - 36)
6.	ANNUAL REVIEW OF RISK MANAGEMENT POLICY Corporate Governance, Risk and Compliance Officer	(Pages 37 - 64)
7.	AUDIT COMMITTEE UPDATE Grant Thornton	(Pages 65 - 84)
8.	AUDIT PLAN Grant Thornton	(Pages 85 - 102)
9.	INTERNAL AUDIT ANNUAL PLAN 2018-19 AND INTERNAL AUDIT CHARTER Internal Audit	(Pages 103 - 134)

10.	INTERNAL AUDIT MONITORING REPORT Internal Audit	(Pages 135 - 160)
11.	ANNUAL GOVERNANCE STATEMENT Internal Audit – To Follow	
12.	COUNTER FRAUD UPDATE AND REGULATION OF INVESTIGATORY POWERS ACT 2000 UPDATE Counter Fraud	(Pages 161 - 166)
13.	REVIEW OF DRAFT ACCOUNTING POLICIES Finance	(Pages 167 - 192)
14.	WORK PROGRAMME	(Pages 193 - 194)
15.	ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION	
16.	DATE OF NEXT MEETING 25 July 2018	

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

Audit Committee

**Wednesday, 10th January, 2018
6.00 - 7.00 pm**

Attendees	
Councillors:	Colin Hay (Chair), Steve Harvey (Vice-Chair), Matt Babbage, John Payne, Jon Walklett and David Willingham
Also in attendance:	Lucy Cater (SWAP), Sarah Didcote (Deputy Section 151 Officer), Alex Lawson (Project Manager), Sophie Morgan (Grant Thornton), Barrie Morris (Grant Thornton), Mark Sheldon (Director of Corporate Resources) and Shirin Wotherspoon (One Legal)

Minutes

1. APOLOGIES

No apologies had been received.

The Chairman asked that the vice chair take the chair for a few moments.

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 20 September 2017, be agreed and signed as an accurate record.

4. PUBLIC AND MEMBER QUESTIONS

None had been received.

5. GDPR PROGRESS UPDATE

Mark Sheldon, the Director Corporate Resources, introduced the GDPR progress update. He explained that this was being approached as a corporate project as it represented a significant piece of work for the organisation and had far reaching implications. The results of the audit work undertaken by SWAP were currently under review and the project team had met earlier in the day to discuss a number of options relating to the Data Protection Officer role, though no decisions had been made. He took the opportunity to remind members that a GDPR seminar had been arranged for 6pm on the 30 January and stressed the importance of having as many members attend as possible, given that the new Regulation would also have implications for members.

In relation to paragraph 4.3 and the requirement for members to register with the Information Commissioner, a member encouraged the council to consider administering and paying the fee on members' behalf, as he felt that it would reflect badly on the council if any members did not register.

Other members disagreed. The requirement to register with the Information Commissioner had been made clear to them following their election and members should use their allowance to cover the fee (currently £35 per year but to increase to £55). Another member felt that individual members should take responsibility and a more active role.

The following responses were given to member questions:

- A number of Officers had already been fully trained, mostly Service Managers who had undertaken the information audit. The 'all officer training' which would take place between 1 March and 27 April related to all other officers.
- The council were considering an option for mass registration with the Information Commissioner on behalf of all members, but stressed that this was only one of a number of options being explored.
- One Legal commented that the Regulation simply required the council to more clearly define its powers for sharing and have more detailed Data Processing Agreements with partners and as such, had no concerns that the Regulation would restrict data sharing with partners.
- All members were being urged to attend the member seminar on the 30 January, though the project did intend to arrange some form of mop-up session(s) for any members that absolutely could not attend the 30th.

There were no further questions and no decision was required.

6. ANNUAL AUDIT LETTER

Barrie Morris of Grant Thornton, introduced himself to the committee as the new Engagement Lead, having replaced Peter Barber.

Sophie Morgan then introduced the Annual Audit Letter 2016-17, as circulated with the agenda. The letter summarised key findings from the work that had been undertaken for the year ended 31 March 2017, which members would be familiar with having discussed these findings in detail at the last meeting. This summary set out the role of Grant Thornton as external auditors, the main findings of the work that had been undertaken and concluded at Appendix A, which confirmed the final fees for the year. She noted that work to certify the Council's Housing Benefit subsidy claim was complete but a fee variation was yet to be confirmed, and as such, the actual fee had not yet been included.

Sophie also took the opportunity to thank officers for their support over the last year.

There were no questions and no decision was required.

7. CERTIFICATION OF GRANTS AND RETURNS

Sophie Morgan introduced the Certification of Grants and Returns, which had been circulated separately to the agenda, having not been issued until the 4

January 2018. A number of issues were identified, some of which had recurred from 2015-16, and these findings were summarised on pages 2 and 3 of the letter. It was noted that due to the additional work required to address the issues that had been identified, Grant Thornton were seeking a fee variation which would be confirmed by Officers and was subject to confirmation from the PSAA.

In response to a member question Sophie noted to members that the errors that had been identified were a result of human error rather than system failures, namely miscalculations. Officers had been informed at the time that the issues had been identified, with the recommendation that spot-checks should be undertaken. Barrie Morris noted that issues were often identified in relation to Housing Benefit claims and often, many more than had been identified at this authority.

The Deputy Section 151 Officer commented that she and colleagues had been pleased with the result of the work undertaken by Grant Thornton.

No decision was required but the committee noted that the final fee would increase.

8. AUDIT COMMITTEE UPDATE

Barrie Morris of Grant Thornton introduced the Audit Committee update, which summarised progress as at December 2017. The document outlined the 2017-18 deliverables and the associated status. The update also detailed technical updates which members might find useful and included information on forthcoming provisions, particularly IFRS 9 (Financial Instruments) which could have a material impact on the way in which the council classified financial assets, namely as 'expected loss' rather than the 'incurred loss'.

There were no questions and no decision was required.

9. INTERNAL AUDIT MONITORING REPORT

Lucy Cater, Assistant Director of SWAP, introduced the Internal Audit Monitoring Report. The Monitoring Report, which was written at a point in time, highlighted the work that had been completed by Internal Audit, providing comment and assurances on the control environment, as well as providing an update in relation to the status of items on the Audit Plan 2017-18. She noted that:

- With agreement from the Section 151 Officer, the 'Device Strategy' had been dropped as ICT support had not been forthcoming despite numerous requests.
- The Ubico Monitoring and Recyclates report has been drafted and discussed with officers, work was now being undertaken on a revised draft to be issued.
- The H&S report had been finalised and would be tabled for consideration by the committee at their next meeting.
- There were no control issues to report at this time.

In response to a member question the Assistant Director advised that at this time she was confident the team could deliver everything on the Audit Plan 2017-18 by April 2018, though it was noted that Officer responses to requests

for information was not always as timely as it could be. She assured members that as part of SWAP, it was possible for her to call upon additional resource if required.

No decision was required.

10. ANNUAL GOVERNANCE STATEMENT - SIGNIFICANT ISSUES ACTION PLAN

Lucy Cater, Assistant Director of SWAP, introduced the significant issues action plan as circulated with the agenda. She explained that the Annual Governance Statement had been approved at the previous meeting of the committee and five areas of concern had been identified, all of which had been added to an action plan. She provided a brief summary of the progress (to date) that had been made on each of the five areas:

Contract Management – compliance matters: a follow-up review was currently being finalised.

Records maintenance – safeguarding training: a follow-up review had commenced.

Health and Safety processes – personal security: all recommendations had been implemented except for that relating to the updating and publishing of policies. This had been delayed due to the launch of Publica and was planned for completion by February 2018.

Publica – governance: once the review of policies and procedures had been finalised, SWAP would review any elements specific to the council. A review of benefits rationalisation would be undertaken in 2017-18.

GDPR: SWAP reviewed the progress of implementation and offered their observations. A further internal audit would be undertaken in April 2018.

In response to a member question the Assistant Director confirmed that the Council had a Lone Working policy which was overseen by the Health and Safety Team which formed part of the shared service. She went on to confirm that SWAP undertook audits across all partner organisations, sharing findings with each partner and that testing compliance with any policies formed part of any review.

A member raised concerns about how the council ensured member and officer safety at public meetings. This would be raised with the Chief Executive and her response would be shared with the committee.

A member felt that members undertook a large amount of lone working and felt that training should be arranged to promote ways in which members could protect themselves. This would be raised with Mark Lane, Head of Health and Safety and any related information would be shared with members.

There were no further questions and no decision was required.

11. WORK PROGRAMME

The work programme had been circulated with the agenda.

Officers asked that the March meeting be deferred until April, which would allow them to finalise the Code of Corporate Governance after the close-down of the accounts. Members were happy with this proposal and the Democracy Officer would look at dates w/c 16 April and contact officers and members as necessary.

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

There were no urgent items requiring a decision.

13. DATE OF NEXT MEETING

The date for this meeting was under review and the website would be updated accordingly.

Colin Hay
Chairman

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Cheltenham Borough Council Audit Committee – 18 April 2018 Data Protection

Accountable member	Councillor Roger Whyborn
Accountable officer	Director of Resources and Corporate Projects, Mark Sheldon
Ward(s) affected	None Directly
Key/Significant Decision	No
Executive summary	<p>From 25 May 2018, the existing Data Protection Act 1998 will be replaced by new legislation in the form of the EU General Data Protection Regulation (GDPR), a new Data Protection Act and related legislation. This report sets out the main features of the legislation and its likely impact, and details the current approach to ensuring compliance.</p> <p>The Council currently has a Data Protection Policy which has been rewritten to reflect the new legislation.</p> <p>This new Data protection Policy (appendix 2) applies to all users who handle information and personal data held by Cheltenham Borough Council, including personal data of our service users.</p> <p>This Policy applies to all employees, Members and processors of personal data held by the Council.</p>
Recommendations	<p>That Audit Committee consider and comment upon the new Data Protection Policy and recommend to Cabinet that it is approved for use</p> <p>That Audit Committee recommend to Cabinet that authority be delegated to the Director of Resources and Corporate Projects to vary the existing s101 Shared Service arrangement between the Council, Gloucester City Council and One Legal (Tewkesbury Borough Council) to:</p> <ul style="list-style-type: none"> • Include undertaking the statutory function of the DPO under the Data Protection legislation and • Designate the council’s Borough Solicitor as the DPO for the council

Financial implications	<p>Members approved new funding of £17,000 for this council's share of the cost of a new Data Protection Officer, to be provided by One Legal, as part of the Council 2018/19 budget setting meeting on 19th February 2018, as detailed in section 3 of this report. Gloucester City Council and Tewkesbury District Council also have provision for their share of this new cost within their Council budget.</p> <p>Contact officer: Sarah Didcot</p> <p>Tel; 01242 264125</p> <p>Email; Sarah Didcot @cheltenham.gov.uk,</p>
Legal implications	<p>The Data Protection Policy has been updated to reflect the new Data Protection legislation due to come into effect on 25th May 2018.</p> <p>The Data Protection Officer is a statutory role whose responsibilities are set out in the proposed legislation. The proposal is to extend the current s101 shared service arrangement with One Legal to undertake the function.</p> <p>Contact Officer Shirin Wotherspoon, OneLegal</p> <p>Email; Shirin.wotherspoon@tewkesbury.gov.uk</p> <p>Tel; 01684 295010</p>
HR implications (including learning and organisational development)	<p>As stated the existing Data Protection Act 1998 will be replaced by new legislation in the form of the EU General Data Protection Regulation (GDPR), and a new Data Protection Act. The Council is aware of its duty to ensure that the roles, responsibilities and knowledge of the new legislation are cascaded to all employees. Training has been provided by colleagues from Publica and One Legal.</p> <p>Contact officer: Julie McCarthy, HR Manager, Publica Group Ltd.</p> <p>Tel; 01242 264355</p> <p>Email; julie.mccarthy@cheltenham.gov.uk,</p>
Key risks	<p>If the Council fails to have a robust Data protection process in place or to provide the necessary resources then it will fail to comply with legation which could lead to a data breech, substantial fines and reputational damage.</p>
Corporate and community plan Implications	<p>None</p>
Environmental and climate change implications	<p>None</p>

1. Background

1.1 Cheltenham Borough Council (CBC) has an obligation to comply with the six Data Protection principles when processing personal data. These principles require that personal data:

- Shall be processed lawfully, fairly and in a transparent manner in relation to the data subject.
- Shall be collected only for specified, explicit and legitimate purposes. It must not be further processed in any manner incompatible with those purposes.
- Shall be adequate, relevant and limited to what is necessary in relation to the purposes for which it is processed.
- Shall be accurate and, where necessary, kept up to date. Every reasonable step must be taken to ensure that data which is inaccurate, having regard to the purposes for which it is processed, is erased or rectified without delay.
- Shall not be kept in a form which permits identification of data subjects for longer than is necessary for the purposes for which the data is processed. Personal data may be stored for longer periods provided it is processed solely for archiving purposes in the public interest, scientific or historical research purposes or statistical purposes. This is subject to the implementation of appropriate data security measures designed to safeguard the rights and freedoms of data subjects.
- Shall be processed in a manner that ensures its appropriate security. This includes protection against unauthorised or unlawful processing and against accidental loss, destruction or damage.

1.2 CBC will ensure that it is able to demonstrate compliance with all of the above six principles by:

- Following best practice in all personal data processing;
- adhering to the relevant processing conditions for the fair and lawful processing of personal data and special categories of personal data (set out on page 4);
- telling people why we are processing their personal data and who we will share their personal data with, through our clear and effective privacy notices;
- ensuring that if relying on consent from the data subject, it is freely given, specific, informed and unambiguous;
- implementing "privacy by default" measures to ensure that, by default, we only process the personal data necessary for each specific business purpose.

2. The need for a new Data Protection Policy

2.1 From 25 May 2018, the existing Data Protection Act 1998 will be replaced by new legislation in the form of the EU General Data Protection Regulation (GDPR), and a new Data Protection Act. This report sets out the main features of the legislation and its likely impact, and details the current approach to ensuring compliance.

2.2 The Council currently has a Data Protection Policy which has been rewritten to reflect the new legislation.

2.3 This new Data Protection Policy (appendix 2) applies to all users who handle information and personal data held by Cheltenham Borough Council, including personal data of our service users.

- 2.4** This Policy applies to all employees, Members and processors of personal data held by the Council.
- 2.5** CBC therefore needs a policy (see recommendation 1) to provide guidance to ensure that the Council is compliant with the legislation and that all of its Data is collected, managed, shared stored and deleted correctly to prevent breaches of the legislation. This policy covers the following key areas:
- Policy Objectives
 - Introduction to Data Protection Legislation
 - Accountability and Demonstrating Compliance
 - Organisational Security
 - Handling Personal Data
 - Sharing Personal Data and Processing of Personal Data by Third Parties
 - Specific Uses
 - Monitoring and Review
- 2.6** The legislation and best practice describes a number of Key roles and responsibilities these are described in the policy.
- SENIOR INFORMATION RISK OWNER (SIRO) - to ensure information assets and risks with the Council are managed as a business, actively work with the DPO and other experts within or outside the Council to determine the most effective and proportionate information control measure. The SIRO is responsible for building an informed culture within the Council to promote the best practice for the use and protection of Information assets.
 - SINGLE POINT OF CONTACT FOR CONTROLLER (SPoC) - to act as single point of contact for customers, staff and the Data Protection Officer in relation to Personal Data. Support the SIRO in ensuring the Council can demonstrate compliance with current Data Protection Legislation.
 - DATA PROTECTION OFFICER (DPO) - to undertake the statutory role by monitoring compliance and by providing advice and assistance to the SIRO. The DPO may report directly to the Council's Executive Board and shall provide training on policies relating to data protection. INFORMATION ASSET OWNERS - Service managers have been nominated as Information Asset Owners for the information held within their service areas and are responsible for ensuring that their services area can demonstrate compliance with current Data Protection Legislation.
 - STAFF - all staff are responsible for ensuring that the Personal Data they handle is processed in accordance with this Policy and current Data Protection Legislation.
 - MEMBERS - all members are responsible for ensuring that the Personal Data they handle is processed in accordance with this Policy and current Data Protection Legislation.
- 2.7** A summary of the key roles of the Data Controller, the Data Protection Officer and the Information Controller is set out in appendix 3.

3. Appointment of Data Protection Officer

- 3.1** The new legislation also states that the council is required under s67 of the Data Protection Bill and the General Data Protection Regulations 2016 (the Data Protection legislation) to designate a data protection officer (DPO). The Bill provides that the data controller (the council), when designating a DPO must have regard to the professional qualities of the proposed officer, in particular, ‘..expert knowledge of data protection law and practice’ and , ‘ the ability of the proposed officer to perform the tasks mentioned in s69’.
- 3.2** S69 of the Bill sets out the tasks of the DPO as follows:
- Informing and advising the controller, any processor and employee of their obligations under legislation
 - Advising on data protection impact assessments and monitoring compliance
 - Co-operating with the ICO
 - Acting as the contact point for the ICO on processing issues
 - Monitoring compliance with policies
 - Monitoring compliance generally.
- 3.3** The Bill permits the same DPO to be designated by several controllers.
- 3.4** On 1st April 2015 the council, Tewkesbury Borough Council and Gloucester City Council entered into a shared service arrangement under s101 of the Local Government Act 1972 and Part 1A Chapter 2 Section 9EB of the Local Government Act 2000 (and related legislation) (the ‘s101 Shared Service arrangement’). The functions delegated to One Legal (Tewkesbury Borough Council as host authority) already include advice on Data Protection matters and so undertaking the statutory functions of the DPO and designating the Borough Solicitor as the council’s DPO would be effected by a simple Deed of Variation to the s101 Shared Service agreement.
- 3.5** It is proposed, therefore, to delegate authority to the Director of Resources and Corporate Projects to vary the existing s101 Shared Service arrangement with One Legal to:
- Include undertaking the statutory function of the DPO under the Data Protection legislation and
 - Designate the council’s Borough Solicitor as the DPO for the council.
- 3.6** Gloucester City Council and Tewkesbury Borough Council have also agreed to the appointment of One Legal to undertake the DPO role. See recommendation 2

4. Alternative options considered

5. Consultation and feedback

5.1

6. Performance management –monitoring and review

6.1

Report author	Contact officer: Bryan Parsons Corporate Governance Risk and Compliance officer Email bryan.parsons@cheltenham.gov.uk, Tel;01242 264189
Appendices	<ol style="list-style-type: none">1. Risk Assessment2. Data Protection Policy3. Data protection Roles and responsibilities
Background information	<ol style="list-style-type: none">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 Council fails to agree a comprehensive Data Protection Policy and train its Data users and processors on the requirements of the law then there could be an increased risk of a data breach and substantial fines	Director of Resources and Corporate Projects (SIRO)	16 April 2018	4	3	12	reduce	Draft and agree a Data Protection Policy that will guide data users and processors	May 2018	Director of Resources and Corporate Projects (SIRO)	
	If CBC as a Data Controller fails to take effective action to comply with the GDPR or to act on the recommendations set out in ICO Codes then it could suffer substantial financial and reputational damage.	Director of Resources and Corporate Projects (SIRO)	20/06/2017	5	2	10	Reduce	Initiate and deliver a project based on a project Plan with clear objectives, sufficient resources and clear roles and responsibilities.	May 2018	Project manager	
	If the human and / or financial resources required to deliver the project are not identified	Director of Resources and Corporate Projects	20/06/2017	3	3	9	Reduce	"Review initial assessment of resource requirements as part of service	May 2018	SIRO	

	adequately and put in place there may be a failure to deliver GDPR compliance.	(SIRO)						compliance planning.			
	Monitor resource demands and impacts on champions and services and address resourcing implications in the 2018/19 budget"	Director of Resources and Corporate Projects (SIRO)						Monitored by Project team	May 2018	Project Manager	
	If CBC fails to embed ongoing training and compliance to Data Protection legislation within its systems it is more likely to be open to breaches of the legislation leading to possible fines and/or reputational damage	Director of Resources and Corporate Projects (SIRO)	20/06/2017	5	2	10	Reduce	"Successful delivery of the project.	On-going	SIRO	
	Continued ownership of data protection requirements at corporate and service levels following project completion."	Director of Resources and Corporate Projects (SIRO)						Review of all roles involved in the management of Data Protection	Ongoing	SIRO	
	If the organisation is not prepared for the GDPR which	Director of Resources and	16/11/2017	5	2	10	Reduce	Successful delivery of the project.	May 2018	SIRO	

	comes into effect in May 2018, then this may lead to breach of the regulations and consequently fines which may impact on the organisation's financial resources and reputation.	Corporate Projects (SIRO)														
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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

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Data Protection Policy



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Data Protection Policy

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Data Protection Policy

SECTION ONE – POLICY OBJECTIVES

1.1 Policy Objectives

- To comply with all relevant legislation and good practice to protect the Personal Data held by the Council
- To monitor, demonstrate and review compliance with legislation and introduce changes where necessary
- To ensure that Personal Data is processed fairly and lawfully.
- To respect the confidentiality of all Personal Data
- To provide staff with appropriate procedures and training to handle Personal Data.
- To assist members of the public in exercising their rights over their Personal Data held by the Council
- To co-operate with the Information Commissioner and the external auditor as required

1.2 Staff and Member responsibility

It is the duty of individual staff and Members to ensure that Personal Data held by the Council is handled in accordance with current Data Protection Legislation and this Policy. Action may be taken against any employee or Member who fails to comply or commits any breach of the Data Protection Legislation and/or this Policy.

SECTION 2 – INTRODUCTION TO DATA PROTECTION LEGISLATION

- 2.1 Data Protection Legislation was introduced to balance the rights of individuals to protect their Personal Data and an organisation's right to use their Personal Data. Data Protection Legislation covers both electronic information and manual files the Council holds.
- 2.2 This Policy is applicable to all Data Protection Legislation relating to the use of Personal Data.
- 2.3 The Council processes and keeps Personal Data about Data Subjects to enable it to conduct Council business, provide services and employ staff.



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The Data Protection Principles

2.4 The Council will:

- process Personal Data lawfully, fairly and transparently (the first data protection principle)
- only obtain Personal Data for specified, explicit and legitimate purposes (the second data protection principle)
- only collect Personal Data that is adequate, relevant and not excessive (the third data protection principle)
- ensure that Personal Data is accurate and kept up to date (the fourth data protection principle)
- ensure that Personal Data is not being kept for longer than is necessary (the fifth data protection principle)
- ensure that Personal Data is processed in a secure manner (the sixth data protection principle).

SECTION THREE – ACCOUNTABILITY AND DEMONSTRATING COMPLIANCE

3.1 The Council is accountable for and must be able to demonstrate compliance with the Data Protection Legislation.

Roles and Responsibilities

3.2 The Council allocates the following roles and responsibilities:

SENIOR INFORMATION RISK OWNER (SIRO) – to ensure information assets and risks with the Council are managed as a business, actively work with the DPO and other experts within or outside the Council to determine the most effective and proportionate information control measure. The SIRO is responsible for building an informed culture within the Council to promote the best practice for the use and protection of Information assets. The SIRO is responsible for implementing current Data Protection Legislation on behalf of the Council (the Data Controller).



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SINGLE POINT OF CONTACT FOR CONTROLLER (SPoC) – to act as single point of contact for customers, staff and the Data Protection Officer in relation to Personal Data. Support the SIRO in ensuring the Council can demonstrate compliance with current Data Protection Legislation.

DATA PROTECTION OFFICER (DPO) – to undertake the statutory role by monitoring compliance and by providing advice and assistance to the SIRO. The DPO may report directly to the Council's Executive Board and shall provide training on policies relating to data protection.

INFORMATION ASSET OWNERS – Service managers have been nominated as Information Asset Owners for the information held within their service areas and are responsible for ensuring that their services area can demonstrate compliance with current Data Protection Legislation.

STAFF – all staff are responsible for ensuring that the Personal Data they handle is processed in accordance with this Policy and current Data Protection Legislation.

