



## Notice of a meeting of Audit Committee

**Wednesday, 23 January 2019  
6.00 pm**

**Please Note Change in Location to: 1908 Suite at the Prince of  
Wales Stadium**

<b>Membership</b>	
<b>Councillors:</b>	Steve Harvey (Chair), David Willingham (Vice-Chair), Victoria Atherstone, Matt Babbage, Jonny Brownsteen, Jo Stafford and Tony Oliver

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

## Agenda

<b>1.</b>	<b>APOLOGIES</b>	
<b>2.</b>	<b>DECLARATIONS OF INTEREST</b>	
<b>3.</b>	<b>MINUTES OF THE LAST MEETING</b>	(Pages 3 - 8)
<b>4.</b>	<b>PUBLIC QUESTIONS</b> These must be received no later than 12 noon on the fourth working day before the date of the meeting	
<b>5.</b>	<b>IT &amp; CYBER SECURITY REPORT</b> Tony Oladejo, ICT Audit and Compliance Manager	(Pages 9 - 14)
<b>6.</b>	<b>EXTERNAL AUDIT PLAN FOR 2018/19</b> Grant Thornton	(Pages 15 - 30)
<b>7.</b>	<b>CERTIFICATION OF GRANTS AND RETURNS</b> Grant Thornton	(Pages 31 - 34)
<b>8.</b>	<b>INTERNAL AUDIT MONITORING REPORT</b> Internal Audit	(Pages 35 - 66)
<b>9.</b>	<b>BRIEFING NOTES</b> <b>Leisure@ Refurbishment Project Review</b> – An update on the success or otherwise, of using a development partner to deliver the Leisure-at redevelopment project	(Pages 67 - 72)

<b>10.</b>		<b>WORK PROGRAMME</b>	(Pages 73 - 76)
<b>11.</b>		<b>ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION</b>	
<b>12.</b>		<b>DATE OF NEXT MEETING</b> 24 <sup>th</sup> April 2019	

**Contact Officer:** Sophie McGough, Democracy Officer, 01242 264130

**Email:** [democratic.services@cheltenham.gov.uk](mailto:democratic.services@cheltenham.gov.uk)

## Audit Committee

**Wednesday, 19th September, 2018**  
**6.00 - 7.00 pm**

Attendees	
<b>Councillors:</b>	Steve Harvey (Chair), David Willingham (Vice-Chair), Victoria Atherstone, Matt Babbage, Jonny Brownstein, Jo Stafford and Tony Oliver
<b>Also in attendance:</b>	Barrie Morris, Paul Jones, Lucy Cater and Emma Cathcart

## Minutes

### 1. APOLOGIES

There were no apologies.

### 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 25 July 2018 be agreed and signed as an accurate record.**

The Chairman told the committee that he had been in discussion with the Borough Solicitor to consider changing the name of the committee to better describe its role e.g. add the terms Governance or Compliance. He also stated that he thought he should present an annual Audit committee report to full council.

### 4. PUBLIC QUESTIONS

There were no public questions.

### 5. AUDIT PROGRESS REPORT AND SECTOR UPDATE

Barrie Morris of Grant Thornton introduced the Audit Progress Report and Sector Update which summarised progress as at September 2018. The document outlined the 2018-19 deliverables and the associated status. Mr Morris advised that they were holding meetings with senior management to inform the risk assessment for the 2018/19 financial statements and value for money audits. He advised that there would be a particular focus on commercialisation and noted that there was a seminar on commercialisation scheduled for the 2<sup>nd</sup> October. He reported that the sector update contained a summary of the key issues and publications which may be of particular interest to Members.

Paul Jones, the Section 151 Officer, confirmed that they had provided a response to the Chartered Institute of Public Finance and Accountancy's (CIPFA) consultation on the new index which could be shared with Members if they wished.

He also reported that Gloucestershire had been selected to participate in The Ministry for Housing, Communities and Local Government (MHCLG) retention pilot, which would allow local authorities to retain 75% of business rates raised from April 2019. He advised that the 'no detriment' clause which protects councils in the 100% business retention pilot was not applicable for this scheme, however, despite this and the NHS risk they felt the scheme would be beneficial to Gloucestershire.

The committee noted the report. No decision was required.

### **6. ANNUAL AUDIT LETTER**

Barrie Morgan introduced the Annual Audit Letter 2017-18, as circulated with the agenda. The letter summarised key findings from the work that had been undertaken for the year ended 31 March 2018. He noted that there main responsibilities included advising on the Council's financial statements and assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

He noted that the quality of Audits at district authorities were higher than that of unitary authorities and despite the significant financial difficulties local authorities were facing, Cheltenham's position was fairly positive.

