

Audit Committee

Wednesday, 25th July, 2018
6.05 - 7.15 pm

Attendees	
Councillors:	David Willingham (Vice-Chair), Victoria Atherstone, Matt Babbage, Jonny Brownstein, Jo Stafford, Roger Whyborn (Reserve) and Paul McCloskey (Reserve)
Also in attendance:	Sarah Didcote, Paul Jones, Sophie Morgan-Bower, Barrie Morris, Ian Baker and Jaina Mistry

Minutes

1. APOLOGIES

Apologies had been received from Councillor Harvey and Councillor Oliver.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

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 18 April 2018 be agreed and signed as an accurate record.

4. PUBLIC QUESTIONS

There were no public questions.

5. ANNUAL INTERNAL AUDIT OPINION 2017/18

Ian Baker, Director at South West Audit Partnership, introduced the Internal Audit Annual Opinion. The Annual Opinion, set out at Appendix 1, was based on the assessed adequacy of control; based on risk-based audits which had been undertaken during the year and other advice and consultancy work on control systems, as well as the results of any external inspections including the work of the External Auditor. Overall, the opinion was that 'reasonable assurance' could be given that there was a sound system of internal control and that controls were being applied consistently.

Mr Baker proceeded to explain that the summary of audit work completed for the 2017/18 period was highlighted at page 5 of the report, the reasons for the variations in audits planned were also highlighted in this section. He informed the committee that 3 significant corporate risks had been identified during the course of the audit programme of work for 2017/18, these were: Publica, GDPR and Ubico Recyclates, the details of each were outlined on page 7 of the report. He further advised that the summary of audit opinion had identified a healthy

position with a high percentage of audits reaching 'substantial' control assurance. Mr Baker assured the Audit committee that following an independent assessment they had been found to be in conformance with the Code of Ethics and standards for the professional practice of internal auditing.

Jaina Mistry, Principal Auditor for SWAP proceeded to give an update on the work completed since the report. She explained that 5 audits had been completed all of which had resulted in 'reasonable assurance'.

The following responses were given to Member questions;

- In comparison to other council's CBC's position was positive, particularly due to the high percentage of audits reaching 'substantial' control assurance. Mr Baker explained that they were in the process of producing a comparator table, highlighting the position of other council's in the partnership.
- More work was being done on the expenditure and procurement within Ubico and once this work had been completed SWAP would do a follow up audit.
- A number of ICT audits were planned, although these had not yet been fully agreed by the ICT support services.
- Since cyber security appeared to be a common theme across the council's in the partnership, SWAP would make a cyber security audit a priority. As requested, dialogue would be had with the relevant Cabinet Member and contract monitoring officer.
- Whilst no council was 100% ready for GDPR, SWAP were confident that CBC were doing everything reasonably possible to mitigate the risks and this would be recognised by the Information Commissioner's Office.

The Chairman was pleased with the assurance level which had been achieved.

Upon a vote it was unanimously

RESOLVED that the report be noted.

6. ANNUAL AUDIT FEE LETTER FOR 2018/19

Sophie Morgan-Bower, Audit Manager for Grant Thornton referred members to the fee letter which had been sent to the Chief Executive of Cheltenham Borough Council in April.

The letter set out the proposed work programme and associated fees for the ensuing year (2018/19). She advised that the Public Sector Audit Appointments Ltd (PSAA) had published the 2018/19 scale fees for opted-in bodies in March 2018 and individual scale fees had been reduced by 23% to £38,043.

There were no Members questions arising from the fee letter.

There were no resolutions arising from this report.

7. DRAFT AUDIT FINDINGS REPORT - ISA260 INCLUDING FINANCIAL RESILIENCE

Barrie Morris of Grant Thornton (GT), introduced the report as circulated with the agenda. He firstly wished to commend the officers for the good standard of responses GT had received to any queries.

He explained that when performing their audit work, GT applied the concept of materiality and overall materiality had been determined to be £1,606,000 (2% of gross expenditure), though the materiality was lower for more sensitive transactions, balances or disclosures. He advised that they had reviewed the Section 151 Officer's assessment and were satisfied that the Going Concern Basis was appropriate for the 2017/18 financial statements. They had also identified the valuation of the pensions fund net liability as a risk requiring special audit consideration, however, following a review of this and the accounting treatment of the early repayment of 7.1m paid across to the pension fund they had identified no issues.

He informed the committee that a number of IT deficiencies had been identified as part of their 2017/2018 IT review. These were outlined on page 11 -16 of the report where a breakdown of the associated risks for each deficiency were also outlined. He reported that 3 new risks had also been identified during the course of the audit that had not been communicated in the Audit plan, these included the consolidation of Publica, Lender Option Borrowing Options (LOBOs) and Ubico Vehicle lease. Mr Morris proceeded to give an update on each new identified risk. He reported that the Council had decided not to consolidate Publica into the Group's accounts for 2017/18, however, the council would monitor this position on an annual basis to see if the position changes. Whilst the LOBO's had been subjected to increased scrutiny, GT had identified no significant issues with the accounting treatment of them. He explained that GT were satisfied with the Council treatment surrounding the Ubico Vehicle Lease, however, they had observed that a formal agreement regarding the use of these vehicles had not been put in place and recommended that the agreement be formalised.