MEMBERS - all members are responsible for ensuring that the Personal Data they handle is processed in accordance with this Policy and current Data Protection Legislation.

Demonstrating Compliance

3.3 The Council must be able to demonstrate to its customer, supplier, staff, members and the Information Commissioner that it is compliant with current Data Protection Legislation.

3.4 Examples of how the Council will do this:

- holding a list of processing and keep it up to date (kept by the SIRO)
- minimising the Personal Data collected (Information Asset Owners)
- having and complying with its retention schedules (Information Asset Owners)
- being open and transparent and tell people what we are doing with their data (SIRO)
- checking any Processors are Data Protection Legislation compliant and have written processing agreements (Information Asset Owners)having written data sharing agreements in place (Information Asset Owners)
- carrying out privacy by design and privacy impact assessments where necessary (Information Asset Owners)



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- ensuring it has appropriate technical and organisational security (SIRO)
- regularly review and update it policies and procedures (SIRO)

3.5 The Council will pay the fee due to the Information Commissioner on an annual basis. (SIRO)

SECTION 4 – ORGANISATIONAL SECURITY

Security

4.1 The Council will implement appropriate technical and organisational measures to ensure a level of security appropriate to the risks arising from the processing of Personal Data.

4.2 Security shall be applied to all stages of processing to prevent unauthorised access, disclosure (internal or external), loss, damage (accidental or deliberate), or unauthorised alteration.

4.3 Examples of security measures are:

- Personal Data must not be left on display or unsecured when unattended
- System entry passwords shall be kept secure and be changed regularly and not shared
- All emails and documents must be classified in accordance with the Governments Document Classification scheme. [Government Security Classifications- Guidance](#)

4.4 The SIRO will undertake a regular review of security measures and an audit shall be made of the way Personal Data is managed. This will include an assessment of the methods of handling Personal Data and processing carried out by a third party on behalf of the Council or jointly with other local authorities shall be subject to a written contract, which stipulates compliance with the data protection principles.

Privacy by design

4.5 Privacy by design means that privacy and data protection is a key consideration in the early stages of any project and throughout its lifecycle.

4.6 Where the Council changes the way it processes Personal Data or purchases a new or upgrades an IT system that processes large amounts of Personal Data, the Council will carry out a Privacy Impact Assessment in accordance with the current Data Protection Legislation and Information Commissioner guidance and ensure that privacy by design is built in the processing.



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- 4.7 Examples of when privacy by design should be considered:
- building, developing or purchasing a new IT systems for storing or accessing Personal Data;
 - developing policy, procedures or strategies that have privacy implications;
 - embarking on a data sharing initiative; or
 - using Personal Data for new purposes.
- 4.8 The Privacy Impact Assessment form is available [here](#).
- 4.9 Copies of the Privacy Impact Assessments carried out will be held by the SIRO and available for inspection by the Data Protection Officer.

Storing Personal Data

- 4.10 The fifth data protection principle requires that Personal Data should not be kept longer than necessary for the purpose for which it is processed. It is the responsibility of the Information Asset Owner to ensure that Personal Data is used and stored properly to prevent any unauthorised access and ensure that a retention schedule is in place for the Personal Data used within their service area and ensure staff comply with that retention schedule.
- 4.11 Personal Data should:
- be stored in locked desks or filing cabinets
 - be securely protected on computers using industry standards authentication methodologies and limited access
 - not be visible on screens by unauthorised persons (including other members of staff)
 - not be taken out of the Council offices or stored externally unless such use or storage is necessary and authorised by a line manager or Information Asset Owner.
 - only be kept for as long as is necessary and disposed of securely when it is no longer needed. It should be reviewed regularly and deleted promptly when no longer needed
- 4.12 Special Categories of Data should be kept secure and subject to very limited access.
- 4.13 Duplicate records should be kept to a minimum to reduce the risk of unauthorised access or loss and to avoid anomalies in Personal Data being kept longer than is necessary.
- 4.14 Portable storage devices such as handheld devices, mobile phones and laptops must be encrypted; they should not be left unattended and should be locked away when not in use.



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Protective Marking

- 4.15 The protective marking scheme supplied by the Government Protective Marking Scheme (GPMS) provides a framework for users to share and protect information.

[This is detailed in the Council's Information Security Policy.](#)

SECTION 5 – HANDLING PERSONAL DATA

Collecting Personal Data/information

- 5.1 The Council will only collect Personal Data that is necessary to carry out the purpose for which it was collected. Staff will not collect Personal Data on the grounds that it might come in useful. Extra care will be taken when collecting or using Special Categories of Data and will only be collected where absolutely necessary.
- 5.2 When collecting Personal Data the Information Asset Owner will ensure that the person is told what will be done with their Personal Data at the time it is collected. This must be conveyed in a concise, transparent, intelligible, easily accessible way, and use clear and plain language.
- 5.3 The Council will provide individuals with all the following privacy information:
- The contact details of the Council
 - The contact details of the Council's SpoC.
 - The contact details of the Council's Data Protection Officer
 - The purposes of the processing
 - The lawful basis for the processing
 - The legitimate interests for the processing (if applicable).
 - The categories of Data Subjects and Personal Data obtained
 - The recipients or categories of recipients of the Personal Data
 - Details of the use of profiling
 - The categories of transfers of the Personal Data to any third countries or international organisations (if applicable)
 - Where possible, a general description of the Council's technical and organisational security measures
 - The retention periods for the Personal Data.
 - The rights available to individuals in respect of the processing.



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- The right to withdraw consent (if applicable).
- The right to lodge a complaint with the ICO.
- The source of the Personal Data (if the Personal Data is not obtained from the individual it relates to)
- The details of whether individuals are under a statutory or contractual obligation to provide the Personal Data (if applicable, and if the Personal Data is collected from the individual it relates to).
- The details of the existence of automated decision-making, including profiling (if applicable).

5.4 All staff will inform their line manager or Information Asset Owner if Personal Data is collected or used in a new or different way so that this can be added to the list of processing held by the SIRO.

Using Personal Data

5.5 When processing Personal Data, the first data protection principle requires that it must be done lawfully and in a fair and transparent manner. Personal Data is considered to be lawfully processed if one of the following conditions apply:

- The Data Subject has given their consent to the processing
- The processing is necessary for:
 - the performance of a contract to which the Data Subject is a party
 - the compliance with any legal obligation of the Council as a Data Controller
 - the protection the vital interests of the Data Subject. This means a life or death situation
 - the exercise of a function conferred on the Council by law
 - for the exercise of any other function of a public nature exercised in the public interest by the Council
 - for the purposes of legitimate interests of the Council subject to the legitimate rights and freedoms of the Data Subject. Please note, the condition cannot apply to processing carried out by the Council in the performance of its tasks

5.6 When processing Special Categories of Data a further processing condition set out in the Data Protection Legislation is required.

5.7 The second data protection principle requires that Personal Data should only be used for the purpose(s) for which it is collected and not for any incompatible purpose. If it is to be used for any other purpose then the individual concerned must be informed and there must be a legal basis for processing the Personal Data for the other purpose.



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Disclosing Personal Data

- 5.8 Before disclosing Personal Data staff must ensure that they are speaking to the Data Subject or that they have the Subject's consent to release it to a third party acting on their behalf. If the person is present with the third party and staff are satisfied that it is the correct person and they provide verbal consent, a record of the circumstances of the situation shall be kept at the time of releasing the information. In any other circumstance written consent of the Data Subject is required.
- 5.9 In some cases staff may be asked to provide information by law. It is the responsibility of staff to ensure that there is a sound basis for releasing that Personal Data. Personal Data must not be disclosed until staff are satisfied it is lawful to do so. The Data Protection Legislation may give the person the right to ask for the information but staff may not be under a legal obligation to release that information. Do not disclose any Personal Data until you are satisfied it is lawful to do so.
- 5.10 Disclosure may be necessary to protect the vital interests of the Data Subject for example to prevent serious harm, or in a life or death situation. Do not disclose any Personal Data until satisfied it is lawful to do so.
- 5.11 Obtain legal advice if you are unsure.

Disclosing Personal Data to Members

- 5.12 Before releasing information to elected Members, staff need to ascertain for what purpose the Member is requesting the information. Elected Members have up to 3 roles:

1. Acting as a Member

Members have the same rights of access to Personal Data as staff when acting in this role. Staff should ensure that Members need the Personal Data to carry out their official duties and when releasing the information should specify the purpose(s) for which the Personal Data may be used or disclosed.

2. Acting on behalf of local residents

Staff do not, generally, need to obtain the individuals consent to disclose their Personal Data to a Member if:

- The Member represents the ward in which the individual lives; and
- The Member makes it clear that they are representing the individual when requesting the Personal Data; and



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The information is necessary to respond to the individual's complaint or requests

Otherwise, Members must obtain consent from the Data Subject before any Personal Data is released.

3. Acting for political purposes

Personal Data should not be released for political purposes without the individual's consent. Exceptions to this:

Personal Data which the Council is required by law to make public for that purpose.

Personal Data presented in a form which does not identify any living individuals, for example statistical information or Council tax band information and any other information that cannot be linked to the individual concerned, for example by comparing data to the electoral register.

Disposal of Personal Data

5.13 Personal Data must be disposed of securely.

5.14 **Paper records** must be shredded. If an outside company is used they must be Data Protection compliant and a certificate of shredding must be obtained when the information is shredded.

5.15 **Electronic records** must be removed permanently. Just because it is not visible on the screen does not mean it is not still recoverable. Contact ICT for advice.

5.16 Information Asset Owners are responsible for ensuring staff follow their retention schedule when disposing of Personal Data.

Dealing with Data Subject Requests

5.17 Individuals (Data Subjects) have rights over their Personal Data held by the Council on computer and paper records.

5.18 Data Subjects are entitled

- To know what information is being processed and why
- To have information about them erased (be forgotten)
- To object to direct marketing and automated decisions
- To be told about automated profiling
- To obtain information about decision making
- To data portability – consent or contract



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- To have information about them rectified – if inaccurate
- To the right to restrict or object to processing – inaccurate/unlawful
- To the right to withdraw consent

5.18 The Council shall respond to Data Subject request as soon as possible and at the latest within one month.

5.19 In certain circumstance the Council may charge a reasonable fee or refuse a Data Subject Request where it is manifestly unfounded, excessive or repetitive.

5.20 Data Subject request forms are available on the Council's [website](#).

Data Protection breaches

5.21 Any **breach of security** leading to or which is likely to lead to accidental or unlawful destruction, loss, alteration, unauthorised disclosure of, or access to, Personal Data transmitted, stored or otherwise processed must be reported to your line manager or the Information Asset Owner immediately and the process for breach reporting in the Information Security Policy followed.

5.22 The Information Security Form will be completed by the Information Asset Owner and sent to SIRO. The SIRO in consultation with the Data Protection Officer shall report breaches to the Information Commissioner within 72 hours in accordance with current Data Protection Legislation and any guidance issued by the Information Commissioner or Article 29 Working Party.

5.23 Copies of Incident Breach report forms will be held centrally by the SIRO.

SECTION SIX – SHARING PERSONAL DATA AND PROCESSING OF PERSONAL DATA BY THIRD PARTIES

6.1 To share Personal Data and/or Special Categories of Data for another purpose it must be done lawfully.

Internal one off requests for Personal Data

6.2 Staff requesting Personal Data must do so in writing and demonstrate that the Personal Data is necessary and that the sharing is lawful. Staff receiving requests must be satisfied that the sharing is lawful before any Personal Data can be released. A record of the Personal Data released, together with the legal basis for sharing, shall be kept by the Information Asset Owner to demonstrate compliance with the Data Protection Legislation.

Regular or bulk transfers of Personal Data and Special Categories of Data

6.3 In many instances the Council shares data with other internal departments and external organisations on a regular basis. For instance, the Council's shares Personal data with third party services providers, the Police or other councils as part of a joint initiative such as Domestic Violence and Homelessness.



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6.4 Although there may be a statutory requirement placed on the Council to transfer data, the Council is the Controller and is responsible for demonstrating compliance with Data Protection Legislation. It is the responsibility of the Information Asset Owners to ensure that appropriate data processing and/ or sharing agreements are in place.

6.5 The Council recommends all staff read the Information Commissioners Office advice and guidance to ensure they comply with legislation.

6.6 [Data sharing - code of practice and checklist.](#)

[Click here for the Council's template data sharing agreement and data processing agreement.](#)

If you require assistance please contact One Legal email: legalservices@tewkesbury.gov.uk

[For more detail regarding information security, see the Council's Information Security Policy.](#)

6.7 Information Asset Owners will be responsible for ensuring copies of the data sharing/processing agreement are sent to the SIRO and are regularly reviewed and kept up to date.

Copies of Data Sharing and Processing agreements will be held by the SIRO.

SECTION SEVEN – SPECIFIC USES

Processing of Criminal Convictions

7.1 Processing of Personal Data relating to criminal convictions and offences or related security measures based on Article 6(1) shall be carried out only under the control of official authority or when the processing is authorised by UK law providing for appropriate safeguards for the rights and freedoms of data subjects.

Law enforcement processing

CCTV systems and Data

7.2 The Council [CCTV policy](#) states that any system operator (Service Manager) who has the responsibility for a CCTV scheme must have a scheme specific Code of Practice in place before it becomes operational or within 6 months of the approval of this Policy.

7.3 This Code of Practice will provide the guidance for complying with the requirements of the Data Protection Legislation in respect of the use and operation of these systems.



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7.4 The current [CCTV codes of practice](#) are available on the Councils website.

Direct Marketing

7.5 The Privacy and Electronic Communications (EC Directive) Regulations 2003 (PECR) deals with direct marketing.

7.6 Electronic communications mean any information sent between particular parties over a phone line or internet connection. This includes phone calls, faxes, text messages, video messages, emails and internet messaging. It does not include generally available information such as the content of web pages or broadcast programming.

7.7 Direct Marketing means the communication (by whatever means) of any advertising or marketing material which is directed to particular individuals.

7.8 Genuine market research does not count as direct marketing. However, if a survey includes any promotional material or collects details to use in future marketing campaigns, the survey is for direct marketing purposes and the rules apply.

7.9 PECR cover marketing by phone, fax, email, text or any other type of 'electronic mail'.

7.10 There are different rules for live calls, automated calls, faxes, and electronic mail (this includes emails or texts).

7.11 PECR marketing provisions do not apply to other types of marketing, such as mailshots or online advertising. However, staff must always still comply with the Data Protection Legislation and if online advertising is proposed uses cookies or similar technologies, the provisions about [cookies](#) under PECR may apply.

7.12 Most of the rules in PECR only apply to unsolicited marketing messages. They do not restrict solicited marketing. - a solicited message is one that is actively requested. An unsolicited message is any message that has not been specifically requested. So even if the customer has consented to receiving marketing from the Council, it still counts as unsolicited marketing.

7.13 This does not make all unsolicited marketing unlawful. The Council can still send unsolicited marketing messages – as long as it is in compliance with PECR.



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- 7.14 For most Direct Marketing consent will be required. Consent must be knowingly and freely given, clear and specific. A clear records of what a person has consented to, and when and how consent was obtained must be retained. This will enable the Council to demonstrate compliance in the event of a complaint.
- 7.15 If the Council employs someone else to actually make the calls or send the messages, the Council is still responsible, as the Council is 'instigating' those calls or messages.
- 7.16 The rules on Direct Marketing to Individuals are stricter than those to businesses. <https://ico.org.uk/media/for-organisations/documents/1551/direct-marketing-checklist.pdf>
- 7.17 Any Direct Marketing made or sent by electronic means must be made or sent in accordance with PECR. Staff must check with the fax and or telephone preference service before making any Direct Marketing calls and not make calls to those numbers on the preference service.

Data Sharing for public service delivery, debt recovery and fraud investigations

- 7.18 Information Asset Owners will be responsible for ensuring copies of the data sharing/processing agreement are sent to the SIRO and are regularly reviewed and kept up to date.

Copies of Data Sharing and Processing agreements will be held by the SIRO.

SECTION EIGHT – MONITORING AND REVIEW

- 8.1 The Data Protection Officer will monitor this Policy on an annual basis.
- 8.2 The SIRO will review this Policy on a regular basis taking into account the advice of the Data Protection Officer.



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DEFINITIONS

Controller	The person(s) who determines how and the manner in which Personal Data are or are to be processed (the Council).
Processor	The person who processes the data on behalf of the data controller.
Data Subject	The person who the Personal Data is about.
Personal Data	Any information relating to an identifiable person who can be directly or indirectly identified in particular by reference to an identifier.
Special Categories of Data	Information relating to the racial or ethnic origin, political opinions, religious or philosophical beliefs, or trade union membership, and the processing of genetic data, biometric data for the purpose of uniquely identifying a natural person, data concerning health or data concerning a natural person's sex life or sexual orientation
Processing data	Includes collecting, recording, use, organising, structuring, storing, adaptation or alteration, retrieval, consultation, disclosure by transmission, dissemination or otherwise making available, alignment or combination, restriction, erasure or destruction
Data Protection Legislation	(i) The General Data Protection Regulation (Regulation EU 2016/679), the Law Enforcement Directive (Directive EU 2016/680) The Privacy and Electronic Communications (EC Directive) Regulations 2003, Digital Economy Act 2017 and any applicable national implementing Laws as amended from time to time, (ii) The Data Protection Act 2018 subject to Royal Assent to the extent that it relates to Processing of Personal Data and privacy, (iii) all applicable Laws relating to Personal Data and privacy



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DATA CONTROLLER	DATA PROTECTION OFFICER	INFORMATION COMMISSIONER
<p>In Summary:</p> <ul style="list-style-type: none"> • Duty to comply with Data Protection legislation <p>Key Obligations:</p> <ul style="list-style-type: none"> • Implement appropriate technical and organisational measures to ensure and demonstrate compliance e.g. data protection policies, safeguarding measures, retention and destruction policies and security measures • Have contractual arrangements with data processors • Maintain records of all categories of processing activities • Co-operate with the ICO • Carry out Impact Assessments • Notify the ICO of breaches • Notify the data subject if the breach is high risk to the rights and freedoms of the individual 	<p>In Summary:</p> <ul style="list-style-type: none"> • To monitor compliance by the Data Controller of Data Protection legislation <p>Key Obligations:</p> <ul style="list-style-type: none"> • Inform and advise the Data Controller, specifically monitor compliance with the data protection policies (assign responsibilities, raise awareness, train and audit) and monitor compliance with the Data Protection legislation generally • Draft contractual arrangements with data processors • Co-operate with the ICO • Advise on the carrying out Impact Assessments • Contact point for the ICO on issues relating to processing • Data subject may contact the DPO on issues relating to processing of their data or their rights 	<p>In Summary:</p> <ul style="list-style-type: none"> • To enforce compliance by the Data Controller of Data Protection legislation <p>Key Obligations:</p> <ul style="list-style-type: none"> • Require the Data Controller to provide information to ensure compliance • May carry out audits • Has the right to access Data Controller premises • May issue corrective measures (e.g. warnings, reprimands, compliance orders), enforcement notices, fines
Accountable Officer is Mark Sheldon as SIRO	DPO is Sara Freckleton	Information Commissioner
<p>Supported by:</p> <ul style="list-style-type: none"> • Single Point of Contact [] • Information Asset Owners (Service Managers): • GDPR Champions 	<p>Supported by One Legal, mainly:</p> <ul style="list-style-type: none"> • Shirin Wotherspoon • Sarah Halliwell 	

Shirin Wotherspoon
15.03.18

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**Cheltenham Borough Council
Audit Committee – 18 April 2018**

**Annual Risk Management Report
And
Policy review**

Accountable member	Cabinet Member Corporate Services, Councillor Roger Whyborn
Accountable officer	Director Resources and Corporate Projects, Mark Sheldon
Executive summary	The Audit Committee approved the current Risk Management Policy March 2017 and requested an annual report to provide Members with an update on the Council's risk management activities.
Recommendations	That Audit Committee; <ul style="list-style-type: none"> • Consider and approve the Risk Management Policy for 2018-19 Appendix 2

Financial implications	No direct legal implications arise from this report <i>Contact officer: Paul Jones Section 151 officer Email: Tel:</i> <i>Paul.Jones@cheltenham.gov.uk</i> <i>Tel: 01242 775154</i>
Legal implications	<i>None specific arising from the report recommendations</i> <i>Contact officer; Peter Lewis One Legal 01242 272012</i> <i>Email; peter.lewis@tewkesbury.gov.uk</i>
HR implications (including learning and organisational development)	<i>There are no direct HR implications arising from the content of this report</i> <i>Contact officer: Julie McCarthy, HR Manager – Operations & Service Centre Publica Group Ltd</i> <i>Email: julie.mccarthy@cheltenham.gov.uk Tel:01242 26 4355</i> <i>Tel: 01242 775154</i>
Property implications	

Key risks	The lack of a robust approach to the management of risks and opportunities could result in ill-informed decision making and non-achievement of the Council's aims and objectives at both a strategic and service level.
Corporate and community plan Implications	None
Environmental and climate change implications	None

1. Background

- 1.1** Risk management is the culture, process and structures that are directed towards effective management of potential opportunities and threats to the Council achieving its priorities and objectives.
- 1.2** Risk management is a key element of the Council's governance framework and links with 5 of the 7 core principles of the Council's new Code of Corporate Governance;
- Defining outcomes in terms of sustainable, economic, social and environmental benefits
 - Determining the interventions the necessary to optimise the achievement of the intended outcomes
 - Developing the entity's capacity, including the capability of its leadership and the individuals within it
 - Managing risks and performance through robust internal control and strong public financial management
 - Implementing good practices in transparency, reporting, and audit to deliver effective accountability
- 1.3** The Councils Risk Management Policy sets out the approach to risk management including the roles and responsibilities for Officers and elected Members. The policy also details the processes in place to manage risks at corporate, divisional and project levels.
- 1.4** The Councils ICT services are managed by Publica; this includes the identification of risk and threats to our IT infrastructure and data, this is managed in accordance to the requirements of the Public Sector Network framework. They are therefore not covered by the CBC Risk Management Policy but there are mechanisms in place to transfer or share risks between partners.
- 1.5** In the past year, additional work has been completed to support the risk management process and help embed good practice across the council.
- 1.6** The Risk management Policy is made available to Senior Leadership Team, Corporate Governance Group and to Project Managers. All policy, guidance and advice documents were updated and made available to all officers and elected Members through the risk management page on the intranet.

2. SWAP Internal report on Risk Management at Cheltenham Borough Council

- 2.1** As part of the 2017/18 audit plan a high-level review of Risk Management processes at

Cheltenham Borough Council (CBC) was undertaken and the effectiveness of these processes in relation to a major programme, the Cheltenham Crematorium Development project, was also examined.