Following questions from Members, Mr Morris confirmed that:

- The valuation of property, plant and equipment was considered an intangible asset and not a huge area at Cheltenham, although careful consideration is given to this to ensure that the carrying value of such assets is not materially different from the current value.
- They have regard to the council's policies when considering the councils valuation of investment property and the appropriate resilience is applied.
- He advised that any recommendations relating to the year end will be picked up in the audit findings report. This was in response to concerns about the identified risk regarding the lack of formal lease between Ubico and Cheltenham Borough Council. One Member requested that any recommendations made by external audit also be added to the internal work plan to follow up.

No decision was required.

### **7. PUBLICATION LETTER**

Barrie Morris introduced the report which had been circulated with the agenda, he explained that the letter confirmed that the audit of the Council's financial statements for the year ending 31 March 2018 had been completed and the certificate issued.

There were no questions and no decision required.

### **8. INTERNAL AUDIT MONITORING REPORT**

Lucy Cater, Assistant Director of South West Audit Partnership gave a brief update to new Members on the work that she and South West Audit Partnership do. She proceeded to introduce the Internal Audit Monitoring Report which had been circulated with the agenda. The Monitoring Report, highlighted the work that had been completed by Internal Audit and provided comment and assurances on the control environment. She advised that the audit plan for 2018/19 was detailed at Appendix B of the report and any changes to the plan throughout the year would be subject to agreement with Paul Jones as the section 151 Officer. She ran through the control assurance definitions as outlined at page 4 of the report and explained that recommendations would be prioritised from 1-3, with 1 meaning the findings are fundamental to the integrity of the service's business process and require immediate attention. A summary of the Audit Assignments finalised since the last audit committee were highlighted at page 63 of the report. Also included at appendix D were the high priority recommendations from the previous year, she advised that these would be updated following every audit.

The following responses were offered to Members questions:

- SWAP had a number of ICT audits planned as they now had an in house team who dealt specifically with ICT, such audits would allow them to benchmark with other councils.
- Due to the public sector internal audit standards external audit could no longer rely on the work of internal audit. If, however, internal audit had identified limited assurance in a certain area external audit would extend their testing in this area.

Miss Cater also wished to remind Members of the audit training day taking place at the Holiday Inn, Gloucester on 25<sup>th</sup> October.

There were no further comments or questions.

### **9. COUNTER FRAUD UPDATE AND FUTURE WORK PROVISION**

Emma Cathcart, Counter Fraud Manager, introduced herself to the group and gave a brief overview of the work of Counter Fraud unit. She explained that as of November council tax support were going back to working in conjunction with the Department for Work & Pensions which they felt was a much better approach.

She proceeded to introduce the Counter Fraud Unit report, as circulated with the agenda and gave an overview of the work undertaken from the period of April 2018 to August 2018. This included:

- Research into anomalies or allegations of abuse in relation to business rates;
- A review of the NNDR empty void premises;
- A review of CTAX properties with a single person discount;
- A review of the empty residential properties not yet classified as long term;
- A review of properties listed as Holiday Lets; and
- Continued work with CBH given that they managed the housing stock on behalf of the council.

She also wished to draw Members attention to the Member Work Plan 2018/2019 included to the rear of the report, this highlighted their strategies as well as case work and sanctions.

The following responses were offered to Members questions:

- It was difficult to capture exactly what had been saved or recovered as a lot of it was down to loss avoidance. She reported that they were investing in a new case management system which would make it a lot easier to capture such statistical information.
- Under the transparency agenda they were required to inform the public that they have a counter fraud unit. This is done through staff and Members awareness sessions and a page on the internet about Counter Fraud. She advised that they also received a lot of freedom of information (FOI) requests.
- The number of cases was dependent on engagement with service heads and what their priorities were. The staff awareness sessions had also helped officers understand where counter fraud sit within the business.

Members suggested that the Counter Fraud team speak with comms to produce something that could be sent out with the council tax letter confirming what the department recovers each year from fraud. This would act as a deterrent to anyone engaging in fraudulent activity. It was also suggested that a register of the FOI requests be kept on the councils website for the public to refer to. As the queries were often repetitive this could potentially reduce the number of requests coming in and save officers time. The Section 151 officer agreed to go back to the relevant officers and find out how they were currently recorded.

There were no further comments or questions.