The committee were advised that all the accounting policies were showing green which indicated that the policies were appropriate and disclosures sufficient. GT had also sent out confirmation request to the bodies with which the Council held investment, cash and debt balances and positive confirmation had now been received from all but two of the third parties. They did however stress that they were confident through alternative testing that the arrangements were in place and the lack of responses had not impacted upon the overall conclusion.

In relation to Value for Money (VFM), GT had to satisfy themselves that the council had put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. In conducting this assessment GT had identified two potential risk areas; the Council's Medium Term Financial Strategy and the Council's arrangements for the establishment of Publica Group. Mr Morris noted that this was not an assessment of Publica itself just the governance arrangements.

In mitigating the risks of the medium term financial strategy GT had made two recommendations to monitor the high risks saving within the balanced budget and monitor the use of reserves when budget setting. With regards to the

Council's arrangements for the establishment of Publica Group, GT recommended that the liaison and communication arrangements between Members and Publica be formalised to ensure members have the opportunity to challenge and scrutinise Publica's performance.

Mr Morris also wanted to make the committee aware of a potential breach of the ethical standards following a discovery that a person engaged with the firm was also the Chair of Publica. He advised that the persons contract had subsequently been terminated with the company and there had been no impact on the audit of the council.

Sophie Morgan, also of GT, proceeded to summarise the recommendations as a result of the issues identified during the course of the audit work. These included:

- Continuing to monitor the red-rated savings within the balanced budget;
- Continuing to monitor the use of reserves when budget setting;
- Formalising liaison and communication arrangements between members and Publica;
- Implementing the recommendations arising from the IT review; and
- Formalising the lease between Ubico and CBC.

She reported that of those issues identified during the audit for the previous year (2016/17) two of the risk still remained valid, these were in relation to the balanced budget and the budget strategy reserve. She advised that there were also 2 minor disclosures outlined on page 36 of the report which were worth noting.

The following responses were given to Members questions:

- GT would confirm who the organisations were who had not provided responses to there confirmation requests.
- The Deputy Section 151 Officer confirmed that red rated savings referred to target savings in the medium term strategy such as becoming more commercial and further investment in the Council's portfolio. She advised that these were highlighted in the budget papers and could issue a copy if necessary.

No decision was required.

8. STATEMENT OF ACCOUNTS (2017/18) (INC. LETTER OF REPRESENTATION)

The Deputy Section 151 Officer introduced the Statement of Accounts 2017-18, she reported that the Council was in a good financial position and they were not anticipating any financial difficulties. There had been no major changes in comparison to previous years which meant that there were no major risks.

Members commended officers for their hard work in producing the statement of accounts and thanked them for the clear narrative within the report. One Member noted that it would be helpful to have the Audit training before the Statement of Accounts were issued and requested this be considered in future.

Upon a vote it was unanimously

RESOLVED that:

- a. **The accounts for the year ended 31 March 2018 be approved.**
- b. **The Statement of Accounts and letter of representation be signed by the Vice Chairman of the committee and the Section 151 Officer.**

9. AUDITING STANDARDS - COMMUNICATING WITH THE AUDIT COMMITTEE

In accordance with the International Auditing Standards, Grant Thornton were required to obtain an annual understanding of how those charged with governance had exercised oversight of management's processes for identifying and responding to risks of fraud and the internal control that management had established to mitigate these risks. As such, letters had been sent to the Chairman (Councillor Harvey) and the Section 151 Officer with a set of questions designed to cover the requirements of the auditing standards.

The committee reviewed the responses given by the Chairman and senior management and upon a vote it was unanimously

RESOLVED that the response be approved and signed by the Vice Chairman, on behalf of the Chairman.

10. WORK PROGRAMME

The work programme had been circulated with the agenda.

Sophie Morgan noted that an Audit Update from Grant Thornton should be added to the work plan for the September meeting.

The Chairman also requested a Cyber Security report be added to the workplan which would look at some of the technical risks and mitigations. Due to the nature of the item, this would likely have to be in exempt session. It was, however, acknowledged that more engagement would be needed with the relevant Cabinet Member and Publica's information security lead before this came before the Audit committee.

The Chairman also raised the point that it was essential that all parts of the Council were audited and requested a general look at the council's regulatory committees i.e. planning and licensing, to ensure that the process followed by both committees was fit for purpose. The section 151 Officer advised that this subject was already on the internal audit work plan and he had met with both the monitoring officer and the director of planning to discuss further. He requested that any general concerns that Members had they first be raised with the monitoring officer not SWAP.

One Member further requested that the crematorium capital scheme be picked up in the general audit review work. All agreed that the completion of the crematorium work was the priority and a report on the lessons learned could be brought before the Audit committee following the completion of the work.

A discussion was had regarding Leisure@, the Section 151 Officer reported that the project had been completed on time and within budget. As such, he did not

feel it appropriate for it to come before the Audit committee but felt it would be better suited for O&S, unless there were any specific concerns surrounding governance. Given the size of the project, Members requested a short briefing note be prepared which outlined the lessons learned. The Section 151 Officer requested that a briefing note be prepared by the Director of Environment.

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

12. DATE OF NEXT MEETING

The next meeting was scheduled for 19th September 2018.

Chairman