- 2.2** Planning permission was granted for the Crematorium Development in summer 2017, work started on the first phase in October 2017 and the programme has a target completion date of spring 2019. Pick Everard have been appointed to provide project management and quantity surveying support and Willmott Dixon have been appointed as principal contractor.
- 2.3** During this audit, discussions were held with the Governance, Risk and Compliance Officer and the Programme Manager of the Cheltenham Crematorium Development. They also had access to the CBC website, staff intranet and shared drive.
- 2.4** SWAP concluded that it could offer substantial assurance as the areas reviewed were found to be adequately controlled. They also found that internal controls were in place and operating effectively at all times and risks against the achievement of objectives were well managed.
- 2.5** They established that risk registers are kept as follows at CBC;
- Corporate Risk Register
 - Divisional Risk registers
 - Project / Programme Risk Registers
- 2.6** The Risk Registers reviewed were found to be maintained, reviewed and scored in accordance with the policy.
- 2.7** A risk training workshop was delivered to all Service Managers and Directors (November 2016). Previously, a self-led risk course is also available to all Officers
- 2.8** Risk management processes operating in relation to the Cheltenham Crematorium Development programme were found to be implemented in accordance with those outlined in the policy.
- 2.9** From the high-level review of current risk management arrangements and processes undertaken, we can offer substantial assurance they are being carried out in line with policy and should help to manage risk and support the delivery of CBC's objectives at all levels of the organisation.
- 2.10** They found that processes operated well in the following areas:
- Risk Registers – Evidence was seen to support that risks are recorded and scored in accordance with the Risk Management policy and are regularly reviewed by appropriate Officers.
 - Programme Risk reporting, monitoring and review – Highlight reports were seen to support that programme risks are regularly reported to the Senior Leadership Team (SLT) and meeting minutes confirm that risks are also reported to Members for them to monitor and review.
- 2.11** The report proposed one level 3 Outcome (the accuracy of records is at risk and requires attention), *that the Programme Manager should ensure specific information of the changing profile of risks owned by Willmott Dixon is included in Willmott Dixon's progress reports, so that CBC are aware of any impacts and can work with the contractor to mitigate.*
- 2.12** The Project Manager has provided assurance that the contractor's progress report will record changes to the risk profile under the heading of 'Areas of Future Concern and Opportunity'. They will use the progress meeting agenda item to further check for any changes to risks owned by the

contractor which have an impact on CBC or vice-versa.

- 2.13** I can confirm that the Project managers' assurance delivers the recommended outcome and that risk profile heading of 'Areas of Future Concern and Opportunity is being considered at the Project Risk Management Group.

Strategic risk management

- 2.14** The challenges facing Cheltenham Borough Council continue to intensify and the way that we meet these challenges creates the potential for increased opportunities and risk. The way that we address and mitigate the risks requires effective governance arrangements. Risk can be defined as the possibility of something happening, or not happening, that would have an impact on our ability to meet strategic or operational objectives.
- 2.15** The Council understands the importance of effective risk management and the importance of an embedded risk management process. This;
- Helps to deliver strategic objectives and corporate priorities
 - Enables better decision making
 - Facilitates effective control of budgets
 - Promotes better corporate governance
 - Generates better value for money.
- 2.16** The identification and assessment of risk is part of the annual Corporate Strategy and Action Planning process. The Council's Senior Management Team considers and reviews strategic risks on a monthly basis. Both of these activities include the development of risk mitigation actions designed to reduce the likelihood and/or consequences of adverse events occurring. By understanding risks, the council can be more confident about undertaking ventures which produce larger gains, such as jointly providing services with other councils.
- 2.17** The council's approach to risk management is overseen by the Audit Committee. This committee annually reviews the Risk Management Policy, considers internal audits reports on risk management, and also receives reports from external audit on the budget, accounts, grants and Value for Money.
- 2.18** The 2017/18 Corporate Strategy set out our intended milestones, performance indicators and risks associated with delivering the Outcomes and the risks associated with their delivery. The Risk Management Policy states the need for a Corporate Risk Register (CRR) to identify risks associated with the achievement of the Council's aims and objectives within the Corporate Strategy. The CRR provides information on the risk description, scores, mitigation and the owners and managers. The CRR is reviewed by the Senior Leadership Team with copies provided to Cabinet every month. Directors discuss their risks with Cabinet Portfolio holders during their 1-2-1 meetings.
- 2.19** The CRR records all of the Council's corporate and Task Force risks which are initially identified by Directors and Service Managers; these are managed by an SLT appointed Risk Owner and Risk Manager, the Task Force Risk and Accountability Group or project management team. Any divisional or project risk with a score of 16 or above must be referred to the Senior Leadership Team, they then consider if it should be escalated and recorded on the CRR. These corporate risks can also be referred back to the divisional or project risk registers if SLT consider the risks to be under control and less of a risk to the wider organisation. Any risk with a score of less than 16 can still be reported to SLT if the Risk Owner considers that they should be made aware of it.

Training

- 2.20 As part of awareness training for officers, risk management presentations have been completed at Senior Leadership Team and Divisional Management Team meetings to promote the Risk Management Policy and approach.
- 2.21 Intranet reminders with links to the Risk Management Policy, Score Card and on-line training material have been published
- 2.22 The risk awareness training was updated to reflect the new policy and scorecard.

Transparency

- 2.23 The Councils Intranet has a dedicated Risk Management webpage with guidance and links to the Risk management policy, the Scorecard, training material and the CRR
- 2.24 All Council committee reports that require a decision must have a risk assessment to support the decision making process, these reports with the risks are published
- 2.25 The CRR is normally reviewed monthly at SLT and made available to Cabinet Members it is then published within the Transparency section of the Councils website.

Policy Review

- 2.26 The Risk Management Policy states the need for a formal review of the CRR to identify risks associated with the achievement of the Council's aims and objectives within the Corporate Strategy.
- 2.27 The Risk Management Policy was last reviewed and approved by the Audit Committee in March 2017.
- 2.28 The Risk Management Policy was considered by the Corporate Governance Group in February, there were no substantive recommendations for change.
- 2.29 It is therefore recommended that Audit Committee also consider the policy and make any recommendations that it feels necessary or re-approve it for the 2017-18 year.

3. Alternative options considered

- 3.1 None

4. Consultation and feedback

- 4.1 The Senior Leadership Team and The Corporate Governance Group routinely consulted on the content of the risk registers.

5. Performance management – monitoring and review

- 5.1 The Senior Leadership Team and The Corporate Governance Group routinely monitor risks in line with the Risk Management Policy.

Report author	Contact officer: Bryan Parsons Email: bryan.parsons@cheltenham.gov.uk Tel: 01242 264189
Appendices	<ol style="list-style-type: none">1. Risk Assessment2. Risk Management Policy

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 council does not have a robust and effective risk management approach to the management of risks and opportunities then it could result in ill-informed decision making and non-achievement of the Council's aims and objectives at both a strategic and service level.	Director Corporate Resources and Corporate Projects	18/04/2018	4	2	8	Reduce	Ensure that the Councils Risk Management Policy is kept up to date and that the processes supporting it are robust and delivered by the decision-makers.	18/04/2018	Corporate Governance, Risk and Compliance Officer	

Explanatory notes

Impact – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical)

Likelihood – how likely is it that the risk will occur on a scale of 1-6
 (1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability)

Control - Either: Reduce / Accept / Transfer to 3rd party / Close





Document control

Document Location; S:\Corporate\Risk\riskmanagementpolicy

Reviewed by; Audit Committee and Corporate Governance Group

Version Number	Version Date	Summary of Changes
1.0	14/02/2009	New Policy
1.2	19/04/2011	revised policy
1.3	23/01/2012	Draft Revised policy
1.4	01/04/2012	Confidential risks and new score card
1.5	01/04/2013	Additional requirement re commissioning
1.6	26/03/2014	Audit Committee
107	25/03/2015	Audit Committee
1.08	23/03/2016	Audit Committee
1.09	22/03/2017	Audit Committee

This document has been distributed to;	
Public website, Audit committee and Cabinet	1.0
Public website, Audit Committee and Cabinet	12 /04/2011
Audit Committee (agreed) All CBC staff, Public website and Cabinet members	21/03/2012
Audit Committee All CBC staff, Public website and Cabinet members	21/03/ 2013
Audit Committee All CBC staff, Public website and Cabinet members	26/03/2014
Audit Committee All CBC staff, Public website and Cabinet members	26/03/2015
Audit Committee All CBC staff, Public website and Cabinet members	01/04/2016
Audit Committee All CBC staff, Public website and Cabinet members	01/04/2017
Audit Committee All CBC staff, Public website and Cabinet members	

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Introduction to risk management cut out and keep section

The council believes that risks need to be managed, rather than avoided and that a rigorous approach to all aspects of risk management is an integral part of good management practice. Through having a sound risk management process we will ensure:

- That the council continues to achieve its objectives and outcomes and sustainable improvement in services;
- That the council is developing and maintaining a safe and healthy environment for the public, and for its employees; and
- That the council reduces the number and cost of insurance claims.
- That by mitigating risk we will make processes safer and more effective which in turn will reduce costs and make us more efficient.

Risk is defined in line with ISO 31000:2009 Risk Management Principles and Guidelines.

There are many definitions of risk and risk management. The contemporary definition set out in ISO 3100 is that risk is the “effect of uncertainty on objectives” where uncertainty can be either positive or negative.

Risk Management is defined as ‘the culture processes and structures directed towards realising opportunities whilst managing adverse effects’. Its purpose is not to eliminate risk, but to understand it so as to take advantage of the upside and minimise the downside.

Everyone has a role to play in our risk management policy. Combining shared leadership with a team approach will help contribute to the success of integrated risk management.

Our expectations / commitments

- Senior Leadership team will own and maintain the corporate risk register which will be updated on a monthly basis.
- Directors will ensure that there is an up to date divisional or project risk register for their divisions using the template on the intranet. This should be reviewed at least quarterly at the divisional management team meetings. **Any divisional or project risk that has a score of 16 or greater will be referred to SLT** for consideration for inclusion on the Corporate Risk Register
- Service Managers will document risks to meeting their team objectives.
- All committee reports that require a decision should be accompanied by a risk assessment
- All project and programme managers will assess the strategic and operational risks associated with the programme or project objectives.
- We will ensure that partnership working is part of our risk management approach; partnerships should identify the risks to achieving their objectives and the council will document the risks to working in partnerships.

Part One – Our approach to risk

1. Introduction

1.1 The aim of this policy is to set out Cheltenham Borough Council's approach to risk and the management of risk. It is presented in three parts; the first is our approach to risk management; the second outlines the process for risk management and the third part sets out roles and responsibilities.

1.2 The council believes that risk needs to be managed, rather than avoided and that a rigorous approach to all aspects of risk management is an integral part of good management practice. Through having a sound risk management process we will ensure:

- That the council continues to achieve its objectives and outcomes and sustainable improvement in services;
- That the council is developing and maintaining a safe and healthy environment for the public, and for its employees; and
- That the council reduces the number and cost of insurance claims.
- That by mitigating risk we will make processes safer and more effective which in turn will reduce costs and make us more efficient.

1.3 Risk is defined as

“An uncertain event or set of events which, should it occur, will have an effect upon the achievement of objectives, within the lifetime of the objective.”

1.4 Risk can be both negative and positive, but it tends to be the negative side that we focus on and score. This is because some things can be harmful, such as putting lives at risk or a cost to an individual or the organisation in financial terms

1.5 Negative risk is represented by potential events that could harm the project. In general, these risks are to be avoided and can be measured in terms of impact and likelihood. Positive risk, on the other hand, refers to risk that we initiate because we see a potential opportunity, along with a potential for failure.

1.6 There are two examples of positive risks. The risk could either be a positive experience, or the reason for taking the risk has rewards that are well worth it. For example the risk could make us enhance our performance or reputation, or by taking a different option we could improve exceed corporate objectives, improve efficiency, reduce costs or improve income by a greater amount than was originally identified. See also section 8 about monitoring and managing risk.

1.7 Risk management is

“The activities required to identify and control exposure (negative risk) to uncertainty which may impact on the achievement of objectives”. Or/and to use Positive risks to help us exceed our objectives.

1.8 From these two definitions, we can see that risk management is focused on the risk to meeting our objectives.

1.9 Given the definitions above, the council will assess, monitor and manage risks to the achievement of its objectives, including:

- Our corporate objectives – as set out in our corporate strategy;
- Divisional objectives;

- Service team objectives;
 - Project and programme objectives; and
- 1.10** This policy sets out how we will identify, assess and manage risks, how we will report risk and how we will support risk management.
- 1.11** Everyone has a role to play in our risk management policy. Combining shared leadership with a team approach will help contribute to the success of integrated risk management. More information on roles and responsibilities is given in part 3.

2. Identifying, assessing and managing risks

- 2.1** The council will take a rounded view on what constitutes a risk. The starting point is that a risk could be anything, from an internal or external source, that poses a threat to the achievement of our objectives.
- 2.2** In terms of external sources, changing circumstances can have a significant impact on our ability to deliver our objectives. The environment we operate in is not stable and is in constant flux. Good risk management is about trying to anticipate these changes and put in place actions to respond to the resulting risks by minimising the likelihood and/or impact. Our view of the source of external risks could include the following:
- Local and national political change
 - Local and national economic circumstance
 - Social change
 - Technological change
 - Climate change
 - Legislative change
 - Environment
 - Complying with equality considerations
 - Change in the organisational structure for local government
 - Changing expectations/needs from customer/citizens
 - Change in how we are resourced
 - Recommendations from assessment or review
- 2.3** In terms of internal source of risks, the ability of the council to continue to deliver its objectives is dependent on the following:
- Finance - sufficient finances in place to deliver service;
 - Human resource - enough skilled, competent, experienced, healthy, motivated staff in the right place at the right time to deliver the service;
 - Premises - the most appropriate environment from which to deliver the service;
 - Technology – the most appropriate form of technology to support service delivery;
 - Procurement – the most appropriate service/resource provider in place to deliver the service objectives (if service out-sourced);
 - Legal/Contractual – the most appropriate form of contract to guide service delivery;
 - Partners – commitment from appropriate other partners (both internal and external) to deliver the service;

- Changing priorities – a stable environment in terms of organisation priorities, clear objectives and manageable level of complexity;
- Information – an exchange of reliable information (internal and external) that is accurate and timely on which decisions can be fairly and correctly based.
- Safety and security of assets.

- 2.4** It is also worthwhile noting that because we have adopted a commissioning approach whereby the council may deliver services through different organisational models, and then we must ensure that these arrangements are included within our risk management processes. These risks can then be included in the same register as all other risks to the delivery of the objective. When it is necessary to the achievement of an objective to procure products and services, the risk/s to the objective if the procurement process fails should also be identified and managed. When these ownership and management mechanisms have been defined risk owners need to ensure that effective monitoring and governance controls are in place to protect council assets.
- 2.5** When we commission the delivery of a service or enter into a shared service/inter authority agreement, providers are expected to have a range of risk management processes in place in accordance with any agreement with the Council, should they identify a significant risk that may have an impact on the Council they must advise the Client officer. The Client officer will then decide on the best course of action. e.g. include on either the Corporate or Divisional Risk Registers.
- 2.6** In addition we would expect all programme and project managers to assess the strategic and operational risks associated with the programme or project objectives before the project is selected and approved. Risks should be reviewed as the project proceeds and included within the Corporate Risk Register if the risk is likely to impact upon the authority as a whole.
- 2.7** All committee reports that require a decision should contain a description of the options available and a risk assessment for each of them. These risks must relate to the objectives of the report topic.
- 2.8** Risk management should not be seen as a separate management function; it is a core part of good management.
- 2.9** The council have separate and detailed Health and Safety policies that provide advice about how this type of risks should be identified and managed. They can be found at [safety policies and guidance | corporate pages on CBCi](#)
- 2.10 Defining and scoring risk**
- 2.11** Once risks have been identified using the information given above, the council would like risks to be defined in a consistent way using the “cause and effect” approach (see Part 2, 5.3 for more information). Risks will be then scored for impact and likelihood using the risk scorecard. (The risk score is the multiplication of impact and likelihood.)
- 2.12** The initial score will be based on current circumstances and referred to as the ‘original’ score. After controls have been actioned, the risk will be scored again. This score will be referred to as the ‘current’ score.
- 2.13 Tolerance and controls**
- 2.14** The scored risk can then be assessed against the council’s tolerance levels. Currently we have three levels which set out the council’s attitude to that particular risk. The three tolerance levels are coloured red, amber and green. Risks that are scored in the red and amber areas (7 and above) will require action.
- 2.15** The council then has four options on how to control the risk;
- Reduce the risk
 - Accept the risk

- Transfer the risk to a third party
 - Close the risk
- 2.16** The decision on how to control the risk will be made by the risk owner or an appropriate senior officer depending on where the score falls in the tolerance areas and the costs associated with the control.
- 2.17 Monitoring and managing risk**
- 2.18** As risk management is an integral part of good management all identified risks should be recorded and managed through either the Divisional Risk Register or the Corporate Risk Register. Corporate Risks are monitored monthly and Divisional Risk Registers will be monitored quarterly at routine Divisional Team meetings. **Any divisional risk that has a score of 16 or greater will be referred to SLT** for consideration for inclusion on the Corporate Risk Register
- 2.19** The Corporate Risk Register is available to all elected Members and employees through the intranet and is collectively monitored and managed by the Senior Leadership Team.
- 2.20 Recording risk**
- 2.21** The risk registers should be used to inform decision making and resource allocation and should be updated as required to meet agreed monitoring arrangements.
- 2.22** Divisional Risk Registers are the responsibility of Directors with the individual risks being assigned to officers within the division (or across divisions where appropriate.)
- 2.23** Any new risk must be agreed by SLT before being added to the register. Risks cannot be deleted from the register unless they have agreed that it can be closed. Mitigating actions and deadlines can be updated by the risk owner at anytime prior to the monthly review at SLT.
- 3. Risk registers & reporting risk**
- 3.1 The corporate risk register**
- 3.2** The 'corporate risk register' contains strategic risks to the organisation
 - The longer-term risks to the delivery of outcomes (ambitions) are described within the Corporate Strategy. The outcomes are linked directly to specific improvement actions which again are described within the Corporate Strategy but are individually risk assessed and managed within the Corporate Risk Register.
 - Headline risks associated with exceptional circumstances.
- 3.3** The Section 151 officer is responsible for ensuring that the Council has an effective Risk Management Policy
- 3.4** Senior Leadership Team will own and maintain the Corporate Risk Register and associated actions which will be considered and updated by them on a monthly basis
- 3.5** A copy of the updated corporate risk register will be provided informally to Cabinet Members following review by SLT so that they can discuss the risks with the risk owners or managers.
- 3.6** A copy of the Corporate Risk Register will be published on the Transparency page of the Councils website immediately following SLT and Informal Cabinet reviews.
- 3.7** At every SLT meeting there is a standard agenda item that is called *Is it Safe* this provides all of the Directors with an opportunity to raise any new issue that they feel could have an impact on the Council. These issues are discussed and if necessary new risks are added either to the Project/Divisional Risk Register or the Corporate Risk Register

- 3.8** The corporate risk register will provide the necessary assurance for the annual governance statement.
- 3.9** An annual report (March) followed up by a six monthly risk monitoring report (September) to Cabinet
- 3.10** Risk management reporting should be co-ordinated with continuous routine performance monitoring.
- 3.11** All corporate confidential risks will be recorded in the normal way but they will be redacted either in full or in part from the corporate risk register so as to protect any personal data, prevent the disclosure of legally privileged information or exempt from publication any other information which should be so exempted. Further guidance on confidential risk can be found at paragraph 9.3.
- 3.12** **Divisional, service area and programme/project team risk registers**
- 3.13** Each division needs to take a proactive approach to risk management making sure that it is embedded as a part of the good management of the division. Each division should compile and maintain a divisional risk register that captures the risks to the delivery of its objectives.
- 3.14** Each service team, project/programme may also have a risk register which capture risks to their respective objectives. The important issue is to make sure that risk is discussed and debated at management teams and that risks are then identified and managed.
- 3.15** It is also important to note that those particularly high scoring divisional risks will not necessarily have a place on the corporate risk register unless it has a direct impact on our corporate objectives. In this case, the cause or effect may be different and the impact and likelihood scores must be scored appropriately. If the overall score for a divisional or project risk is 16 or over then it must be brought to the attention of SLT for consideration for inclusion on the Corporate risk Register.
- 3.16** It is possible that the same risk will appear in more than one register. The impact or likelihood may be different against the different objectives and should therefore be scored accordingly. Where actions to control a risk fall to another division, it is that division's responsibility to implement that action and the risk owner's responsibility to remain updated and manage the risk accordingly.
- 3.17** **Reporting risks**
- 3.18** Monthly risk monitoring reports will be presented to the Senior Leadership Team, and informally to Cabinet Members for discussion with Risk Owners. There will be an annual report to Cabinet and to Audit Committee which will include:
- The most significant corporate risks faced by the council;
 - The associated management actions which are considered urgent;
 - The resource implications of any management actions; and
 - An overview of how significant risks may affect the Council's ability to meet its ambitions.
- Risk management reporting should be co-ordinated with continuous routine performance monitoring.

4. Supporting risk management

4.1 Risk management co-ordination

- 4.2** The risk management policy, including any guidance notes, will be reviewed once a year by the Audit Committee and the responsible Director and when necessary, updated to incorporate further development in risk management processes and/or organisational change.

- 4.3** Where the council has established groups who have responsibility for risk, they should include detail about their role in the terms of reference or constitution for the group.
- 4.4 Training**
- 4.5** The requirement for risk management training which will ensure that elected members and officers have the skills required to identify, evaluate, control and monitor the risks associated with the services they provide, or govern should be identified through the appraisal process.
- 4.6** Risk Management training for staff and elected Members will be delivered through an elearning tool on the learning gateway
- 4.7** Where required, training in corporate governance, of which risk management is a part, should be identified through the induction process for all new employees and members.
- 4.8 Communication**
- 4.9** The risk management culture within the council must support open and frank discussion on issues that could put the Council at risk. Risk Owners and Risk Managers must provide opportunities to employees and members not normally involved with risk management with the opportunity for comment and challenge.
- 4.10** Risk should be considered at least quarterly by management team and service team meetings as part of good management practice. When necessary, new and emerging risks, significant change and where control actions are significantly succeeding or failing should be discussed.
- 4.11** It is the responsibility of the risk owner to communicate and discuss risk and control actions with other relevant officers, including those from other divisions.
- 4.12** If the cause of a risk or the failure of an objective or activity has the potential to impact on another objective or activity, it is the duty of the responsible officer to communicate that cause or failure to the owner of the effected objective or action.
- 4.13** Information and guidance on risk management will be available to all employees with computer access via the intranet and shared drive. Employees without computer access should speak to their manager for a printed copy.
- 4.14** Employees will be kept up to date on risk management progress and good practice through management meetings, team briefings and the intranet.

Part 2 - Process & Guidance

5. How to identify and define risks

- 5.1** Identifying risks is about asking:
- what could happen that would impact on the objective?
 - when and where could it happen?
 - how and why could it happen?
 - how can we prevent or minimise the impact or likelihood of this happening?
- 5.2** What risks are identified and who you involve in the process will depend on whether you are looking at a specific team area or at a more strategic, organisational level. It is best practice to involve others in identifying risk as this gives you different perspectives on the same situation. Those involved must be clear about what objective is being risk assessed. Approaches to identify risks can include:
- Brainstorming on possible risks in a facilitated session;

- Mapping out the processes and procedures; asking staff to identify risks at each stage;
- Drawing up a checklist of risks and asking for feedback.

5.3 Risks should then be defined using the ‘if then’ (or the cause and effect or likelihood and impact) approach and given a reference number.

5.4 Risks should be specific and worded carefully and concisely and should not consist of a single word.

5.5 Risks should be outcome based and if one cause creates several impacts, each impact should be identified separately. This is because each might result in a different score and control.

6. How to score risk

6.1 The council has produced a scorecard to help risk owners score the risk by assessing impact and likelihood (effect & cause).

Impact

6.2 To help assess the impact (effect), we have identified a scale of impact from 1 to 5;

- 1) Negligible
- 2) Low
- 3) Moderate
- 4) Major
- 5) Critical

6.3 Risk owners are encouraged to decide the scale of the impact by considering what type of impact the risk has on the objective, using the risk types Financial, Employee, Capacity, VFM, H&S and wellbeing, Business continuity, Contractual Governance, Reputation, Customer satisfaction, Governance, Performance forecasting and Corporate Strategy. . A full description of impact type and scoring is detailed in the ‘impact scorecard’ which should be used when assessing risk.

Likelihood

6.4 To help the risk owner assess the likelihood score (cause), we have identified 6 categories of likelihood that the risk will occur during the lifetime of the objective. These are:

<i>Score</i>	<i>Likelihood</i>	<i>Probability</i>	<i>Action in response to risk levels</i>
1	Minimal	0-5%	Awareness of risk, no action
2	Very low	6-15%	Action to ensure likelihood does not increase
3	Low	16-30%	Preventative action required
4	Significant	31-60%	Minimise probability and/or impact
5	High	61-90%	Minimise probability and/or impact immediately
6	Very high	>90%	Plans made in advance must be carried out.