### **10. WORK PROGRAMME**

Barrie Morris requested that he annual audit letter for the previous year be removed from the January agenda.

It was also requested that the Audit committee meeting on January 23<sup>rd</sup> be held at Leisure@ to allow Members an opportunity to see the works that had been completed.

Members felt that IT security was an area of concern and something which needed to be explored further.

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

### **12. DATE OF NEXT MEETING**

23<sup>rd</sup> January 2019.

Steve Harvey

**Chairman**

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**Cheltenham Borough Council**  
**Audit Committee – 23<sup>rd</sup> January 2019**  
**Tony Oladejo ICT - Audit and Compliance Manager,**

<b>Accountable member</b>	<b>Cabinet Member Corporate Services, Councillor Alex Hegenbarth</b>
<b>Accountable officer</b>	<b>Tony Oladejo</b>
<b>Ward(s) affected</b>	<b>All</b>
<b>Key/Significant Decision</b>	<b>No</b>
<b>Executive summary</b>	The purpose of the report is to provide the Audit Committee with a Cyber Security progress update on the agreed action plans during 2018 and what activities are planned for 2019.
<b>Recommendations</b>	<b>That the Report be noted</b>

<b>Financial implications</b>	<b>None</b>  <b>Contact officer: paul.Jones@cheltenham.gov.uk</b>
<b>Legal implications</b>	<b>None</b>  <b>Contact officer: Onelegal@teWKesbury.gov.uk</b>
<b>HR implications (including learning and organisational development)</b>	<b>None</b>  <b>Contact officer: Helen.chamberlain@publicagroup.uk</b>
<b>Key risks</b>	Failure to control and secure ICT systems and data against unauthorised access including Cyber-crime attack
<b>Corporate and community plan Implications</b>	<b>None</b>
<b>Environmental and climate change implications</b>	<b>None</b>
<b>Property/Asset Implications</b>	<b>None</b>  <b>Contact officer: David Roberts@cheltenham.gov.uk</b>

## 1. Background

- 1.1** In the Cyber Security report presented to the Audit Committee on the 22nd March 2017, we concluded that the ICT infrastructure is subject to ongoing and evolving cyber-attacks which, to date have been successfully rebuffed. It was recognised that the security infrastructure must continuously evolve to combat new threats and that the detection of Cyber incidents was as important as prevention.
- 1.2** The ICT team has merged the partner Council's networks and built resilience into the infrastructure whilst also implementing changes to the network as part of its overall strategy. In total, the team provides an ICT service across 29 sites within the four Partner Councils and three Clients (Ubico, Cheltenham Borough Homes and the Cheltenham Trust) serving more than 1,500 active users.
- 1.3** In preparation for a Cyber Security incident, we follow a **Prevent, Detect & Recover** multi-layer strategy with assurances sought for each stage. Our multi-layer strategy aligns with the Cabinet Office's UK National Cyber Security Strategy.
- 1.4** A recently published study on Cyber-attacks against government bodies highlights the importance of having resilient and robust arrangements in place, finding that:
- Local Authorities have experienced in excess of 98 million cyber-attacks over 5 years.
  - 114 councils experienced at least one cyber security incident - that is, an actual security breach - between 2013 and 2017
- 1.5** This report outlines specific activities undertaken during 2018 aimed at improving the Cyber security arrangements for all the organisations that the ICT team support and shows the forward plan for 2019 in the tables below. The report does not include the names or the specifics of solutions used to prevent and detect Cyber incidents for obvious reasons.

**Table 1 - Summary of progress against agreed activities undertaken in 2018**

Spectre & Meltdown Virus	January 2018 started with the news that every Intel processor in use across the world had a fundamental manufacturing flaw. Whilst most consumers continue to live with these vulnerabilities today, this was not acceptable for the Councils. All devices in use by the Council needed multiple patches, not just of software like Windows but also device firmware, BIOS & virtualisation layers. This consumed a great deal of the available resource.
External Penetration Scan & Health Check.	A full scan of all connection points to the network. We then create a mitigation plan to improve or plug any security weaknesses identified.
Internal Penetration Scans & Health Check	An external company was invited onto our premises and asked to attack the network as if they were an internal member of staff or someone with access to our buildings. The engagement was booked for 5 days and the first task is to break into the network without any assistance. After a day of trying, the company asked us to give them some basic user credentials to help them get started as there was a risk they would not complete the tests and produce the reports we needed within the timescales provided. A mitigation plan was created and actioned.
Roll out of Next Generation Client Protection Software	During 2018, all devices across the infrastructure were updated to include Next Generation Cyber Security Tools that actively look for suspicious behaviour. E.g. malware activities inside fraudulent invoices.