Risk score

6.5 The risk score is a multiplication of impact and likelihood.

6.6 On occasion it is possible to have a risk that proposes more than one score of impact, e.g. a single cause that could have minimal cost implications, maximum cost implications or anywhere in between. In this instance, we advise that you score and manage the risk according to the most likely scenario. Using the areas of tolerance may also help.

7. Selecting a risk control and understanding tolerance

- 7.1 The scored risk can then be assessed against the council's tolerance levels. Currently we have three levels which set out the council's attitude to that particular risk. The three tolerance levels are coloured red, amber and green. Risks that are scored in the red and amber areas (above 7) will require action.

Score	Colour	Action/need to apply control	Responsibility
1-6	Green	Acceptable, subject to monitoring.	Risk owner
7-15	Amber	Needs active management	Risk owner
16-24	Red	Requires urgent attention	Risk owner
25 - 30	Red	Requires urgent attention and routine discussion with Cabinet Leads	Risk Owner

- 7.2 The decision on how to control the risk will be made by the risk owner or an appropriate senior officer depending on where the score falls in the tolerance areas and the costs associated with the control.

- 7.3 The council has four options on how to control the risk;

Control	Description	Tolerance area
Reduce	The impact and/or likelihood needs to be reduced.	Amber or red
Accept	Impact and/or likelihood is at an acceptable level, it is impossible to reduce or is more cost effective to take the risk in not treating.	Amber or green
Transfer	Some of the risk is better controlled by an external partner. However some of the risk will remain (e.g. reputation) and that needs to be managed.	Any
Close	The risk has been terminated or is exceptionally low.	Green

8. Monitoring and managing risk

- 8.1 As risk management is a an integral part of good management our view is that risks should be reviewed by Senior Leadership Team and revised as and when actions prove to be successful or unsuccessful and when new information becomes available.

Progress of action	Further action
Positive but by a small margin	Current action not as effective as first hoped. Make changes or think of new action.
Positive by a significant margin	Current action successful – redirect resources.
Negative	Current action unsuccessful. Need new action.

- 8.2 The identification of risk may raise the question not to pursue a course of action. If this decision is made, it must be clearly documented.
- 8.3 The identification of risk may raise a success or positive learning point. This should be communicated to those who may benefit.
- 8.4 Actions to mitigate the risk need to be identified early and the monitoring must consider if they are being effective. If they are not then the project team, programme board or SLT need to identify new mitigating actions.

9. Risk registers

- 9.1** All risks will be recorded in either a Divisional Risk Register or a Corporate Risk register.
- 9.2** A risk register will record:
- Risks identified - to an objective, including a reference code and specified using “if...& then...”;
 - Original risk assessment and score based on impact and likelihood;
 - Risk owner;
 - Date raised;
 - Control applied;
 - Actions to control the risk;
 - The officer responsible for the action;
 - An indication as to whether the mitigating actions are on target
 - The action status including progress notes;
 - Current risk assessment and score once the action has been implemented.
 - The date the risk was last reviewed
- 9.3 Confidential Risk**
- 9.4** The Corporate Risk Register is a public document and is reported to Cabinet and Audit Committees. These reports may contain risks that contain confidential information and have been determined as being an “exempt item” under Schedule 12A of the Local Government Act 1972,
- 9.5** All corporate confidential risks will be recorded in the normal way but they will be redacted either in full or in part from the corporate risk register to ensure compliance with relevant legislation, to protect any personal or commercially sensitive data and the divulgence of any confidential legal advice.
- 9.6** Advice on the wording and inclusion of any confidential risks within the Corporate Risk Register must be sought from One legal.
- 9.7** The Senior Leadership Team may decide that they require additional assurance in respect of a particular confidential risk because it is not in the public domain, in which case it can be referred to the Corporate Governance group. Where they are referred they will be discussed with the risk owner and the outcome referred back to the SLT.
- 9.8** A process chart relating to the management of confidential risks is available on the Intranets Risk Management page.

Part 3 - Roles and Responsibilities

Everyone has a role to play in our risk management policy. Combining shared leadership with a team approach will help contribute to the success of integrated risk management.

10. Elected members

- 10.1** All elected members have risk management responsibility; they should promote the desired culture essential for successful risk management, acknowledging risk management as a strategic and operational tool to further the council’s objectives. All should feel secure that, by identifying risk in their area, they are doing so within a corporate framework that is robust and easily understood.

10.2 The risk assessment included in all reports, that require a decision, that are brought to council, cabinet and committees should be used to inform decision making and should be revisited to ensure the risks are being managed.

10.3 They will also participate in training workshops to maintain an up-to-date understanding of how CBC manages risk.

10.4 Audit Committee

10.5 Audit Committee will endorse the council's corporate risk management policy, and at least annually, monitor and review the effectiveness of risk management systems and its contribution to corporate governance arrangements.

10.6 Audit Committee will also seek assurance from the internal audit team that risks are being managed in an appropriate manner and by the terms of this policy.

10.7 Overview and Scrutiny

The Overview and Scrutiny Committee may request to review the risk register at any time and scrutiny task groups may want to examine the any risks relating to a particular issue as part of a specific review. Any recommendations from scrutiny would be made to Cabinet or Council as appropriate.

10.8 Cabinet and Council

10.9 The Cabinet will approve the Risk Management Policy.

10.10 Cabinet and Council, as decision-making bodies, will be made aware of risks associated with any decision taken to them. They will have the responsibility to ensure that any risks to a report or project they sign off are managed and should request a revision of previously identified risks as and when necessary.

10.11 The Corporate Risk Register is provided informally to Cabinet Members so that they can monitor them and the progress of mitigating action.

10.12 The Corporate Services Cabinet Member has risk management identified as part of their portfolio. They have responsibility to ensure that their cabinet colleagues consider risk when setting policy and making decisions. These risks should be revisited to identify how they are being managed.

10.13 Individual cabinet members should seek assurance that the risk management process is being met in reference to their respective portfolios through discussions with Directors.

10.14 Cabinet Members can suggest new risks and discuss the management of any risk with the appropriate Director or Risk Owner

11. Officer responsibilities

11.1 The **Chief Executive** and **Executive Board** have strategic responsibility for the risk management policy and collectively oversee the council's effective management of risk. In their role as 'coach', they will advise and support Directors, Senior Managers, Programme and Project Managers to ensure that risk is managed consistently and in line with this policy.

11.2 The Executive Board are responsible for setting tolerance levels. The risk owner is empowered by Executive Board to make decisions about the control of the risk, depending on the risk score and what tolerance area it falls within.

11.3 They will consider corporate risk as part of developing and implementing the council business plan and corporate strategies, projects and programmes.

11.4 The **Senior Leadership Team** are collectively responsible for the management of risks recorded on the Corporate Risk Register

- 11.5 Directors are responsible for managing risks to the delivery of the objectives of their own division, jointly with their service managers. These risks will be managed in accordance with this policy, using the risk register template attached.
- 11.6 The **Director of Resources and Corporate Projects** is responsible for minimising the overall cost of insurance claims which do arise and supporting the risk management programme by supplying any advice and data to the Board.
- 11.7 The **Director of Resources and Corporate Projects** is responsible for monitoring the implementation and effectiveness of this risk management policy and for reviewing compliance with controls introduced by all other directors to collectively manage risks through the Senior Management Team. Any responsibilities delegated to internal audit will be covered in the annual internal audit programme.
- 11.8 The **Audit Partnership Manager** is responsible for ensuring that where corporate risks are identified in the Annual Audit Plan they are cross referenced to the Corporate Risk Register.
- 11.9 The **Client officer** for Shared or Commissioned Service(s) will be responsible for ensuring that any external organisation that provides a service(s) for the Council will have a documented Risks Management Process that is appropriate for the size and complexity of that organisation.
- 11.10 The Client Officer will ensure that any external organisations risk management process covered in 11.9 will include the process for that organisation to inform the Council of any risk that either impacts or could impact on the Council.
- 11.11 The Client Officer will make the appropriate Senior Leadership Team Lead Commissioner aware of any risk that could score 16 or above on the CBC score card or in their mind would have a significant risks to CBCs finances or reputation.'

11.12 The Governance Board

- 11.13 The Governance Board is consulted on proposed amendments to the Risk Management Policy and the Corporate Risk Register.
- 11.14 The Senior Leadership Team can request that the Governance Board review and challenge any risk or group of risks to ensure that they are being recorded, scored and monitored correctly. This additional review process which can be found on the intranet relates to confidential risks and is designed to provide additional assurance to SLT and the risk owners that they are being managed correctly.

12. Programme and Project Managers

- 12.1 ensure there is a process for identifying, managing and communicating risks to programme and project objectives and benefits
- 12.2 ensure that programme and project teams carry out regular risk assessment
- 12.3 ensure that any risk scoring 16 or above (CBC score card) is escalated to SLT Governance Board and considered for inclusion on the Corporate Risk Register. Managers have the discretion to bring to the attention of their Director or Risk Owner any risk scoring below 16 if they consider that there is a need for SLT Governance Board to be made aware of it.

13. Service managers

- 13.1 **Service managers** are responsible for identifying and managing risks to the objectives of their service team in line with this policy. The council encourages managers to identify, understand and manage risk, and learn how to accept risk within the applicable tolerance level.
- 13.2 They should ensure that their teams carry out risk assessment, where appropriate, as a routine part of service planning and project management, including reporting to members.

- 13.3** ensure that any risk scoring 16 or above (CBC score card) is escalated to SLT Governance Board and considered for inclusion on the Corporate Risk Register. Managers have the discretion to bring to the attention of their Director or Risk Owner any risk scoring below 16 if they consider that there is a need for SLT Governance Board to be made aware of it.

14. All council employees

- 14.1** The identification of risk relies on input from teams and individuals.
- 14.2** A 'Risk Owner' is the owner of a risk and will manage that risk accordingly. This will involve maintaining awareness of how control actions are progressing.
- 14.3** All actions identified to control a risk will be assigned to an individual officer who will be called the 'Risk Manager'.

Appendix 1 Risk Scorecard Risk Owners and Managers must use the following score card as a guide to accessing the impact and Likelihood of any identified risk;

Effect	Risk Category	Impacts <i>Please note</i> <i>When drafting a risk description always describe the cause and effect i.e If... then ...</i>	Score	
Negligible (1% - 20%)	Financial	Risk (<£50K Capital) or (Revenue <£25K p.a.) Define the value and period, in relation to revenue.	1	
	Employee	Low morale is contained within team and managed.		
	Capacity	Short term capacity issue not affecting service delivery.		
	VFM	Negligible impact on value for money. (Revenue <£25K p.a.)		
	H&S wellbeing	Risk to personal health & safety and general wellbeing.		
	Business continuity	Brief interruption of service provision.		
	Contractual Governance	Minor breakdown of shared services or contracts.		
	Reputation	Negligible media coverage/minor complaints.		
	Customer satisfaction	Minimal impact on delivery customer needs.		
	Governance	Poor governance/Internal/ control but zero impact on outcomes.		
	Performance	Targets are missed with no impact on objectives/outcomes.		
	Risks specific to delivery of Corporate Strategy			
	Environmental outcome	Negligible impact on our environmental outcome - Cheltenham's environmental quality and heritage is protected, maintained and enhanced		
	Economic outcome	Negligible impact on our economic outcome - Sustain and grow Cheltenham's economic and cultural vitality		
Community outcome	Negligible impact on our community economy - People live in strong, safe and healthy communities			
Business transformation outcome	Negligible impact on our business transformation outcome - Transform our council so it can continue to enable delivery our outcomes for Cheltenham and its residents			
Risk Category			2	
Impacts				
Finance	Risk (£50K to £200K Capital) or (Revenue £25K to £50K p.a.) Define the value and period, in relation to revenue.			
Employee	Some hostility from staff and minor non-cooperation.			
Capacity	Short term capacity issue affecting service provision (define term with risk description).			
VFM	Low impact on value for money. (Revenue £25K to £50K p.a.)			
H&S and wellbeing	Risk to personal health & safety may result in broken bones and short term illnesses.			
Business Continuity	Slightly reduced service provision with marginal disruption.			
Contractual Governance	Some breakdown or shared services or contracts with disruption.			
Reputation	Adverse local media/negative local opinion/formal complaints.			
Customer satisfaction	Some customer needs or expectations may not be met either in time or quality.			
Governance	Governance/Internal/ control has been missed/misunderstood/not up to date resulting in poor decision making.			
Performance	Targets are missed with low impact on objectives/outcomes.			
Risks specific to delivery of Corporate Strategy				
Environmental outcome	Low impact on our environmental outcome - Cheltenham's environmental quality and heritage is protected, maintained and enhanced			
Economic outcome	Low impact on our economic outcome - Sustain and grow Cheltenham's economic and cultural vitality			
Community outcome	Low impact on our community economy - People live in strong, safe and healthy communities			
Business transformation outcome	Low impact on our business transformation outcome - Transform our council so it can continue to enable delivery our outcomes for Cheltenham and its residents			

	Risk Category	Impacts		
Moderate (40% - 60%)	Finance	Risk (£200K to £1M Capital) or (Revenue £50K to £200K p.a.) Define the value and period, in relation to revenue.	3	
	Employee	Industrial action in the short term/staff leaving.		
	Capacity	Medium term capacity issues affecting service (define term within risk description).		
	VFM	Moderate impact on value for money. (Revenue £50K to £200K p.a.)		
	H&S and wellbeing	Risk to personal health & safety includes sustained or major illness of 1 or more people.		
	Business Continuity	Services suspended in short term with noticeable disruption.		
	Contractual Governance	Collapse of at least one aspect of shared service or contract with moderate disruption or temporary suspended service.		
	Reputation	Adverse local & media/members questioned.		
	Customer satisfaction	Key customer needs or expectations may not be met either in time or quality.		
	Governance	Governance/Internal/ control arrangements failed leading to non-compliance with legislation and policy.		
	Performance	Targets are missed with impact on objectives/outcomes.		
	Risks specific to delivery of Corporate Strategy			
	Environmental outcome	Moderate impact on our environmental outcome - Cheltenham's environmental quality and heritage is protected, maintained and enhanced		
	Economic outcome	Moderate impact on our economic outcome - Sustain and grow Cheltenham's economic and cultural vitality		
	Community outcome	Moderate impact on our community economy - People live in strong, safe and healthy communities		
Business transformation outcome	Moderate impact on our business transformation outcome - Transform our council so it can continue to enable delivery our outcomes for Cheltenham and its residents			
Major (60% - 80%)	Risk Category	Impacts	4	
	Finance	Risk (>£1M to £2M Capital) or (Revenue £200K to £500K p.a.) Define the value and period, in relation to revenue.		
	Employee	Prolonged industrial action/significant number of staff leaving.		
	Capacity	Long term capacity issue affecting service delivery/reputation.		
	VFM	Major failure to provide value for money with major risk and external investigation. (Revenue £200K to £500K p.a.)		
	H&S and wellbeing	Risk to personal health & safety include loss of life/large scale illness.		
	Business Continuity	Service delivery suspended/Priority 1 and Priority 2 ICT systems suspended for long term with major disruption.		
	Contractual Governance	Shared service or contract delivery fails with major disruption.		
	Reputation	Major media coverage. High level of concern from elected members/officers/public with senior staff position threatened.		
	Customer satisfaction	Customer needs or expectations are not met with significant failing in service delivery.		
	Governance	Governance arrangements have failed with major reputation/legal implication and cost to recover.		
	Performance	Targets missed continuously major impact on objectives/outcomes.		
	Risks specific to delivery of Corporate Strategy			
	Environmental outcome	Major impact on our environmental outcome - Cheltenham's environmental quality and heritage is protected, maintained and enhanced		
	Economic outcome	Major impact on our economic outcome - Sustain and grow Cheltenham's economic and cultural vitality		
Community outcome	Major impact on our community economy - People live in strong, safe and healthy communities			
Business transformation outcome	Major impact on our business transformation outcome - Transform our council so it can continue to enable delivery our outcomes for Cheltenham and its residents			

	Risk Category	Impacts		
Critical (80% - 100%)	Finance	Risk (>£2M Capital) or (>Revenue £500K p.a.) The value and period, in relation to revenue	5	
	Employee	Prolonged industrial action/permanent loss of jobs resulting in inability to deliver services.		
	Capacity	Long term capacity putting at risk personnel, assets, reputation and service delivery.		
	VFM	Critical failure to provide value for money with risk of external investigation and intervention. (>Revenue £500K p.a.)		
	H&S and wellbeing	Risk to personal health & safety includes possibility of multiple fatalities or serious injuries and illness.		
	Business Continuity	Total loss of services, ICT systems and other key assets.		
	Contractual Governance	Shared service and contract delivery fails, resulting in total loss of service or the decommissioning of delivery model.		
	Reputation	Significant local/national media coverage with failure to meet regulatory standard resulting in loss/fine.		
	Customer satisfaction	Customer needs or expectations are not met because of complete failure in service delivery.		
	Governance	Governance/Internal/ control arrangements failed with reputation/legal/cost implication.		
	Performance	If there was a critical failure to deliver on delivery of objectives/outcomes or external investigation and intervention		
	Risks specific to delivery of Corporate Strategy			
	Environmental outcome	A Critical impact on our ability to deliver our environmental outcome - Cheltenham's environmental quality and heritage is protected, maintained and enhanced		
	Economic outcome	A Critical impact on our ability to deliver our economic outcome - Sustain and grow Cheltenham's economic and cultural vitality		
	Community outcome	A Critical impact on our ability to deliver our community economy - People live in strong, safe and healthy communities		
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Likelihood scorecard

Probability	Likelihood Description	Likelihood
0% - 5%	Minimal	1
5% - 15%	Very low	2
15% - 30%	Low	3
30% - 60%	Significant	4
60% - 90%	High	5
> 90%	Very high	6

The total risk score is the multiplication of impact and likelihood when the risk score has been defined consideration must be given as to the best way to manage it, the following table should be used as a guide.

<i>Code</i>	<i>Risk score</i>	<i>Risk Management view</i>
Red	25 - 30	Must be managed by SLT to reduce risk scores as soon as possible, or agree a contingency plan
Red	16 – 24	Must be managed down to reduce risk scores as soon as possible, or agree a contingency plan and escalated to SLT for consideration
Amber	7 – 15	Seek to improve the risk score in the short/medium term or develop a contingency plan
Green	1 – 6	Tolerate and monitor within the division

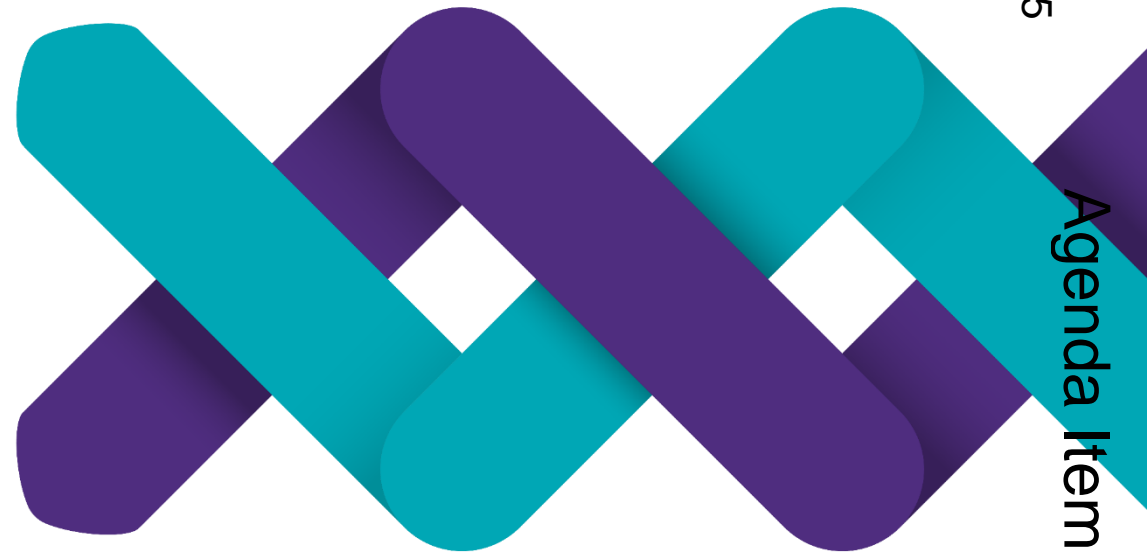
Further information

This policy and process document, the full impact scorecard and registers are all available via the Intranet.

Audit Progress Report and Sector Update

Cheltenham Borough Council
Year ending 31 March 2018

April 2018



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Introduction



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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to your council and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website.

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.



Progress at April 2018

Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and we have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We commenced our interim audit on 22 January 2018. Our interim fieldwork visit included:

- 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

The findings from our interim audit are summarised at pages 6 to 8.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin on the 18 June with findings reported to you in the Audit Findings Report by the earlier deadline of July 2018.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. 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:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We made our initial risk assessment to determine our approach in December 2017 and report this to you in our Audit Plan in April 2018.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 claim will be concluded by November 2018.

We are in discussion with the Council about any additional work required on Housing Subsidy claimed in prior years following recent correspondence with the DWP.

The results of the certification work are reported to you in our certification letter.

Meetings

We met with Finance Officers as part of our quarterly liaison meetings in March 2018 and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also meet with your Chief Executive to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report. Our last Local Government Chief Accountant workshop was held on 2 February 2018.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
<p>Fee Letter</p> <p>Confirming audit fee for 2017/18.</p>	June 2017	Complete
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.</p>	January 2018	To be presented
<p>Interim Audit Findings</p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	April 2018	To be presented
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the July Audit Committee.</p>	July 2018	Not yet due
<p>Auditors Report</p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	July 2018	Not yet due
<p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p>	September 2018	Not yet due
<p>Annual Certification Letter</p> <p>This letter reports any matters arising from our certification work carried out under the PSAA contract.</p>	December 2018	Not yet due

Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>

	Work performed	Conclusions and recommendations
Review of information technology controls	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.	Conclusions and any recommendations resulting from the review of information technology controls will be communicated to the Audit Committee via the Audit Findings Report.
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. These areas included property, plant and equipment, employee remuneration, and operating expenditure.</p> <p>We will undertake a walkthrough of the pension liability system during the final audit.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p> <p>We will report on the results of the pension liability system during the final audit.</p>
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We will undertake detailed testing of journal entries during the final audit.</p>	No issues have been identified that we wish to highlight for your attention.

	Work performed	Conclusions and recommendations
Early substantive testing	<p>We have undertaken substantive testing for months 1-9 on the following areas:</p> <ul style="list-style-type: none"> • Employee remuneration • Other fees & charges • Grant revenues 	<p>No issues have been identified that we wish to highlight for your attention.</p>

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

Financial sustainability of local authorities 2018

This National Audit Office report reviews financial sustainability across Local Government and examines whether the MHCLG, along with other departments with responsibility for local services, understands the impact of funding reductions on the financial and service sustainability of local authorities.

The report concludes that current pattern of growing overspends on services and dwindling reserves exhibited by an increasing number of authorities is not sustainable over the medium term. The financial future for many authorities is less certain than in 2014, when the NAO last looked at financial sustainability. It also notes that the financial uncertainty created by delayed reform to the local government financial system risks longer-term value for money.

The NAO's view is that the sector has done well to manage substantial funding reductions since 2010-11, but financial pressure has increased markedly since the 2014 review. Services other than adult social care are continuing to face reducing funding despite anticipated increases in council tax. Local authorities face a range of new demand and cost pressures while their statutory obligations have not been reduced. Non-social-care budgets have already been reduced substantially, so many authorities have less room for manoeuvre in finding further savings. The scope for local discretion in service provision is also eroding even as local authorities strive to generate alternative income streams.