	In the past this protection was provided by Anti-Virus solutions that matched on files rather than behaviour.
LGA Cyber Security Stocktake - Individual Cyber Security Assessment	Submitted and Amber/Green rating received for Cheltenham. There is opportunity improve the council's cyber security arrangements by using this assessment to bid for future funding which is being looked at during 2019.
PSN Compliance Process	Completed successfully in June 2018.
Additional Staff Resources for Cyber Security	During 2018 it was recognised that we needed additional and up to date Cyber Security skills within the ICT team.
Implemented TLS 1.2 on all external payment devices	To remain compliant with the latest PCI-DSS standards a great deal of effort was put in to making sure that all external payment transactions were protected using SSL version 1.2. This included connectivity with HMRC.
Procurement of training software	Identified, selected and procured a Cyber Security training package to be used by all staff connected to the network.

**Table 2 - Summary of specific activities planned for 2019 (some dates may change)**

January 2019	Removal of TLS version 1.0 & 1.1 from internal Servers New ICT Engineer dedicated to Cyber Security starts work on 14th January
February 2019	External Penetration Scan booked - external company will scan all connectivity between the Councils & The Internet.
March 2019	Onsite Penetration Scan - external company works from within to scan all internal systems giving assurance as well as a list of vulnerabilities. These vulnerabilities will inform the Cyber improvement plan for the rest of 2019. Cyber Essentials Plus Application process begins including onsite assessment.
April 2019	PSN Submission Preparation Health Check Mitigation Begins
May 2019	PSN Submission Online Cyber Awareness & Information Security training to CBC staff
June 2019	Health Check Mitigation Completed

**1.6** During 2018 we will also continue to expand our Cyber collaboration with external experts, these include:

- **Zephyr Regional Cyber Crime Unit**

The partner Councils have formally registered with the Zephyr Regional Cyber Crime Unit (RCCU). This provides a forum to receive and share up-to-date cyber threat information and the sharing of best practice.

- **National Cyber Security Centre**

ICT constantly review cyber security updates and guidance from Central Government's National Cyber Security Centre (NCSC), their remit is to provide support to public and private sector on how to avoid cyber threats

- **Gloucestershire Local Resilience Forum (LRF)**

The LRF provides a strategic cyber plan framework to all its partners to a known Cyber-attack. The key objectives are:

- Assist with the decision making process required to support a coordinated multi agency response to a Cyber-attack.
- Help gain a clear understanding of the potential impact and ongoing implications arising from a Cyber-attack.
- Develop a working strategy for the initial response phase.
- Consider how the current resilience arrangements are best utilised.

Over the past few years, Local Councils have relied on the PSN Code of Connection for external assurance. This year we are also including Cyber Essentials Plus.

- **Cyber Essentials Plus**

During 2017 the NCSC (National Cyber Security Centre) created the Cyber Essentials program. Details of which can be found here.

<https://www.cyberessentials.ncsc.gov.uk/getting-certified/>

This certification involves external security professionals testing our systems from the Internet and onsite before approving our infrastructure and associated systems.

- **Public Services Network Code of Compliance**

Public Services Network (PSN) provides an assured “network of networks” over which government and local authorities can safely share services.

## 2. CONCLUSIONS

- 2.1 We have an assured, secure, government-accredited network. Progress has continued to be made on both our information security and Cyber Security arrangements, which should reduce the level of risk for the partner Councils and Publica

There is a need to ensure focus on resilience against the threats of cyber-attacks is maintained and strengthened through organisation redesign, both at Council and Publica level to continue to mitigate the risks of authorised access and information loss.

<b>Report author</b>	<b>Contact officer: Tony.oladejo@publicagroup.uk</b>
<b>Appendices</b>	1. Extract from Publica ICT Services Risk Register