Key findings include:

Financial resilience varies between authorities, with some having substantially lower reserves levels than others. Levels of total reserves in social care authorities as a whole are higher now than in 2010-11. However, there is variation in individual authorities' ability to build up their reserves and differences in the rate at which they have begun to draw them down. Some 10.6% of single-tier and county councils would have the equivalent of less than three years' worth of total reserves (earmarked and unallocated combined) left if they continued to use their reserves at the rate they did in 2016-17.

A section 114 notice has been issued at one authority, which indicates that it is at risk of failing to balance its books in this financial year. In February 2018, the statutory financial officer for Northamptonshire County Council issued a section 114 notice, indicating that it was at risk of spending more in the financial year than the resources it has available, which would be unlawful.

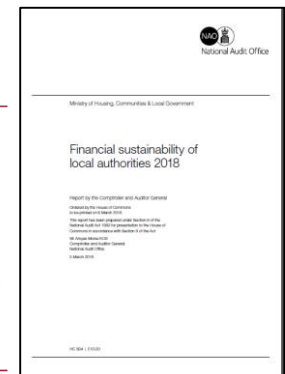
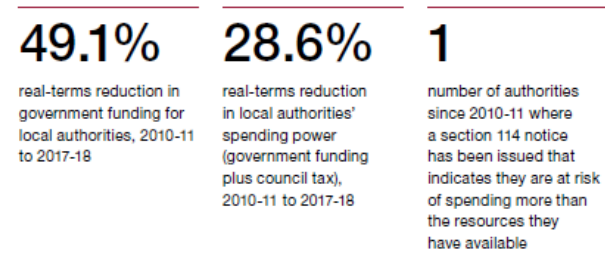
MHCLG's work to assess the sector's funding requirements as part of the 2015 Spending Review was better than the work it undertook for the 2013 Spending Review. The Department's advice to ministers in 2015 drew on a more comprehensive evidence base, including data returns from 12 departments.

The government has announced multiple short-term funding initiatives in recent years and does not have a long-term funding plan for local authorities. In 2016-17, the Department offered a four-year settlement to all authorities to enable better financial planning. However, there have been many changes to funding streams outside this core offer. The funding landscape following the 2015 Spending Review has been characterised by one-off and short-term funding initiatives.

There is also uncertainty over the long-term financial plan for the sector. The absolute scale of future funding is unknown until the completion of the next Spending Review. The government has confirmed its intention to implement the results of the Fair Fundi Review in 2020-21 and to allow local authorities to retain 75% of business rates. However, the implications of these changes are not yet clear.

There is a lack of ongoing coordinated monitoring of the impact of funding reductions across the full range of local authority services.

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Public Sector Audit Appointments: Report on the results of auditors' work 2016/17

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

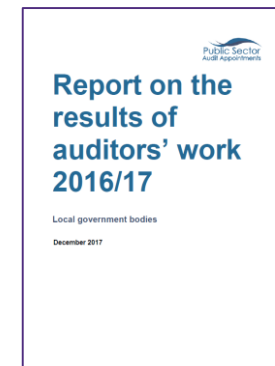
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on their accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015/16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new reporting timetable from 2017/18. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16. The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

- the impact of issues identified in the reports of statutory inspectorates;
- corporate governance issues; and
- financial sustainability.

The latest results of auditors' work on the financial year to 31 March 2017 show a solid position for the majority of principal local government bodies. Generally, high standards of financial reporting are being maintained despite the financial and service delivery challenge currently facing local government.



Changes to the prudential framework of capital finance

The Ministry of Housing Communities and Local Government has updated the Local Authority Investments Guidance and the Minimum Revenue following its publication of consultation responses on 2 February 2018.

A total of 213 consultation responses were received by the MHCLG by the 22 December 2017 deadline from across local government. Following consideration of the responses the Government has:

- made some technical changes to the Investments Guidance and MRP Guidance
- amended proposals relating to useful economic lives of assets
- implemented the Investments Guidance for 2018-19, but allowed flexibility on when the additional disclosure first need to be presented to full Council
- deferred implementation of MRP Guidance to 2019-20 apart from the guidance “Changing methods for calculating MRP”, which applies from 1 April 2018.

Key changes are noted below.

Statutory Guidance on Local Authority Investments

Transparency and democratic accountability – the revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduces some additional disclosures to improve transparency. However, as the changes to the CIPFA Prudential Code include a new requirement for local authorities to prepare a Capital Strategy, the revised guidance allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

Principle of contribution – the consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions. Authorities’ core objectives include ‘service delivery objectives and/or placemaking role.’ This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

Introduction of a concept of proportionality – the Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. The consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. A majority of respondents supported the introduction of a concept of proportionality, recognising the importance that local authorities make decisions based on an understanding of the overall risk that they face.

Borrowing in advance of need – by bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential. The Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

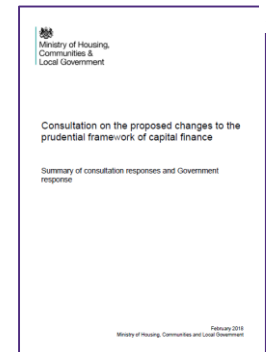
Minimum Revenue Provision Guidance

The consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

Meaning of a charge to the revenue account – the Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations. For this reason a charge to the account should not be a negative charge.

Impact of changing methods of calculating MRP – the Government does not expect any local authority to recalculate MRP charged in prior years due to the proposed changes in methodology.

Introduction of a maximum economic life of assets – the consultation sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a local authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years.



Changes to capital finance framework

Challenge question:

Has your Section 151 Officer briefed members on the impact of the changes to the prudential framework of capital finance?

CIPFA publications - The Prudential Code and Treasury Management Code

CIPFA have published an updated 'Prudential Code for Capital Finance in Local Authorities'. Key developments include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.

The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment. The Code is available in hard copy and online.



CIPFA have also published an updated Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Code provides a framework for effective treasury management in public sector organisations.

The Code defines treasury management as follows:

The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

It is primarily designed for the use of local authorities (including police and crime commissioners and fire authorities), providers of social housing, higher and further education institutions, and the NHS. Local authorities in England, Scotland and Wales are required to 'have regard' to the Code.

Since the last edition of the TM Code was published in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda.

There are significant treasury management portfolios within the public services, for example, as at 31 March 2016, UK local authorities had outstanding borrowing of £88bn and investments of £32bn

.The Code is available in hard copy and online.

CIPFA Publication

Challenge question:

Has your Section 151 Officer briefed members on the impact of the changes to the prudential code?

The adult social care workforce in England

This National Audit Office report considers the Department of Health & Social Care's role in overseeing the adult social care workforce and assesses whether the size and structure of the care workforce are adequate to meet users' needs for care now, and in the future, in the face of financial challenges and a competitive labour market.

The Department of Health and Social Care is not doing enough to support a sustainable social care workforce. The number of people working in care is not meeting the country's growing care demands and unmet care needs are increasing, according to the report. While many people working in care find it rewarding, there is widespread agreement that workers feel undervalued and there are limited opportunities for career progression, particularly compared with similar roles in health. In 2016-17, around half of care workers were paid £7.50 per hour or below (the National Living Wage was £7.20 in 2016-17), equivalent to £14,625 annually. This, along with tough working conditions and a poor image, prevents workers from joining and remaining in the sector.

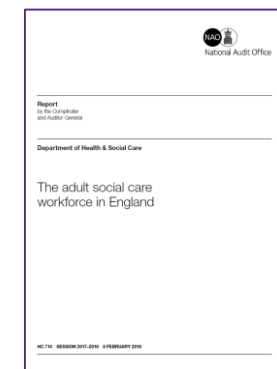
There are around 1.34 million jobs in the adult social care sector in England, across more than 20,300 organisations. The turnover rate of care staff has been increasing since 2012-13 and in 2016-17 reached 27.8%. The vacancy rate in 2016-17 for jobs across social care was 6.6%, which was well above the national average of 2.5%-2.7%. However, demographic trends suggest that demand for care will continue to increase and people's care needs will continue to become more complex. To meet these challenges, the Department estimates that the workforce will need to grow by 2.6% every year until 2035.

The social care market is operating in challenging circumstances. Care providers, already under financial pressures, are struggling to recruit and retain workers and are incurring additional costs as a result. Local authorities spent 5.3% less on care in 2016-17 compared with 2010-11, and spending is expected to reduce further over the next two years due to continued government funding cuts and increased financial pressures on local authorities. Uncertainty over funding is limiting local authorities' ability to plan future spending on care.

The Department cannot demonstrate that the sector is sustainably funded, which impacts workforce planning. Around 65% of independent providers' income comes from local authority-arranged care. The vast majority of local authorities are paying fees to homecare providers that are below the recommended minimum price for care, putting providers in financial difficulties. Furthermore, local authorities are not paying the full cost for care home placements. If this continues, there is a risk providers will not continue to invest in areas where there are high proportions of people receiving local authority funded care.

The Department has no national strategy to address this workforce challenge and key commitments it has made to help make the sector more attractive, through enhanced training and career development, have not been followed through. Furthermore, the NAO has not found any evidence that the Department is overseeing workforce planning by local authorities and local health and care partnerships, which commission care, to help with the challenge. Without a national strategy to align to, few local areas have detailed plans for sustaining the care workforce.

The NAO has recommended that the Department produces a robust national workforce strategy with the support of the Ministry of Housing, Communities and Local Government and that it encourages local and regional bodies to align their own plans to it. The Department also needs to invest more to enable commissioners to set appropriate fees for providers, so they can pay staff adequately and afford to offer career development and training opportunities.



Overview of the General Data Protection Regulation (GDPR)

What is it?

The GDPR is the most significant development in data protection for 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations.

What's next?

Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25th May 2018.

How will this affect you?

- ✓ All organisations that process personal data will be affected by the GDPR.
- ✓ The definition of 'personal data' has been clarified to include any data that can identify a living individual, either directly or indirectly. Various unique personal identifiers (including online cookies and IP addresses) will fall within the scope of personal data

What organisations need to do by May 2018

- ✓ Local government organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.
- ✓ New policies and procedures need to be fully signed off and operational.

Organisation Accountability

- Organisations must document their assurance procedures, and make them available to regulators
- Some organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law

Notifications and Rights

- Organisations must notify significant data breaches to regulators within 72 hours
- Organisations must explain to individuals what their rights over their personal information are and how it is being processed and protected

Claims and Fines

- For the most serious data breaches, privacy regulators can impose penalties of up to €20 million on public sector organisations,
- Individuals and representative organisations can claim compensation for infringements of data protection law

Questions for your organisation:

- Can your organisation erase personal data effectively?
- Have you appointed a Data Protection Officer if required to have one?
- How will your organisation ensure citizens know how their data is being used and whether it's being shared with other organisations?

Commercial Healthcheck: commercial investments and governance

Our latest healthcheck report was launched at CIPFA's Income Generation Summit in November. It is part of our 'The Income Spectrum' series, giving leaders of local government and public services insights into why and how local authorities are changing their approach to commercialisation, some of the related governance and risk management issues, and the latest innovation trends with case studies ranging from Angus and Luton to Oldham and Stirling.

The research shows that councils need to do more than simply adhere to the drafted rules to ensure an approach to commercialisation that balances outcomes and risks. The report therefore also includes a healthcheck diagnostic tool designed to give local government leaders extra comfort and confidence that they are pursuing a suitably balanced approach

Governance of commercial commitments is key to building confidence in the path to financial sustainability. The CIPFA code is the sector's primary rule book for treasury management and is expected to place a stronger emphasis on how councils will balance security, liquidity and return.

Key findings from the report include:

- While property has tended to be the focus, it is just one of a number of areas of activity. In the past year, borrowing includes £4.8 billion on bonds and commercial paper, and investment includes £7 billion in inter-authority lending (Investment in property for councils is a growing trend – a third of councils have done so since 2010, spending more than £2.4 billion between them, but this is not the only major area of investment activity)
- More entrepreneurial councils are adopting innovative approaches such as place-based market offerings, working together locally to add social value and cross-boundary franchising
- For many councils, investing in commercial assets is key to developing anchor institutions that contribute to place – ranging from airports, business parks and forestry to GP surgeries and cinemas
- A 'beyond compliance' approach to governance of commercial activities is required by progressive councils wanting to do more with less

[Click on the report cover to download and read more](#)



Grant Thornton Publication

Challenge question:

Is your Authority considering the risks and governance issues for its commercialisation agenda?



Supply Chain Insights tool helps support supply chain assurance in public services

Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
 - organisation and category
 - service provider
 - date at a monthly level
- benchmark your spend against your peers
- identify:
 - organisations buying similar services
 - differences in pricing
 - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

Supply Chain Insights

Grant Thornton

Challenge question:

Has your Authority considered how our Supply Chain Insight tool can help support your supply chain assurance?



Cost Assurance

Did you know....

40

Number of Public Sector engagements to date

£125m

Annual spend analysed

£3.55m

Rebate opportunities identified

£1.1m

Fee income identified

2.84%

Error rate – rebates versus spend volume

55%

Of Public Sector engagements are Local Government

Our Cost Assurance service line provides Local Authorities with an independent and retrospective audit of their legacy telecommunications and utilities costs incurred during the past 6 years (as per the Statute of Limitation).

We find that there are repeat errors contained within a Suppliers' invoice arrangements – errors that aren't necessarily picked up by the end client. This is due to the fact that they tend to be contained in suppliers' billing systems 'at source' and are much further down the supply chain which the user won't necessarily have visibility of.

We are supported by a comprehensive library of legacy supplier pricing that has been collated since 2011. Our one aim is to ensure that the client has only paid for the services used during the period by:

- ensuring that bills presented by Suppliers' are in line with their contracts and relevant pricing mechanisms
- ensuring the client receives the Supplier refunds where errors have been identified by us
- ensuring consequential savings are identified and implemented immediately for the client

Our Cost Assurance work is based on a contingent-fee model and is supported by PSAA Ltd. Each of our Local Authority engagements include a fee cap to ensure governance and regulatory standards are maintained.

In summary, we are able to bring much needed financial benefit to the sector as well as providing insight into errors that may be prone to repeat offence by suppliers long after our work is concluded.

Grant Thornton Challenge question:

Has your Authority considered the potential for an independent review of telecommunications and utility costs?

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/>

<http://www.cfoinsights.co.uk/>

<http://supplychaininsights.grantthornton.co.uk/>

PSAA website links

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

MHCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-local-government-investments-second-edition>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition>

CIPFA website link

<http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book>

National Audit Office link

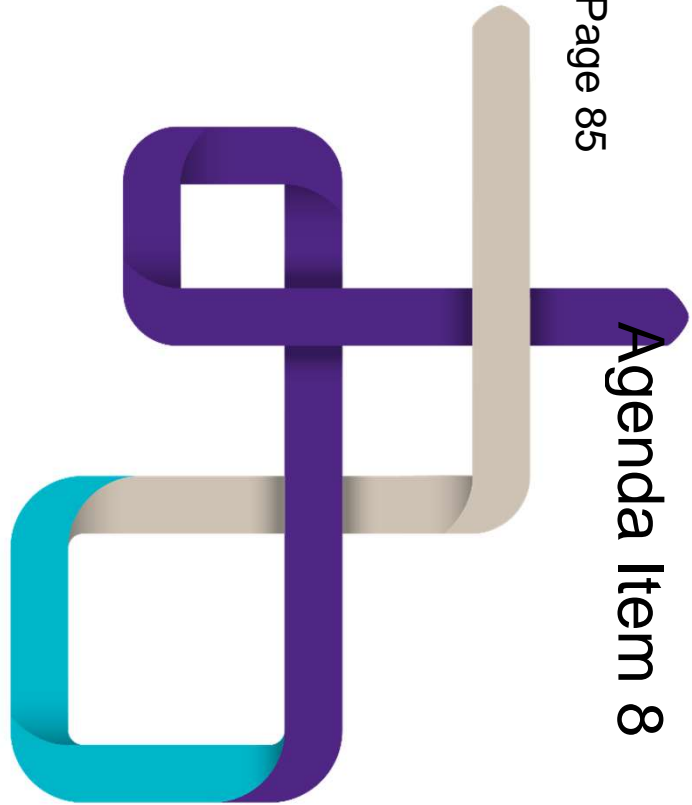
<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/>

<https://www.nao.org.uk/report/the-adult-social-care-workforce-in-england/>

External Audit Plan

Year ending 31 March 2018

Cheltenham Borough Council
April 2018



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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 planning 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 the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Cheltenham Borough Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Cheltenham Borough Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Significant risks

Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls
- Valuation of property, plant and equipment
- Valuation of investment property
- Valuation of pension fund net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1.606m (PY £1.646m), which equates to 2% of your forecast gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.080m (PY £0.082m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Medium Term Financial Strategy
- Publica Ltd

Audit logistics

Our interim visit will take place in February and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £49,406 (PY: £49,406) for the Council.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

Deep business understanding

Changes to service delivery

Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. A new version is due to be published in December 2017.

Local Government Finance

CIPFA have published 'The guide to local government finance' 2017 edition. The guide seeks to provide information on current arrangements for local government finance and sets out the principles of sound financial management.

The guide covers a range of local government services. It examines the funding systems that support those services including council tax, business rates and the local government finance settlement. The guide covers both revenue and capital financing and has separate chapters on key areas and their specific intricacies

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

Forthcoming provisions for IFRS 9 and IFRS 15

CIPFA/LASAAC has issued a companion publication 'Forthcoming provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Practice on Local Authority Accounting in the United Kingdom 2018'.

This sets out the changes to the 2018/19 Code in respect of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. It has been issued in advance of the 2018/19 Code to provide local authorities with time to prepare for the changes.

Key challenges

Financial pressures

The Council has been required to deliver substantial savings since 2010/11, and forecast continued significant savings requirements going forward.

The current MTFS indicates that the Council proposes to fund a gap of £860k from the budget strategy (support) earmarked reserve during 2018/19, and also includes a number of unidentified savings over the period to 2021/22.

Accounting for pension payments

Some local authorities are wanting to make early payments of pension contributions covering payments for three years (2017/18 to 2019/20) as this may result in lower overall charges. This issue first arose three years ago after the last triennial valuation.

After taking legal advice, some local authorities spread the charge to the general over the 3 years.

We have discussed with officers at the Council the considerations and possible accounting treatment should it decide to make an additional payment.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>The revenue cycle includes fraudulent transactions</p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Cheltenham Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Cheltenham Borough Council.</p>
<p>Management over-ride of controls</p>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of property, plant and equipment	<p>The Council revalues its land and buildings on a regular basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; evaluate the competence, expertise and objectivity of any management experts used; hold discussions with the valuer about the basis on which the valuation is carried out and challenge the key assumptions; review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding; test revaluations made during the year to ensure they are input correctly into the Council's asset register; and evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves these are not materially different to current value.
Valuation of investment property	<p>The Council revalues its investment properties on an annual basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of investment property revaluations as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; evaluate the competence, expertise and objectivity of any management experts used; hold discussions with the valuer about the basis on which the valuation is carried out and challenge the key assumptions; review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding; test revaluations made during the year to ensure they are input correctly into the Council's asset register; and evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of pension fund net liability	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • Evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out • Undertake procedures to confirm the reasonableness of the actuarial assumptions made. • Check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Employee remuneration	<p>Payroll expenditure represents a significant percentage of the Council's operating expenses.</p> <p>We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness; • gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls; • obtain year-end payroll reconciliation and ensure amount in accounts can be reconciled to the ledger and through to payroll reports. • agree payroll related accruals to supporting documents and review year end estimates for reasonableness.
Operating expenses	<p>Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • review non-pay payments made post year end to ensure that they have been charged to the appropriate financial period.
Risk (Other)	Reason for risk identification	Key aspects of our proposed response to the risk
LGPS up-front payment	<p>We understand that the Council are considering making an advance contribution to the Gloucestershire County Council Pension Fund. The Council have sought guidance on the implications of making an advance payment of its Secondary contributions into the Fund for 2018-19 and 2019-20.</p> <p>We have identified the pension contribution prepayment and the associated accounting disclosures as a risk requiring particular audit attention.</p>	<p>We will:</p> <ul style="list-style-type: none"> • review the financial statement disclosures associated with the up-front payment to ensure they are in line with the Code.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

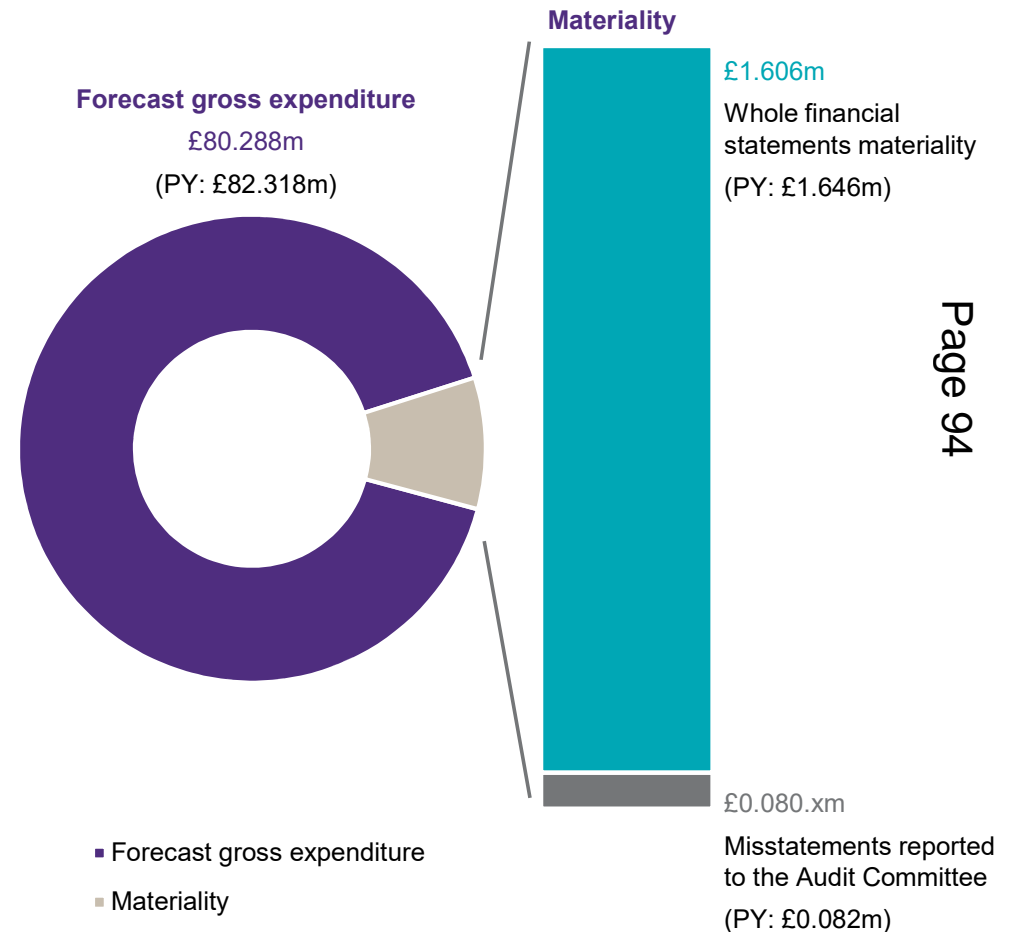
We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £1.606m (PY £1.646m), which equates to 2% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.080m (PY £0.082m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA (UK and Ireland) 600	Risks identified	Planned audit approach
Gloucestershire Airport Limited	Yes	Targeted	<ul style="list-style-type: none"> • Risk of management override • Pension net liability valuation • Valuation of property, plant and equipment • Valuation of investment properties • Completeness of operating expenditure • Completeness of employee remuneration 	Group instructions will be issued to the component auditor
Cheltenham Borough Homes	Yes	Targeted	<ul style="list-style-type: none"> • Risk of management override • Pension net liability valuation • Valuation of property, plant and equipment • Valuation of investment properties • Completeness of operating expenditure • Completeness of employee remuneration 	Group instructions will be issued to the component auditor
UBICO Limited	No	N/A	N/A	UBICO Limited is made up of seven partner councils. Cheltenham Borough Council does not have significant influence over the company, as such, group accounts are not required.
Publica Group (Support) Limited	Yes	Targeted	<ul style="list-style-type: none"> • Risk of management override • Pension net liability valuation • Valuation of property, plant and equipment • Valuation of investment properties • Completeness of operating expenditure • Completeness of employee remuneration 	Group instructions will be issued to the component auditor if we establish that the Council is required to consolidate Publica into its Group Accounts.

Key changes within the group:

- Publica Limited is a Teckal company which commenced trading on 1 November 2017. Publica Limited is wholly owned by Cheltenham Borough Council, Forest of Dean District Council, Cotswold District Council and West Oxfordshire District Council.

Audit scope:

Comprehensive – the component is of such significance to the group as a whole that an audit of the components financial statements is required

Targeted – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit

Analytical – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

Involvement in the work of component auditors

The nature, time and extent of our involvement in the work of component auditors will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditors' audit documentation and meeting with appropriate members of management.

Value for Money arrangements

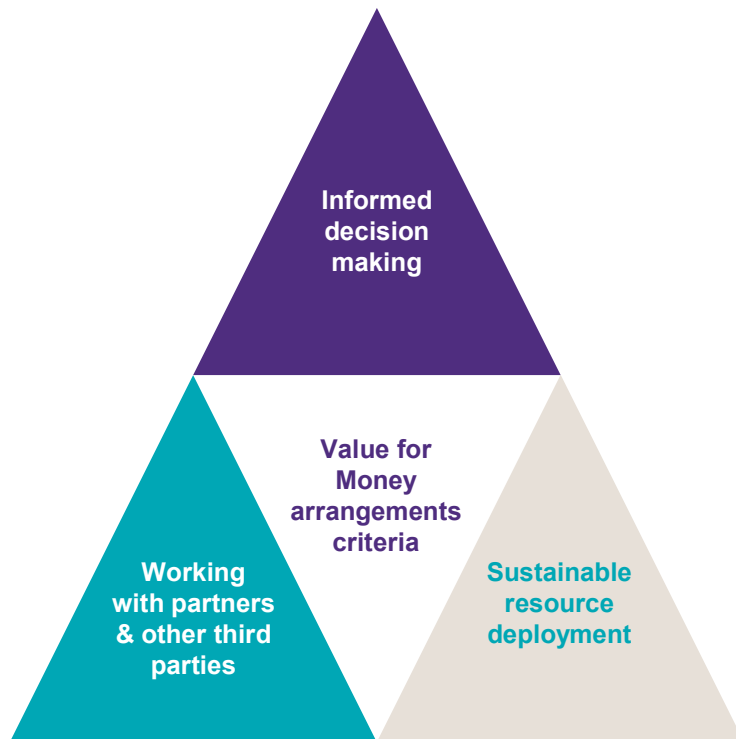
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.



Medium Term Financial Strategy

The Council have been required to deliver substantial savings since 2010/11, and forecast continued significant savings requirements going forward. The current MTFS indicates that the Council proposes to fund a gap of £860k from the budget strategy (support) earmarked reserve during 18/19, and also includes a number of unidentified savings over the period to 2021/22.

Work proposed:

- Review of the MTFP, including the robustness of the assumptions that underpin the plan.
- Understand how savings are identified and monitored to ensure that they support in the delivery of budgets
- Consider 2017/18 performance against savings plans.
- Consider the use of Reserves in 2018/19 to reach the balanced budget



Publica Group (Support) Limited

The Council have transferred a number of services to Publica from 1 November 2017. The services transferred were previously provided by Cotswold District Council and Forest of Dean District Council. Publica will provide ICT, HR and finance services for Cheltenham Borough Council.

Work proposed:

- Review the Council's arrangements for the establishment of Publica Ltd and the contract monitoring processes in place to ensure performance and quality standards are delivered in line with the original Business Plan to demonstrate that Value for Money is being achieved by the Council.
- Review the arrangements in place at the Council to ensure the Publica is delivering the required financial savings whilst maintaining the agreed service standards.
- Review the Council's Governance arrangements to provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified.

Audit logistics, team & audit fees



Barrie Morris, Engagement Lead

Barrie leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.



Sophie Morgan-Bower, Audit Manager

Sophie plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues.



Scott Corboy, Assistant Manager

Scott's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively, efficiently and supervises and co-ordinates the on-site audit team.

Audit fees

The planned audit fees are no less than £49,406 (PY: £49,406) for the financial statements audit and £8,361 (PY: £9,015) for the grant certification audit. Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 13). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Financial Reporting Council Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. In this context, in writing our 2017-18 Audit Plans we need to bring a specific issue to those charged with governance attention. In November 2017 Grant Thornton UK LLP identified a potential breach of the ethical standards in connection with a contractor who was engaged with the Firm and who was also the Chair of Publica Group (Support) Limited (the company). The company was incorporated as a dormant company on 24 January 2017 and is jointly owned by the four councils of Forest of Dean, Cotswold, West Oxfordshire and Cheltenham, all of which are audited by Grant Thornton. The company started operations on 1 November 2017. The Ethical Standard does not allow a member of staff to take a role as an officer or member of a board of directors in an entity where an audit client holds more than 20% of the voting rights. As soon as this breach was identified, we notified Public Sector Audit Appointments Ltd (PSAA) as well as the Director of Finance for each of the Councils and the contractor concerned. The contractors' engagement with the Firm was terminated, with immediate effect, as soon as the breach was identified. No members of the audit team had any involvement with the contractor concerned and were unaware of his relationship with the Firm.

Following the subsequent discussions with our Head of Ethics, it has been agreed that there is no ongoing conflict of interest and there is no impact upon our independence and objectivity of the audit of either the Councils or the company as the entity was dormant during the period of the breach. We have subsequently been approached to be the external auditors of Publica Group (Support) Limited and are currently going through the formal appointment process. We do not consider that the breach will threaten our audit independence and objectivity if appointed as the contractor was not a covered person for the Councils and worked in a different service line to the potential audit team members.

We are reporting this breach to those charged with governance as required under the Financial Reporting Council Ethical Standard to ensure that they are fully apprised of the situation and can confirm that they do not have any concerns with either our appointment as external auditors to the Council or to Public Group (Support) Limited. We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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Non-audit services

The following non-audit services were identified.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	2,100	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,100 in comparison to the total fee for the audit of £49,406 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO insights	3,750	Self-Interest (because this is a recurring fee)	We have provided subscription services only; any decisions are made independently by the Council. The work is undertaken by a team independent to the audit team.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

Appendices

A. Revised ISAs

Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: <ul style="list-style-type: none">• The directors use of the going concern basis of accounting is appropriate• The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: <ul style="list-style-type: none">• Responsibilities of management and auditors regarding other information• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation• Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.



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**Cheltenham Borough Council
Audit Committee – 18th April 2018
Annual Internal Audit Plan 2018/19
Internal Audit Charter 2018/19**

Accountable member	Cabinet Member Corporate Services, Councillor Roger Whyborn
Accountable officer	Paul Jones, S151 Officer
Ward(s) affected	All
Key/Significant Decision	No
Executive summary	<p>The Council must ensure that it has sound systems of internal control which facilitate effective management of all the Council's functions. The work planned by SWAP Internal Audit Services, the Council's Internal Audit service, is one of the control assurance sources to the Audit Committee and Senior Leadership Team and which supports the work of the external auditor. The work is also a key component of the Council's governance framework and as assurance source supporting the Annual Governance Statement, which forms part of the statutory accounting standards.</p> <p>Following CIPFA's guidance on Audit Committee the Committee this evening should "formally approve (but not direct) the Internal Audit plan".</p> <p>The Internal Audit Charter is a requirement of the arrangement between Cheltenham Borough Council and South West Internal Audit Services (SWAP). The charter ensures compliance with good practice as set out in the International Professional Practices Framework of the Institute of Internal Auditors and the Public Sector Internal Audit Standards (PSIAS).</p>
Recommendations	<p>The Audit Committee approves the Internal Audit Plan for 2018/19</p> <p>The Audit Committee approves the Internal Audit Charter 2018/19</p>
Financial implications	<p>The audit plan is a risk based plan which directs internal audit reviews towards the higher risk areas of the council. This ensures that audit resource is focused and directed towards ensuring that financial exposure to the council is minimised.</p> <p>Contact officer: Sarah Didcote, Deputy Section 151 Officer Sarah.didcote@cheltenham.gov.uk, 01242 264125</p>

Legal implications	<p>None specific arising from the report recommendation</p> <p>Contact officer: Peter Lewis, Head of Legal Services, One Legal, peter.lewis@tewkesbury.gov.uk, 01684 272012</p>
HR implications (including learning and organisational development)	<p>As detailed in this report, the Internal Audit Plan outlines a preferred programme of work and the plan will remain flexible to ensure internal audit resources remain focused. The introduction of Publica Group Limited has impacted on the service delivery processes and core governance arrangements and thus resourcing within Internal Audit to deliver on these needs to be monitored.</p> <p>Contact officer: Carmel Togher, HR Business Partner</p> <p>Email: carmel.togher@cheltenham.gov.uk</p> <p>Tel: 01242 775215</p>
Key risks	<p>The audit plan has been derived from consultation with the Senior Leadership Team, Audit Committee, the Internal Audit Team and through reference to relevant policy, strategy and protocol documents including the risk register. The plan is designed to capture key and emerging risks that this Council faces over the year and therefore the plan will remain as flexible as possible to ensure internal audit resources remain focussed and valued.</p> <p>Internal Audit activity is needed each year to satisfy assurance requirements. For example, internal audit review key financial systems annually because the external auditors may rely on this in their own work on final accounts. In addition, the requirement for the Council to review its system of internal control and governance procedures means that assurance is required on systems and procedures relating to the compilation of the Annual Governance Statement. If this work is not completed by the Internal Audit additional fees from external audit may be incurred.</p> <p>Furthermore, Internal Audit is a statutory function under the Accounts and Audit (England) Regulations 2015. <i>“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”</i></p> <p>The risk of failure to deliver core elements of the plan will be mitigated through the Partnership Board monitoring process. The representative from Cheltenham Borough Council is Paul Jones, Section 151 Officer.</p> <p>Furthermore, Audit Committee will continue to receive quarterly reports through 2018/19 from Internal Audit detailing the work undertaken in relation to the plan.</p> <p>Without an approved charter there is a risk that SWAP will not have:</p> <ul style="list-style-type: none"> • The support of management and the Council • Direct access and freedom to support senior management including the Chief Executive and the Audit Committee • Access to any records, personnel or physical property of the Council for audit work

Corporate and community plan Implications	None
Environmental and climate change implications	
Property/Asset Implications	None

1. Background

- 1.1 The environment in which Cheltenham BC and other Local Authorities now operates has presented significant drivers for change. The continual effort to meet the organisational objectives within a constrained budget has resulted in core systems coming under review for change. The introduction of Publica Group, of which Cheltenham Borough Council is a shareholder, has impacted on service delivery processes and on core governance arrangements. Internal Audit needs to be responding to the changing environment and the areas where the organisation now requires assurances. This reinforces the requirement for Internal Audit to follow a more flexible and risk based plan.

2. Reasons for recommendations

- 2.1 The primary role of Internal Audit is to provide assurance that the Council's systems constitute a proper administration of its affairs. To this end, Internal Audit carries out a programme of audits that is agreed annually with Heads of Service and the Executive Management Team and is approved by the Audit Committee.
- 2.2 The requirements of the Public Sector Internal Audit Standards (PSIAS) and changes within the local authorities, SWAP Internal Audit Services, as the Internal Audit provider, needs to respond to the changing environment and the areas where the organisation now requires assurances. This reinforces the requirement for Internal Audit to follow a more flexible and risk based plan.
- 2.3 The core financial systems delivered to the Council by Publica Group are covered within the Core Financials, this will cover Publica and client-side activities providing;
- Assurance to the client (Cheltenham Borough Council) over the controls operating within Publica Group financials, within the services they provide, and an assurance level for each financial module (system control testing)
 - Assurance to the Council over the controls operating within service-based activities associated with the financial processes administered by Publica (transactional testing)
 - Periodic assurance over the other aspects of Publica provided services
 - The required support to the External Auditor
- 2.4 A summary of the Annual Internal Audit Plan for 2018/19 is included at Appendix 1. This lists the risk based assurance and consultancy work planned for the year. Counter fraud related audit work has not been included in this audit plan.
- 2.5 The Internal Audit Plan outlines a preferred programme of work for the year as developed throughout January and February 2018. The Audit Plan presented is not "set in stone" and is intended to evolve in response to issues highlighted through risk and change management and monitoring. Any changes to the agreed plan will only be made through a formal process involving the Section 151 Officer.

3. Consultation and feedback

- 3.1 The plan has been developed following consultation with and feedback from the Senior Managers, the Internal Audit Team and the Audit Committee.

4. Performance management – monitoring and review

- 4.1 The performance of SWAP Internal Audit Services is monitored by both the Audit Committee and

the Audit Partnership Board as detailed in the Internal Audit Charter 2018.

5. Internal Audit Charter 2018/19

- 5.1** The Charter demonstrates how the Internal Audit service will operate, and forms part of the requirements of the Public Sector Internal Audit Standards.
- 5.2** The Charter provides guidance on authority, accountability, customer care (quality control), independence, reporting, responsibility and audit standards.

Report author	Contact officer: Lucy Cater, Assistant Director, SWAP Internal Audit Services, lucy.cater@southwestaudit.co.uk 01285 623340
Appendices	<ol style="list-style-type: none"> 1. Risk Assessment 2. Internal Audit Annual Plan and Internal Audit Charter 2018/19
Background information	None

Risk Assessment

Appendix 2

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
Aud1	Without the audit plan in place there is the risk of insufficient audit work being completed to provide a reasonable assurance to stakeholders that there is an effective control framework in place, adequately mitigating risks to the authority's risk appetite.	Section 151 Officer		3	3	9	Reduce	The Audit Committee approval of the annual plan	18/04/2017	Section 151 Officer	
Aud 2	Without the delivery of the approved audit plan there is the risk of insufficient audit work being completed to provide a reasonable assurance to stakeholders that there is an effective control framework in place, adequately mitigating risks to the authority's risk appetite.	Section 151 Officer		3	3	9	Reduce	Appropriate support from service managers to aid the internal audit team in the delivery of its work. Monitoring of the delivery of the internal audit plan by; the Section 151 Officer and the Audit Committee.	31/03/2019	Section 151 Officer	

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Cheltenham Borough Council

Report of Internal Audit Activity

Internal Audit Annual Plan 2018/19

Internal Audit Charter 2018/19

Contents

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➔ Appendices:

Appendix A – Internal Audit Annual Plan 2018/19
Appendix B – Internal Audit Charter 2018/19

Internal Audit Annual Plan and Internal Audit Charter 2018/19

The role of the Internal Auditor is to provide *independent, objective assurance* to management and members that key risks are being managed effectively.



Purpose

The purpose of this report is for members to approve the Internal Audit Annual Plan and the Internal Audit Charter for 2018/19.



Role of Internal Audit

The role of the internal auditor is to provide independent, objective, assurance to management that key risks are being managed effectively. To do this, the internal auditor will evaluate the quality of risk management processes, systems of internal control and corporate governance frameworks, across all parts of an organisation, and provide an opinion on the effectiveness of these arrangements.

By reporting to senior management that important risks have been evaluated, and highlighting where improvements are necessary, the internal auditor helps senior management to demonstrate that they are managing the organisation effectively on behalf of their stakeholders. Hence, internal auditors, along with senior management and the external auditors are a critical part of the governance arrangements of an organisation, with the work undertaken significantly contributing to the statutory Annual Governance Statement (AGS).

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that authorities must 'undertake an effective internal audit to evaluate the effectiveness of risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance'.

SWAP Internal Audit Services (SWAP) has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. These standards define the way in which the Internal Audit Service should be established and undertakes its functions.

Internal Audit Annual Plan and Internal Audit Charter 2018/19

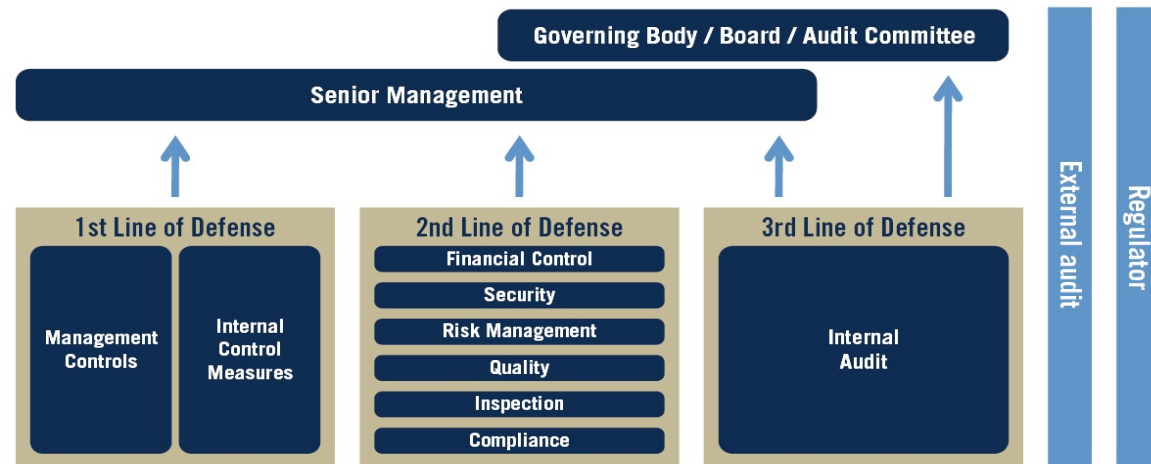
The role of the Internal Auditor is to provide *independent, objective assurance* to management and members that key risks are being managed effectively.



Role of Internal Audit (Continued)

The position of Internal Audit within an organisation's governance framework is best summarised in the three lines of defence model shown below.

The Three Lines of Defense Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

The role of the Internal Auditor is to provide *independent, objective assurance* to management and members that key risks are being managed effectively.



Role of Internal Audit (Continued)

It is the role of management to establish effective systems of governance, risk management and internal controls to:

- Safeguard the Council's resources and prevent fraud;
- Ensure the completeness and reliability of records;
- Monitor adherence to laws, regulations, policies and procedures;
- Promote operational efficiency, demonstrate the achievement of value for money; and
- Manage risk

It is the responsibility of management to establish controls needed to confirm that their systems are working effectively, that all information is accurate, and the risk of fraud and error is minimised.

Internal Audit's role is to provide assurance that management are undertaking the appropriate checks over their systems to confirm that they are working effectively. It is not the role of Internal Audit to re-perform management's checks or to undertake such checking on management's behalf. In order to safeguard Internal Audit's independence, Internal Audit does not have any operational responsibilities and is not responsible for any of the decision making or policy setting within the Council.

Our audit activity is split between:

- Governance Audits
- Key Financial Control Audits
- ICT Audits
- Operational Audits
- Follow-Up Audits
- Advice and Consultancy
- Other Reviews



Internal Audit Annual Plan 2018/19

The Internal Audit Annual Plan is presented at **Appendix A** to this report and represents the Internal Audit activity for the 2018/19 financial year.

To ensure that to the best of our ability we have covered the necessary risks, the Internal Audit Annual Plan has been developed, following consultation with Members, Senior Management and with the co-operation and approval of the S 151 Officer. We have also taken into account management's assessment of risk from the Corporate Risk Register as well as risks identified in the Operational Risk Registers.

We also use our own risk assessment against each activity assessing reputational impact, change factor, financial risk, legal / statute, strategic priorities and health and safety risk. This allows us to prioritise possible areas to be included in the plan on the basis of risk.

The Audit Plan has been developed to enable us to respond to changes during the year. Whilst every effort will be made to deliver the plan, we recognise that we need to be flexible and prepared to revise audit activity – responding to changing circumstances or emerging risks. The plan is therefore a statement of intent.

At the start of each audit an initial meeting is held to agree the terms of reference for the audit which includes the objective and scope for the review. The plan is produced with a view to providing assurance to both Officers and Members that current and imminent risks faced by the Authority are adequately controlled and managed. Any changes to the agreed plan will only be made through a formal process involving the S 151 Officer.

Our audit activity is split between:

- **Governance Audits**
- **Key Financial Control Audits**
- **ICT Audits**
- **Operational Audits**
- **Follow-Up Audits**
- **Advice and Consultancy**



Internal Audit Annual Plan 2018/19 (Continued)

The Audit Plan is notionally broken down across audit categories, the following summarises each:

Governance Audits – focus primarily on the key risks relating to cross cutting areas that are controlled and / or impact at a corporate rather than service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will, in some cases, enable SWAP to provide management with added assurance that they are operating best practice as we will be conducting most of these reviews at all our Partner Sites.

Key Financial Control Audits – focus primarily on key risks relating to the Council’s major financial systems. These systems have been recognised as Accounts Payable (Creditors), Accounts Receivable (Debtors), Main Accounting, Payroll, Treasury Management and Bank Reconciliation and Revenues and Benefits (Council Tax, National Non-Domestic Rates, Council Tax Benefit).

The Audit Committee will be aware from the quarterly update reports that in recent years the key control audits have continued to receive high levels of assurance and several received substantial (high) assurance. As a result, using a risk-based methodology all of the key controls do not need an annual review. The exact scope of these audits will be agreed with the S151 Officer prior to commencement, taking into account emerging and current issues.

ICT Audits – ICT Reviews are completed to provide the Authority with assurance with regards to their compliance with industry best practice. SWAP has specialist Computer Auditors who will liaise with the ICT Manager to identify specific ICT related risks. The exact scope of the audits has therefore yet to be determined however, areas for consideration include cybersecurity, Members’ ICT and Physical Networks / Network Access.

Internal Audit Annual Plan 2018/19

Our audit activity is split between:

- Governance Audits
- Key Financial Control Audits
- ICT Audits
- Operational Audits
- Follow-Up Audits
- Advice and Consultancy



Internal Audit Annual Plan 2018/19 (Continued)

Operational Audits – are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised, and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.

Follow-Up Audits – where an audit receives a Partial or No Assurance level, SWAP will carry out a follow-up review to provide assurance that identified weaknesses have been addressed and risks mitigated. Known follow-ups from work undertaken in the 2017/18 audit plan have been included. A contingency has also been built in to the plan so that, should any early reviews be awarded this level of assurance, they can be followed-up in a timely manner, this contingency will also allow us to follow-up previous year's audits that had recommendations but were awarded a positive assurance level.

Advice and Consultancy – are undertaken at the request of management, where they are looking for advice or support on a subject matter / programme / project. Such reviews are not afforded an audit assurance

An Internal Audit Charter is a formal document that defines Internal Audit's purpose, authority, responsibility and position within an organisation.



Internal Audit Charter

An Internal Audit Charter is a formal document that defines Internal Audit's purpose, authority, responsibility and position within an organisation.

The Internal Audit Charter describes how Internal Audit will provide value to the organisation, the nature of the services it will provide, and the specific focus or emphasis required of Internal Audit to help the organisation achieve its objectives. Having an Internal Audit Charter also establishes the Internal Audit activity's position within the organisation, including reporting lines, authorising access to records, personnel, and physical property relevant to the performance of engagements; also defining the scope of Internal Audit activities.

A copy of the Internal Audit Charter for 2018/19 is attached at **Appendix B**.

It is the role of the Audit Committee to review and approve the Internal Audit Charter on an Annual basis. The current Charter was last reviewed and approved by this Committee at its meeting on 20th September 2017.



Cheltenham Borough Council

Internal Audit Annual Plan 2018/19

Internal Audit Annual Plan 2018/19

Audit Type	Audit Theme / Service Area	Specific Topic or Activity	Planned Quarter
Governance Audits	Annual Governance Statement	Review of the production of the Annual Governance Statement and sample testing elements of the supporting information	1
	Risk Management	To review a specific element of the Council's Risk Management process - Elements are audited on a cyclical arrangement	4
	Performance Management	Review of the Council's Strategy	4
Key Financial Control Audits	Revenues and Benefits	<p>A review of the controls operating in respect of:</p> <ul style="list-style-type: none"> • Council Tax • Council Tax Benefit • National Non-Domestic Rates <p>The programme of activity ensures full coverage of the services over a 3-year cycle</p>	3
	Core Financials	<p>A review of the controls operating within Publica in respect of the Core Financial systems:</p> <ul style="list-style-type: none"> • Payroll • Accounts Payable (Creditors) • Accounts Receivable (Debtors) • Treasure Management and Bank Reconciliations • Main Accounting, Capital Accounting and Budgetary Control <p>Transactional testing will be undertaken for the Council where appropriate to ensure compliance with Council Policies and Procedures</p> <p>Depending on previous years audit assurances a high-level review may be deemed appropriate.</p>	3
	Systems Administration	Review of the controls operating within Publica for the administration of the Business World System	3

Audit Type	Audit Theme / Service Area	Specific Topic or Activity	Planned Quarter
	Human Resources	Review to confirm Absence Management is reported in accordance with policy and procedure, ensuring accurate information is reported and pay is reflected in accordance with the absence	3
	Other Support Service Provided by Publica	A review of Procurement / Health and Safety / Insurance. 2018/19 review to cover Procurement	3
	Serious and Organised Crime Audit	Review to scrutinise business operations to establish where they may be vulnerabilities to serious and organised crime	4
ICT Audits	EU General Data Protection Regulations	Review to ensure the Council's compliance with the new EU General Data Protection Regulations (to include transparency)	3
	Public Services Network Submission (PSN)	Annual review of the PSN submission to ensure data is accurate and submitted in accordance with Cabinet Office directives to ensure continued compliance	2
	Audits TBC	Other ICT Audits to be agreed (suggested areas shown below)	1 - 4
		Cybersecurity	
		Physical Networks / Network Access	
		Software / Hardware Management	
		Members ICT	
Operational Audits	Members and Officers Gifts and Hospitality and Declarations of Interest	Review to ensure the appropriate declarations are made in respect of Gifts and Hospitality and Interests. Review to also include accountability for the correct operation of the processes.	2
	Discretionary Housing Payments (DHP)	To ensure that the funds available for Discretionary Housing Payments are fully utilised and awarded in accordance with Government guidance and Council policy	4

Audit Type	Audit Theme / Service Area	Specific Topic or Activity	Planned Quarter
	Licencing / Planning / Planning Enforcement	Review of one area per year (D Willingham email)	1
	Workforce Strategy	Review to ensure recruitment and retention policies support organisational objectives and aspirations for the future. HR Strategy aligned with organisation's overall strategy. Assessment of current and future skills gaps. Has the organisation given consideration to the demographic makeup of its workforce. Attracting younger talent.	1
	Corporate Culture	Review to assess whether the existing culture and staff behaviour reflects the organisation's stated ethos and values, do they stand in the way of the organisation achieving the transformation it seeks and how effective measures to reshape the culture are.	4
	Regulatory Awareness and Compliance	Review to ensure compliance is being effectively managed. Have the organisations have plans in place to ensure compliance when new legislation is introduced. Are systems in place for reporting non-compliance	2
	Procurement and Contract Management Governance	Due diligence processes are comprehensive, risk around the failure of contractors (Carillion) (New Housing / Leisure Centres)	1
	Business Continuity Management	Assurance review following the advice and consultancy audit undertaken in 2017/18	2
Follow-Up Audits	Follow-Up Audits	Follow-Up of Previous Year Audits (Substantial / Reasonable Assurances)	1 – 4
	Ubico (Recyclates)	Follow-Up of Previous Years No Assurance Audit	2
	Ubico (Data Monitoring)	Follow-Up of Previous Years Partial Assurance Audit	2
Advice and Consultancy (Non-Opinion)	Cemetery and Crematorium Development	Support for the cemetery and crematorium programme, including attendance at meetings and gate reviews	1 - 4

Audit Type	Audit Theme / Service Area	Specific Topic or Activity	Planned Quarter
	Parking Strategy / Cheltenham Task Force	To advise on any implications identified in the parking strategy. Review of the arrangements to support and ensure the delivery of outcomes following the introduction of the parking strategy	1 - 4
	P&ED Transformation Project	To conduct a review of the current programme	1 - 2
	CBC Organisational Change Project (not yet defined)	To support the new programme throughout the year offering assurance on the governance and internal control environments, ensuring they are secure	3 - 4
	Commissioning	Review of CBC's commissioning arrangements to ensure monitoring of contracts and services is appropriate. Review to help inform structure of organisation	3
	Publica Governance	Review to give assurance to the Council that the governance arrangements / structure of Publica are appropriate to ensure decisions / actions are made in accordance with legal agreements	1 - 4
	Change Programmes	Days to allow for support for change programmes and to include providing assurance to the Council in respect of the Publica Transformation Programme	1 - 4
Other Audit Involvement	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, including CFU	1 - 4
	Grant Certifications	Disabled Facilities Grants	1
	Grant Certifications	Provision for other Grant Certifications	1 - 4
	Contingency	Provision for new work based on emerging risks and Investigations	



Cheltenham Borough Council

Internal Audit Charter 2018/19

Reviewed February 2018

Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

Contents

The contacts at SWAP in connection with this report are:

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Internal Audit Charter

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Internal Audit Charter 2018/19

The internal audit charter is a formal document that defines internal audit's purpose, authority, responsibility and position within the organisation.



Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within Cheltenham Borough Council, and to outline the scope of internal audit work.



Approval

This Charter was approved by the Audit Committee on 20th September 2017 and is reviewed each year to confirm it remains accurate and up to date.

*The standards require that Internal Audit report to the Board. CIPFA have, via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that the Audit Committee in this instance represents the Board.

The charter sets out the nature of services that internal audit will provide and how internal audit will help the organisation to achieve its objectives.



Provision of Internal Audit Services

The internal audit service is provided by SWAP Internal Audit Services (SWAP). SWAP is a Local Authority controlled company. This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by the Section 151 Officer in consultation with the Chief Executive of SWAP.



Role of Internal Audit

The Accounts and Audit (England) Regulations 2015, state that: "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance."

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The charter should set out the nature of services that internal audit will provide and how internal audit will help the organisation to achieve its objectives.



Responsibilities of Management and of Internal Audit

Management~

Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. Management is responsible for ensuring SWAP has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Council's Chief Executive and the Audit Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

Internal Audit

Internal audit is responsible for operating under the policies established by management in line with best practice.

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. SWAP has been independently assessed and found to be in Conformance with the Standards.

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for Cheltenham Borough Council, or Publica, will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

~In this instance Management refers to the Management Team.

The charter should set out the nature of services that internal audit will provide and how internal audit will help the organisation to achieve its objectives.



Relationship with the External Auditors / Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.



Status of Internal Audit within the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

The Chief Executive for SWAP, the Executive Director and Assistant Director also report to the Section 151 Officer, and reports to the Audit Committee as set out below.

The Assistant Director will be the first and primary point of contact for Cheltenham Borough Council for all matters relating to the Audit Committee, including the provision of periodic reports. The Assistant Director is also responsible for the design, development and delivery of audit plans, subject to the agreement of the partner or client.

The charter should set out the nature of services that internal audit will provide and how internal audit will help the organisation to achieve its objectives.



Scope and Authority of Internal Audit Work

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of Cheltenham Borough Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the Council and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;

The charter should set out the nature of services that internal audit will provide and how internal audit will help the organisation to achieve its objectives.



Scope and Authority of Internal Audit Work (Continued)

- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned;
- reviewing the operations of the Council in support of the Council's anti-fraud and corruption policy;
- at the specific request of management, internal audit may provide consultancy services provided:
 - the internal auditor's independence is not compromised
 - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
 - the scope of the consultancy assignment is clearly defined, and management have made proper provision for resources within the annual audit plan
 - management understand that the work being undertaken is not internal audit work

The charter should set out the nature of services that internal audit will provide and how internal audit will help the organisation to achieve its objectives.



Planning and Reporting

SWAP will submit to the Audit Committee, for approval, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the organisation will be facing in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed on a quarterly basis to ensure it remains adequately resourced, current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Director. SWAP will report at least four times a year to the Audit Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Audit Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Section 151 Officer and to other relevant line management.

The Assistant Director will submit an annual report to the Audit Committee providing an overall opinion of the status of risk and internal control within the Council, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and Executive Directors and Assistant Directors have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit Committee, the Council's Chief Executive Officer or the External Audit Manager.

Cheltenham Borough Council Audit Committee – 18th April 2018 Internal Audit Monitoring Report

Accountable member	Cabinet Member Corporate Services, Councillor Roger Whyborn
Accountable officer	Paul Jones
Ward(s) affected	All
Key/Significant Decision	No
Executive summary	<p>The Council must ensure that it has sound systems of internal control that facilitate the effective management of all the Council's functions. The work delivered by the SWAP Internal Audit Services (SWAP), the Council's internal audit service, is one of the control assurance sources available to the Audit Committee, the Senior Leadership Team and supports the work of the external auditor.</p> <p>The Annual Internal Audit Opinion presented to Audit Committee provides an overall assurance opinion at the end of the financial year. This Internal Audit Monitoring Report, however, is designed to give the Audit Committee the opportunity to comment on the work completed by the partnership and provide 'through the year' comment and assurances on the control environment.</p>
Recommendations	The Audit Committee considers the monitoring report and makes comment on its content as necessary
Financial implications	<p>There are no financial implications arising from the report</p> <p>Contact officers: Sarah Didcote, Deputy Section 151 Officer Sarah.didcote@cheltenham.gov.uk, 01242 264125</p>
Legal implications	<p>None specific arising from the report recommendation</p> <p>Contact officer: Peter Lewis, Head of Legal Services, One Legal peter.lewis@tewkesbury.gov.uk, 01684 272012</p>
HR implications (including learning and organisational development)	<p>There are no direct HR implications arising from the content of the report.</p> <p>Contact officer: Carmel Togher, HR Business Partner Carmel.togher@cheltenham.gov.uk, 01242 775215</p>
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	<p><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></p> <p>Therefore the internal audit activity impacts on corporate and community plans.</p>
Environmental and climate change implications	Relevant to particular audit assignments and will be identified within <i>individual reports.</i>
Property/Asset Implications	Contact officer: David Roberts@cheltenham.gov.uk

1. Background

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- 1.1** The Annual Audit Plan 2017/18 was aligned with the corporate and service risks facing the Council as identified in the consultation with the Senior Leadership Team and supported by such systems as the risk registers. The role and responsibilities of internal audit reflect that it is there to help the organisation to achieve its objectives, part of the plan has been aligned to elements of this strategy. However, to inform the audit plan we have also reviewed other key documents, such as the Medium Term Financial Strategy, change programme agendas and updates to the business plan, many of which contain risk assessments
- 1.2** There is also a benefit to supporting the work of the External Auditor (Grant Thornton). This is in the form of financial and governance audits to support such activities as value for money.
- 1.3** The audit plan also considered risks that may evolve during the year. The consultation process has sought to identify these areas considering where internal audit could support and add value to the risk control process. This report identifies work we have completed in relation to the planned audit work.

2. Reasons for recommendations

- 2.1** This report highlights the work completed by Internal Audit and provides comment on the assurances provided by this work.

3. Internal Audit Output

- 3.1** The Internal Audit Service is provided to this Council through the SWAP Internal Audit Services (SWAP). SWAP is locally authority controlled company.
- 3.2** The SWAP report attached at **Appendix 'A'**, sets out the work undertaken by SWAP for the Council since the Committee's last meeting. It follows the risk-based auditing principles, and, therefore, this is an opportunity for the Committee to be aware of emerging issues which have resulted in SWAP involvement.
- 3.3** Officers from SWAP will be in attendance at the Committee meeting and will be available to address Members' questions.

Report author	Lucy Cater, Assistant Director, South West Audit Partnership lucy.cater@southwestaudit.co.uk 01285 623340
Appendices	1. SWAP Report of Internal Audit Activity

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Cheltenham Borough Council

Report of Internal Audit Activity

Plan Progress 2017/2018

April 2018

Contents

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Internal Audit Plan Progress 2017/2018

Our audit activity is split between:

- **Governance Audit**
- **Operational Audit**
- **Key Control Audit**
- **IT Audit**
- **Other Reviews**

● Role of Internal Audit

The Internal Audit service for Cheltenham Borough Council is provided by SWAP Internal Audit Services (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Governance Audits
- Operational Audits
- Key Financial System Controls
- IT Audits
- Other Special or Unplanned Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Council's Management Team. The 2017/18 Audit Plan was reported to, and approved by, Audit Committee at its meeting in March 2017.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Outturn to Date:

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action

● Internal Audit Work

The schedule provided at [Appendix A](#) contains a list of all audits as agreed in the Internal Audit Annual Plan 2017/18. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed in [Appendix B](#) of this document.

As is shown in [Appendix A](#) good progress is being made on the 2017/18 audit plan with a number of audit reviews at draft report stage. Some reviews are showing as ‘In Progress’ but again, these are progressing well and all audits will be completed for inclusion in the Annual Audit Opinion.

As agreed with this Committee where a review has a status of ‘Final’ we will provide a summary of the work and further details to inform Members of any key issues, if any, identified.

Three of the reviews we have finalised since the last meeting of this Committee have not returned an adverse audit of either ‘No Assurance’ or ‘Partial Assurance’.

We also concluded a further two audits, Ubico Recyclates and Ubico Data Monitoring, which we have combined in one report. Significant Findings were reported which include:

- Income is not effectively collected
- Budgets are not challenged to ensure that they are accurate.

The Recyclates review received a ‘No Assurance’ and the Data Monitoring review received a ‘Partial Assurance’.

Further information on all the finalised reviews can be found within [Appendix C](#).

Internal Audit Plan Progress 2017/2018

We keep our audit plans under regular review to ensure that we audit the right things at the right time.

- Approved Changes to the Audit Plan

The audit plan for 2017/18 is detailed in **Appendix A**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to Cheltenham Borough Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Audit Client Officer.

Days have been taken from the number originally planned for IA support of the 2020 / Publica programme, these days have been re-allocated to allow IA to draft, with the support of Management, the Annual Governance Statement for 2017/18.

We have also agreed to carry forward the days in the 2017/18 audit plan to allow us to conduct a Value for Money exercise in respect of the Cheltenham Trust.

Internal Audit Plan Progress 2017/2018

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
FINAL											
Governance, Fraud & Corruption	Annual Governance Statement (for year 2016/17)	Q1	Complete	Satisfactory							
Operational	Grant Payments to Third Parties	Q1	Final	Substantial	2			2			Reported September 2017
Key Control	Treasury Management and Bank Reconciliations	Q2	Final	Substantial	0						Reported January 2018
ICT	EU General Data Protection Regulations	Q2	Final	Non – Opinion							Reported January 2018
Operational	Elections	Q4	Final	Substantial	0						Reported January 2018
Operational	Damages Recovery	Q3	Final	N/A	0						Reported January 2018
Governance, Fraud & Corruption	Risk Management	Q2	Final	Substantial	1			1			Reported January 2018
Operational	MTFS	Q4	Final	Reasonable	3			3			Reported January 2018
Operational	S106 Agreements and Funds	Q2	Final	Reasonable	5			5			See Appendix C
Key Control	Other GOSS Area – Health and Safety	Q3	Final	Reasonable	2				2		See Appendix C Recs for Publica
Key Control	Accounts Payable (Creditors)	Q3	Final	Reasonable	1				1		See Appendix C

Summary of Audit Findings

APPENDIX C

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Operational	Ubico Recyclates	Q2	Final	No Assurance	3			2	1		See Appendix C
Operational	Ubico Data Monitoring	Q2	Final	Partial	2				2		
	Culture and Ethics		Final	N/A							Survey conducted by SWAP on behalf of all Partners
	Emergency Planning		Final	N/A							Survey conducted by SWAP on behalf of all Partners
DRAFT											
Key Control	Payroll	Q3	Draft Report								Waiting for Management Response
ICT	Protection from Malicious Code	Q3	Draft Report								
ICT	ICT Policies	Q3	Draft Report								
Key Control	Council Tax	Q3	Draft Report								
Key Control	NNDR	Q3	Draft Report								
Key Control	Council Tax Benefit	Q3	Draft Report								

Summary of Audit Findings

APPENDIX C

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Governance, Fraud & Corruption	Annual Governance Statement (for year 2017/18)	Q4	Draft								For consideration at April 2018 Audit Committee
IN PROGRESS											
ICT	Public Services Network Submission	Q3	In Progress								
Key Control	Serious and Organised Crime Checklist	Q4	In Progress								Completed by CFU
Key Control	Serious and Organised Crime Audit	Q4	In Progress								
Key Control	Fighting Fraud and Corruption	Q4	In Progress								
Key Control	Main Accounting, Budgetary Control and Capital Accounting	Q3	In Progress								
Key Control	Accounts Receivable (Debtors)	Q3	In Progress								Transactional Testing Complete
Key Control	IR35	Q4	In Progress								
Key Control	Business World System Administration	Q3	In Progress								

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Summary of Audit Findings

APPENDIX C

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ←→ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Key Control	Human Resources		In Progress								Scope of HR review changed following request from CFU
NOT STARTED											
Governance, Fraud & Corruption	Audit Committee Effectiveness (Annual)	Q4									
ICT	ICT	TBC									
ADVICE AND CONSULTANCY											
Non Opinion	2020 Vision Programme	Ongoing									2020 programme concluded
Non Opinion	Cemetery and Crematorium Development	Ongoing									
Advice	Ubico	Ongoing									
Advice	Leisure and Culture Trust	Ongoing									Days to be carried forward into 2018/19
Advice	Parking Strategy	Ongoing									
Advice	Revised Arrangements for S151 Officer Role	TBC									Days to be carried forward into 2018/19
Advice	Change Programmes	Ongoing									

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Advice	Equality and Diversity	Ongoing									Scope changed from a Risk Based Audit to an Advice piece of work
Governance, Fraud & Corruption	Performance Management	Q4									Scope changed from a Risk Based Audit to an Advice piece of work
OTHER INTERNAL AUDIT INVOLVEMENT											
Advice	Management	Ongoing									
Follow Up	Safeguarding	Q4	In Progress								
Follow Up	2016/17 Follow Up Reviews	Ongoing									
	Contingency Days	Ongoing									
DROPPED											
ICT	Device Strategy										Days added back into contingency

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Non Opinion	2020 Vision Programme										Reduce number of days originally planned for support, days are allocated for drafting of AGS

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- No Assurance

● Audit Framework Definitions

Control Assurance Definitions

Substantial	▲ ★ ★ ★	We are able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲ ★ ★ ★	We are able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲ ★ ★ ★	We are able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
No Assurance	▲ ★ ★ ★	We are not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Non-Opinion – In addition to our opinion based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendations are prioritised from 1 to 5 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

● Audit Framework Definitions

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

- Priority 5: Findings that are fundamental to the integrity of the unit’s business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management and the Audit Committee.

Audit Assignments finalised since the last Audit Committee:

Summary of Audit Assignments Finalised since the last Audit Committee

● Summary of Audit Findings and High Priority Service Findings

The following information provides a brief summary of each audit review finalised since the last Committee update.

Section 106 Agreements and Funds – Reasonable Assurance

As part of the 2017/18 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place for Section 106 Agreements and funds across Cheltenham Borough Council.

The aim of this audit is to provide assurance existing governance is robust enough to mitigate the risks associated with Section 106 Agreements and Contributions at Cheltenham Borough Council (CBC).

Section 106 Agreements and Contributions are identified by Planning Officers using their professional knowledge and experience and in accordance with agreed policy, and they are approved once the legal agreement is signed by all parties, any fees that are due have been received and planning permission has been granted. Section 106 data is recorded within password protected Excel spreadsheets saved on CBC's shared drive and responsibility for monitoring this data falls under the Enforcement officers. Our review found there is no current procedure documents or process structure, but Officers have a good understanding of their part of the process.

Evidence supports that Section 106 Agreement Contributions have been reported to Members during budget monitoring (June 2017). Planning Committee and Council meeting minutes, Planning application details and a 'Section 106 Legal Agreement Procedure and timetable' are available online for general public information, applicant guidance and transparency purposes.

Our review has found reasonable governance arrangements are currently in place, however, the online

guidance documentation should be reviewed along with the introduction of the Community Infrastructure Levy and any related systems and processes to ensure Section 106 Agreements and contributions are effectively managed.

Well controlled areas include:

- Approval and accountability - Every planning application processed by CBC has a Delegated Officer report which is signed off by the Development Manager-Applications or a designated senior officer before a decision notice is issued to the applicant / agent.
- Timeliness – Section 106 Agreements follow the statutory planning application determination deadlines. Within the legal agreement specific to each Section 106 is the timescale in which contributions need to be paid.

Other GOSS Area – Health and Safety – Reasonable Assurance

As part of the 2017-18 internal audit plan, a review was carried out to assess the Council's arrangements to ensure Publica Group Ltd (Publica) is compliant with the Health and Safety at Work Act 1974. CBC, CDC, FoDDC and WODC have collaboratively established, and joint own a limited company Publica, that provides several services on behalf of the Council. One such service is GO Shared Service (Health & Safety) (GOSS HS).

The Health and Safety at Work Act 1974 requires all employers to take reasonable steps to prevent accidents or harm occurring to their employees. It outlines a number of statutory requirements such as: hold a valid Health and Safety Policy; control risks within the organisation; provide first aid / incident arrangements; display the Health and Safety Executive poster; and hold valid employers' liability insurance. This review looked to provide assurance these statutory requirements were in place at the launch of Publica and that the Council remain compliant with its H&S obligations provided via GOSS HS.

Interviews were conducted with the GOSS HS Manager and Technician and evidence gathered from GOSS Insurance, the 2020 Programme team (the group tasked with setting up Publica) and the Council.

Health & Safety policy statements and employer's liability insurance were in place and available to Council officers. A suite of Health & Safety policies that evidence specific risks had been considered, such as Lone Working and Working at Height; we can confirm H&S policies have been approved by CBC.

The Regulatory Reform (Fire Safety) Order 2005 requires all employers to appoint a senior officer as 'responsible person'. This officer has responsibility for ensuring, as far as reasonably practical, the safety of his/her staff, and must be made fully aware of his/her responsibilities as well as receive a letter of appointment. The Chief Executive holds this position at Cheltenham Borough Council.

We made 2 minor recommendations that have been agreed with Publica, which do not impact on the Council's H&S arrangements.

Accounts Payable (Creditors) – Reasonable Assurance

As part of the 2017-18 internal audit plan, a review was carried out to assess the adequacy of the procedures and controls in place within Accounts Payable, based at the Forest of Dean District Council.

Accounts Payable (AP) processes all invoices and payment requests on behalf of a number of clients including Cheltenham Borough Council.

A modular approach was adopted this year, so this review did not cover all procedures carried out by AP. Over a three year cycle all AP procedures are reviewed and tested. This year the following areas were reviewed: management around receiving and processing supplier invoices; management of sundry supplier payments; appropriate approval of individual payments; controls around creating and approving payment files; mitigating controls to prevent duplicate payments; and the effect the launch of Publica Group Ltd (Publica) has on AP procedures. These processes were reviewed, and transactional testing was carried out on all supplier payments made during the period October 2016 to September 2017.

The below table contains a summary of the transactional testing for CBC:

Sundry Supplier Payments			
No. of Suppliers	Frequency	Value £	
27	2	34669	
6	3	2243	
3	5	5257	
1	11	7151	
Payment Duration			
Within 30 Days	Average Time		
95.6%	10.8 days		
Duplicate Payments			
Invoice Sample Size	Recovered	Outstanding at the time of the audit	Value Outstanding £
4104	5	2	9250.42

Sundry Supplier Payments

Sundry supplier payments are used when suppliers are not set up within Business World and future payments to the same supplier are unlikely. Using the sundry supplier method of payment increases demand on AP as all sundry payment details are verified by a second officer as part of the payment run process.

Duplicate Payments

Duplicate payments are considerably lower than reported in the previous year’s audit (39), although the

reasons for duplication are consistent with last year:

- Invoices being send to AP twice
- Supplier identification numbers being incorrectly entered
- Invoice numbers wrongly entered
- Payments processed using both PO and supplier invoice method

A new AP Team Leader was appointed in June 2016; procedures have been reviewed and additional controls have been implemented. This was evident from the transactional testing, as shown in the above table, as performance was seen to improve throughout the testing period. The AP Team Leader has also agreed to introduce a new quarterly process for the identification of duplicate payments so that refunds / credits can be reclaimed in a timely manner.

Ubico Recyclates – No Assurance

Ubico Data Monitoring – Partial Assurance

As part of the 2017/18 audit plan a review has been undertaken to assess the adequacy of the controls and procedures Cheltenham Borough Council (CBC) has in place in relation to Ubico (Recyclates and Data Monitoring) arrangements.

Recyclates

Ubico Ltd, on behalf of CBC, provides a waste and recycling service. Recyclates are collected within the borough at kerbside, and from various Bring Banks located around Cheltenham are brought into the Council's Bulking Facility together with recyclables collected from the Swindon Road Household Recycling Centre. Kerbside collections include household non-recyclable waste, kerbside recycling, garden and food waste.

At the time of the audit fieldwork (August/September 2017), kerbside collections were being completed with an ageing fleet which on occasion struggled to maintain recyclate separation during transportation due to the swing door becoming damaged and/or old. Cross contamination can reduce the recyclate value or add additional sorting costs. A waste and recycling review was carried out and a new fleet of collection vehicles has been purchased which have been operational since 16th October 2017. This new fleet has separate

sections within the vehicles that can be individually removed which reduces the risk of cross contamination.

It was established that a GOSS Business Partner Accountant (BPA) had been working, since joining GOSS 18 months ago, on matching up despatched recyclate loads with payments received from the re-processors. His work discovered that incorrect payments had been received and some payments had never been received. It was unclear who was responsible for ensuring timely and accurate payments from the re-processors to CBC. Without robust controls in place there is a risk that the Council may not be getting all monies due. This had been recognised as an area of concern and the service area/JWT have now introduced robust invoicing controls.

Our testing of the recyclate rates paid by re-processors demonstrated that CBC may not be realising its full income if the best value for money is not achieved. For example, steel cans were selected for testing and data for January to December 2016 was assessed. Testing showed that payments received were below the average rate paid according to the "LetsRecycle.com" site. This site was confirmed as the benchmark used by the Joint Waste Team Contracts Manager – Collection & Street Scene East (JWT CM), to agree rates with the re-processors. In addition, reliance is placed on one officer's experience which raises the risk of business continuation resilience should the officer be absent. This weakness was identified by the JWT CM and since the audit the Council has completed a re-procurement of the materials contracts and included a requirement for the re-processors to show how they calculate the price being offered against the Lets Recycle indices. This calculation is now used by the JWT CM to check the price being offered by the individual re-processors at each review point.

We are not able to offer any assurance as robust controls were not operating for the management of the Recyclate, although it is recognised that these weaknesses had been identified and were being addressed prior to this review.

Data Monitoring

WasteDataFlow is the web-based portal through which municipal waste is reported to the government. WasteDataFlow records recyclate performance information which is submitted by all local authorities and

annually produces data performance charts based on the percentage of recycling collected.

Data compiled by WasteDataFlow using the 2015/16 submissions shows that the recycling rate in Cheltenham was 45.4% which placed them 144th position out of 351. Cheltenham had, like the other authorities, improved in 2016/17.

Budget Monitoring activity was examined for Waste and Fleet management. Information was provided to confirm that Bi-monthly Environmental Services Programme Board (ESPB) meetings are attended by officers from Ubico, CBC, JWT, GOSS Finance and the Cabinet Member. Budget to date and financial projections, both favourable and adverse, are discussed, but there was no evidence that value for money was discussed or explored. In addition, recycle income which can fluctuate on a weekly basis is not discussed although we were advised that the JWT CM discusses this with the GOSS BPA on a quarterly basis. The JWT CM is now discussing this with the GOSS BPA on a monthly basis.

The reporting of Ubico performance is inadequate to give Cheltenham Borough Council assurance that the contract is performing as expected. Key Performance Indicators (KPIs) currently in place provide limited information and are concentrated around missed collections. They do not provide any level of detail that would provide assurance that the contract is performing well. The targets for the KPI's were set back in 2013 and brought forward each year without adjustment. We are aware the KPIs are currently being reviewed, however, at the time of the audit there was no target date for when they should be implemented.

In summary, at the time of audit fieldwork, we were unable to confirm sufficient challenge occurs when agreeing recycle rates or that sufficient controls were in place to ensure timely and accurate payments are received by the authority. We do recognise that the JWT CM had already picked this issue up and was working to improve so now some controls have been enhanced, and other areas are being addressed, so going forward these improvements should help the weaknesses identified.

The following are areas that would benefit from development:

- Recyclate income - Collection of recyclate income was inconsistent. We can confirm that invoicing controls have been implemented.
- Challenging of recyclate values - We understand that contracts have been reviewed with the recycling re-processors and greater clarity has been provided over how recyclate values are calculated and presented to CBC, but it is important to ensure that sufficient challenge still occurs to ensure that the best values can be obtained.
- Key performance indicators - Indicators that provide the Council with robust meaningful information should be set. It should be noted that steps were already underway to improve performance reporting measures prior to this Audit.
- Value for money considerations - Strategic discussions should focus on growth and efficiency opportunities, horizon scanning etc. Again, steps to bring about these discussions were initiated by the Lead Commissioner-Housing Services and Waste prior to this Audit.

**Cheltenham Borough Council
Audit Committee – 18 April 2018
Counter Fraud Unit Report and
Regulation of Investigatory Powers Act 2000 (RIPA) Update**

Accountable Member	Cabinet Member Corporate Services, Councillor Roger Whyborn
Accountable Officer	Paul Jones Chief Finance Officer Paul.Jones@cheltenham.gov.uk
Report Author	Emma Cathcart Counter Fraud Manager 01285 623356 Emma.Cathcart@cotswold.gov.uk
Ward(s) affected	All indirectly
Key/Significant Decision	No
Executive summary	<p>The purpose of the report is to provide the Audit Committee with assurance over the counter fraud activities of the Council.</p> <p>Work plans for 2018/2019 are being finalised with the Chief Finance Officer and Senior Leadership Team.</p> <p>The Counter Fraud Unit has now completed the first financial year as a permanent support service and results are presented to the Audit Committee for consideration and comment as the body charged with governance in this area.</p> <p>The Counter Fraud Unit will continue to provide Audit Committee with direct updates biannually.</p> <p>The report also provides the Audit Committee with an update in relation to RIPA and the Council's existing policies and arrangements.</p>
Recommendations	<p>That the Audit Committee:</p> <p style="padding-left: 40px;">a) Notes the report and makes comment as necessary.</p>

Financial implications	<p>The report details financial savings generated by the Counter Fraud Unit.</p> <p>The Counter Fraud Unit financial reconciliation for 2017/2018 indicates a return of funds to the partner Council's which will be confirmed at the meeting. This is due to third party income increases and a delayed start date of staff and subsequent costs within the financial year.</p> <p>Contact Officer: Paul Jones, S151 Officer Paul.Jones@cheltenham.gov.uk</p>
Legal implications	<p>In general terms, the existence and application of an effective fraud risk management regime assists the Council in effective financial governance which is less susceptible to legal challenge.</p> <p>The Council is required to ensure that it complies with the Regulation of Investigatory Powers Act 'RIPA' 2000, the Investigatory Powers Act 2016 and any other relevant/statutory legislation regarding investigations. Any authorisations for directed/covert surveillance or the acquisition of communications data undertaken should be recorded appropriately in the Central Register.</p> <p>Contact officer: Donna Marks, One Legal Donna.Marks@tewkesbury.gov.uk</p>
HR implications (including learning and organisational development)	<p>Where the Counter Fraud Unit work plan includes employee training sessions, managers will need to release employees to attend.</p> <p>The Counter Fraud Unit will engage with HR with reference to internal investigations and related protocols.</p> <p>Contact officer: Julie McCarthy, HR Manager – Operations & Service Centre julie.mccCarthy@cheltenham.gov.uk 01242 264355</p>
Key risks	<p>If the Council does not have effective counter fraud and corruption controls it risks both assets and reputation.</p>
Corporate and community plan Implications	<p>In administering its responsibilities; this Council has a duty to prevent fraud and corruption, whether it is attempted by someone outside or within the Council such as another organisation, a resident, an employee or Councillor. The Council is committed to an effective counter fraud and corruption culture, by promoting high ethical standards and encouraging the prevention and detection of fraudulent activities, thus supporting corporate and community plans.</p>
Environmental and climate change implications	<p>N/A</p>
Property/Asset Implications	<p>There are no property implications associated with this report.</p> <p>Contact officer: Dominic Stead, Head of Property Services dominic.stead@cheltenham.gov.uk</p>

1. COUNTER FRAUD UNIT REPORT AND WORK PLANNING 2018/2019

- 1.1. The Unit is working directly on behalf of all the Gloucestershire Authorities and West Oxfordshire District Council.
- 1.2. Additionally, the Unit now provides counter fraud support to other public sector bodies; Cheltenham Borough Homes, Gloucester City Homes, Places for People, Bromford Housing and Ubico.
- 1.3. The Unit has an MOU and is now working with Trading Standards to provide financial investigation expertise to utilise Proceeds of Crime legislation.
- 1.4. The work plan for 2018/2019 is being developed with focus on the priorities set out in the Home Office UK Anti-Corruption Strategy 2017 – 2022. The team will be concentrating on promoting integrity across the public sector and reducing corruption in public procurement.
- 1.5. The Unit will continue to add value in areas associated with risk and a copy of the work plan will be provided to Audit Committee when finalised.
- 1.6. The Counter Fraud Unit provides Audit Committee with direct updates biannually. The Audit Committee is the body which oversees the Council's counter fraud arrangements and it is therefore appropriate for the Committee to be updated in relation to such activity.
- 1.7. Over the period October 2017 to March 2018, the team have supported the Council in the following areas:
 - Undertaking the investigation of alleged fraud and abuse in relation to the Council Tax Reduction Scheme (Council Tax Support), National Non-Domestic Rates (Business Rates) and Council Tax liability. There are currently 41 active cases. The team have opened 34 cases and closed 29 cases since 1 October 2017. This has resulted in an amount exceeding £2,600 of recoverable Council Tax Support being calculated and in addition overpayments of Housing Benefit exceeding £16,500. There has been one Caution given, there has been two Penalties administered; fines being £467 (paid in full) and £459 and a HB Civil Penalty has also been imposed. The team have undertaken 6 visits to business premises to undertake enquiries on behalf of the Revenues Team.
 - Proactive work in relation to debt recovery:
 - 17 summonses have been received and 8 have been served in relation to unpaid debt in excess of £30,300.
 - Assistance in relation to the tracing of individuals and enforcement of an unpaid Housing Benefit debt totalling £13,300.
 - Review of the empty residential properties not yet classified as long term – 71 properties were visited generating 21 queried properties. Results pending.
 - Review of the NNDR empty void premises – 371 business premises visited identifying at least 55 were occupied. Results pending.
 - Review of 41 properties listed as Holiday Lets. Results pending.

- Joint working with Enforcement Team and Trading Standards in relation to neighbour complaints re anti-social parking and trading in a residential area. Warning issued by Trading Standards.
- Work with Cheltenham Borough Homes has resulted positive results:
 - The team received in excess of 120 referrals in the period June 2017 to December 2017 relating to allegations of abuse or requests for verification.
 - Right to Buy prevention checks resulted in 1 Suspicious Activity Report, 1 refusal and notice having been served on an applicant for abandonment.
 - Homeless verification work has resulted in 2 abandonment investigations: notice was being served on 1 and an application was withdrawn after a formal interview.
 - Recent prosecution of an individual in relation to a fraudulent homelessness and housing application. He received a £233 fine and was ordered to pay £250 costs.
 - The robust checks being supported by the Unit have resulted in a significant reduction in the number of individuals on the housing waiting list.

2. REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) / INVESTIGATORY POWERS ACT 2016

- 2.1. The Council's own RIPA Policies are based on the requirements of The Regulation of Investigatory Powers Act 2000 (RIPA) and the Codes of Practice relating to directed surveillance and the acquisition of communications data.
- 2.2. The Policies are currently out for review and consultation following the introduction of the Investigatory Powers Act 2016 and related 2018 Codes of Practice and will be presented to Audit Committee for review and approval as soon as the consultation and redrafting has been completed.
- 2.3. The arrangements relating to officers involved in the authorisation of the RIPA process remains the same. The Senior Responsible Officer is the Chief Executive and Head of Paid Service, Pat Pratley and the Authorising Officers are the Director of Place and Economic Development, Tim Atkins and the Director of Environment, Mike Redman. The Investigatory Powers Office has been updated for their records.
- 2.4. The new RIPA Social Media Policy has been drafted and is now undergoing consultation across the organisation and the wider Counter Fraud Unit partnership.
- 2.5. The Council takes responsibility for ensuring its RIPA procedures are continuously improved and asks that any Officers with suggestions contact the RIPA Coordinator, Emma Cathcart, in the first instance. If any of the Home Office Codes of Practice change, the appropriate guide will be updated, and the amended version placed on the internet / published accordingly. Regular training sessions will also be provided to ensure that staff members are fully conversant with the Act.
- 2.6. There have been no RIPA applications made by the Council during 2017/2018. There has been 1 Non-RIPA application made by the Licensing Service.

Appendices	1. Risk Assessment
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Risk Assessment

Appendix 1

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likelihood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
1	The authority suffers material loss and reputational damage due to fraud	Chief Finance Officer	December 2014	3	3	9	Reduce	Maintain a Counter Fraud Team to reduce the likelihood of the risk materialising and also to help recover losses, thus reducing the impact.	Ongoing	Chief Finance Officer	
2	Without dedicated specialist staff in place, the Council may be unable to take effective and efficient measures to counter fraud, potentially resulting in authority suffering material losses due to fraud and error	Chief Finance Officer	September 2016	3	4	12		Retain a specialist Counter Fraud Unit to tackle the misuse of public funds on behalf of the Council.	Ongoing	Chief Financial Officer	
<p>Explanatory notes</p> <p>Impact – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical)</p> <p>Likelihood – how likely is it that the risk will occur on a scale of 1-6 (1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability)</p> <p>Control - Either: Reduce / Accept / Transfer to 3rd party / Close</p>											

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**Cheltenham Borough Council
Audit Committee – 18 April 2018
Review of Draft Accounting Policies 2017/18**

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 2017/18 draft Statement of Accounts, providing members with the opportunity to review these policies ahead of the approval of the final audited 2017/18 Statement of accounts in July 2018.
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	<i>None specific directly arising from the recommendations.</i> Contact officer: Peter Lewis, Peter.Lewis@teWKesbury.gov.uk, 01684 272695
HR implications (including learning and organisational development)	None arising directly from this report. Contact officer: Julie McCarthy , HR Manager, Publica Group Limited 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 July 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. It should be noted that this report to Audit Committee has been prepared relatively early in the year end closedown timetable, due to the earlier statutory deadline for the completion of the draft statement of accounts of 31st May 2018. These draft accounting policies may be updated during the closedown process, although the final accounting policies will be reviewed as part of the final audited statement of accounts, to be presented to the Committee in July 2018.

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'), 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.

3. Changes to accounting policies in 2017/18

- 3.1 There are no material changes to the accounting policies in 2017/18. However two accounting policies disclosed in 2016/17 have now been removed from the draft notes to the statements, as they are no longer considered to be materially relevant to the council's current operations or financial activities.
 - Acquisitions and discontinued operations
 - Foreign Currency Translation
- 3.2 The removal of these notes is in line with the requirement to declutter the statement of accounts, although these will be reviewed and included in the accounting policies in future years if appropriate.
- 3.3 There is a new group accounting policy note to be included in respect of Publica Group Ltd, following the creation of the company in 2017/18, for which the council has a shared interest with Cotswold District Council, West Oxfordshire District Council and Forest of Dean District Council. This note will be developed in liaison with the partner councils and included in the final statement of accounts accounting policies, for review in July 2018.

4. Conclusion

- 4.1** 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 July 2018.

Report author	Contact officer: Sarah Didcote sarah.didcote@cheltenham.gov.uk, 01242 264125
Appendices	Appendix A - Draft Accounting Policies 2017/18
Background information	Code of Practice on Local Authority Accounting in the UK 2017/18 Accounts Accounts and Audit Regulations 2015

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1. DRAFT 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 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the CIPFA/LASAAC Code of Practice on Local Government Accounting in the United Kingdom 2017/18 (The Code) 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.
- 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 can no longer withdraw the offer of any benefits.

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

Post-Employment Benefits

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

- The liabilities of the Gloucestershire pension scheme attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on the adoption of the AA-rated corporate bond basis.
- The assets of the Gloucestershire pension fund attributable to the council are included in the balance sheet at their fair value on the following basis:
 - quoted securities – current bid value
 - unquoted securities – professional estimate of fair value
 - unitised securities – current bid price
 - property – market value.
- The change in the net pension liability is analysed into seven components:
 - Current service cost: the increase in liabilities as a result of the additional year of service earned - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - Past service cost: the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - charged to the Surplus or Deficit in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
 - Interest cost on defined obligation: the expected increase in the present value of liabilities during the year as they move one year closer to being paid - charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
 - 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.

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.

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 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.

1.9 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.

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

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

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

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

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

Recognition

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

Measurement

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

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

- Dwellings – Current value, using the basis of existing use value for social housing (EUV-SH)
- Other Land and Buildings – Current value, using the basis of existing use value (EUV) where an active market exists or Depreciated Replacement Cost (DRC), where there is no active market for the asset or it is specialised
- Infrastructure – depreciated historic cost
- Community assets – historic cost (where known). The cost of many of the council's parks, gardens and open spaces is not known and they are therefore shown at Nil value. The Code offers the option for authorities to measure community assets at valuation, which is the requirement for Heritage assets. The council has so far not adopted to change its accounting policy in this way as it does not currently have the management information to make reasonable valuation estimates of community assets.
- Assets under construction – historic cost
- Surplus Assets – Current value, using the Fair Value basis (see paragraph 1.19 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.

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 and Heritage assets), assets that are not yet available for use (assets under construction) and assets reclassified as Held for Sale.

Depreciation is calculated on the following bases:

- Council dwellings – with effect from 1 April 2017: straight-line allocation over each significant component's estimated useful life; up until 31 March 2017: 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 for non-dwelling assets 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.

With effect from 1st April 2017 separate building components (including the 'host' or residual building) have been identified for dwellings where their current replacement cost and useful lives can be estimated reliably.

1.11 NON-CURRENT ASSETS - HERITAGE ASSETS

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

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

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

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

Statues and Monuments

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

Archaeology

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

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

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

1.12 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 1.19 *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.

1.13 NON-CURRENT ASSETS - INTANGIBLE ASSETS

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

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

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

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

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

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

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

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

When an asset is disposed of, or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment, Heritage or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to

the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal (i.e. netted off against carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are written off to the Capital Adjustment Account.

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

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

1.15 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.

1.16 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 to the General Fund 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.

1.17 LEASES

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

Defining a Finance Lease

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

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

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

Lessee Accounting for a finance lease

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

The initial recognition of the asset is at the fair value of the asset, or if lower, the present value of the minimum lease payments. A liability (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.

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.

1.18 FINANCIAL INSTRUMENTS

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

Financial Liabilities

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

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

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

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

Financial Assets

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

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

Loans and Receivables

Loans and receivables are initially measured at fair value and carried at amortised cost. Where interest is receivable this is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, based on the carrying amount of the

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

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

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

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

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

Available-for-sale financial Assets

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

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

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

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

1.19 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 (with the exception of unquoted equity investments) 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.

1.20 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.

1.21 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.

1.22 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.

1.23 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.

1.24 RESERVES

The council sets aside specific amounts as usable reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the General Fund balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to form part of the Surplus or Deficit in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure in that year.

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

1.25 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.

1.26 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.

1.27 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.

1.28 ESTIMATION TECHNIQUES

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

1.29 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.

1.30 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 Limited (GAL), in which the council has a 50% shareholding, Cheltenham Borough Homes Limited (CBH), a company limited by guarantee in which the council is the sole member, and Publica Group (Support) Limited (Publica), in which the council has a shared interest. The accounts of CBH include those of Cheltenham Borough Homes Services Limited (CBHSL), a wholly owned subsidiary of Cheltenham Borough Homes Limited.

GAL and Publica have been treated as Joint Ventures; GAL since it is jointly owned and controlled with Gloucester City Council, and Publica since it is jointly owned and controlled with Cotswold District Council, Forest of Dean District Council and West Oxfordshire District Council. GAL and Publica have therefore been consolidated with the council's accounts on an equity accounting basis, in which the council's share of the companies' 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 2018 the council also had a 14.29% shareholding in Ubico Limited, a local authority owned company which has seven members, providing environmental services to the shareholder councils. Since the council does not have control or significant influence over the company, its accounts are not 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) Limited

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 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 1.10 (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 Limited

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.

Publica Group (Support) Limited

The financial statements of Publica 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

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Audit Committee 2017-18 work plan

Item	Author
18 April 2018 (Report deadline: Mon 9 April)	
General Data Protection Regulation Policy	Bryan Parsons
Audit committee update	Grant Thornton
Audit plan (for the current year)	Grant Thornton
Annual plan (for the upcoming year)	Internal Audit
Internal audit monitoring report	Internal Audit
Annual governance statement	Internal Audit
Internal Audit Charter	Internal Audit
Counter Fraud update and future work provision	Counter Fraud Unit
Annual review and approval of RIPA guidance policies	Counter Fraud Unit
Review of draft accounting policies 2017/18	Finance
Annual review of risk management policy	Bryan Parsons
25 July 2018 (Report deadline: Mon 16 July)	
Audit committee update	Grant Thornton
Internal audit opinion (for the previous year)	Internal Audit
Annual Audit Fee letter for the coming year	Grant Thornton
Audit highlights memorandum - ISA 260 (for the previous year) inc. Financial Resilience	Grant Thornton
Statement of Accounts (previous year) (inc. letter of representation)	Finance Team
Modern Slavery Reception Centre Protocol	Tracy Brown
Auditing Standards – communicating with the Audit Committee (moved from April)	Grant Thornton
19 September 2018 (meeting date will not be confirmed until May)	
23 January 2019 (meeting date will not be confirmed until May)	
24 April 2019 (meeting date will not be confirmed until May)	
Xx July 2019 (meeting date will not be confirmed until May)	

Audit Committee 2017-18 work plan

Item	Author
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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
April	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
	Annual governance statement	Internal Audit
July	Audit committee update	Grant Thornton
	Internal audit opinion (for the previous year)	Internal Audit
	Annual Audit Fee letter for the coming year	Grant Thornton
	Audit highlights memorandum - ISA 260 (for the previous year) inc. Financial Resilience	Grant Thornton
	Statement of Accounts (previous year) (inc. letter of representation)	Finance Team
September	Internal audit monitoring report	Internal Audit
	Counter Fraud update and future work provision	Counter Fraud Unit