## Extract from Publica ICT Services Risk Register

<b>Risk Title</b>	<b>Information Security &amp; Cyber Security</b>
<b>Gross Risk</b>	<b>12</b>
<b>Risk Identified</b>	<p>Failure to control and secure ICT systems and data against unauthorised access including Cyber-crime attack</p> <p>Risk Owner: ICT Audit &amp; Compliance Manager Date Reviewed : November 2018</p>
<b>Potential Consequence</b>	<p><b>The Risk consequences includes</b></p> <ul style="list-style-type: none"> <li>• Loss of essential Council &amp; Publica Services</li> <li>• Corrupt data resulting in data loss.</li> <li>• Corrupt machines resulting in system down time.</li> <li>• Loss of internet access resulting in reputational damage</li> <li>• Financial consequences if we were held to ransom.</li> </ul>
<b>Net Risk</b>	<b>3</b>
<b>Controls in place</b>	<p><b>Mitigation in place includes:</b></p> <ul style="list-style-type: none"> <li>• Anti-virus software.</li> <li>• Anti-malware software.</li> <li>• Anti-spam software on email system.</li> <li>• Firewalls.</li> <li>• Security controls in place and continuously reviewed.</li> <li>• Recruitment of new Cyber specialist</li> <li>• Secure copies of data kept off-site to allow restoration of systems.</li> <li>• Staff awareness of ICT security via e-learning.</li> <li>• PSN compliance assessments</li> <li>• Internal &amp; External Penetration checks</li> <li>• ICT Security Policy Framework reviews</li> </ul>
<b>Target Risk</b>	<b>4</b>
<b>Proposed Actions</b>	<p>Proposed further actions and controls includes:</p> <p>Resilient systems to be implemented to allow delivery of ICT systems if main sits locations are compromised.</p> <p>Review to be undertaken of the NCSC 10 Steps to Cyber Security, to include:</p> <ul style="list-style-type: none"> <li>• Risk Management Regime;</li> <li>• Network Security;</li> <li>• User education and awareness;</li> <li>• Malware prevention;</li> <li>• Removable media controls;</li> <li>• Secure configuration;</li> <li>• Managing user privileges;</li> <li>• Incident management;</li> <li>• Monitoring;</li> <li>• Home and mobile working</li> </ul> <p>Patching (updating software to ensure they have no vulnerabilities).</p> <p>Implement Cyber Essentials program.</p>

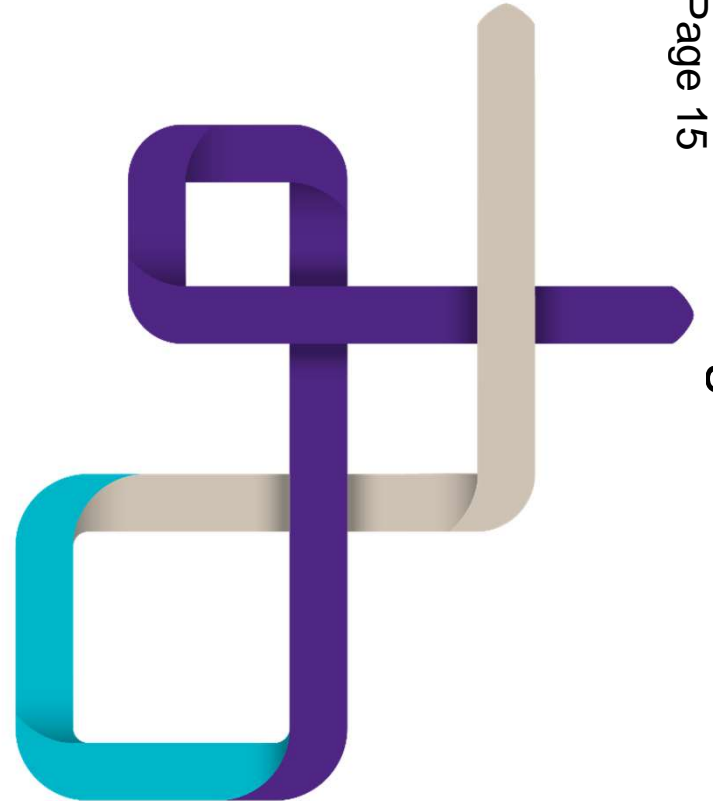
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# External Audit Plan

*Year ending 31 March 2019*

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Cheltenham Borough Council  
January 2019



# Contents



**Your key Grant Thornton  
team members are:**

**Barrie Morris**  
Director

T: 0117 305 7708  
E: barrie.morris@uk.gt.com

**Sophie Morgan-Bower**  
Manager

T: 0117 305 7757  
E: sophie.j.morgan-bower@uk.gt.com

**Nick Halliwell**  
Audit Incharge

T: 0117 305 7610  
E: nick.j.halliwell@uk.gt.com

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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 Authority or all 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 Authority') 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 out 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:

- Authority and group's financial statements 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 Authority 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 Authority 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 Authority is fulfilling these responsibilities.

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

Group Accounts	The Authority is required to prepare group financial statements that consolidate the financial information of its subsidiary undertakings.
Significant risks	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none"><li>• Management override of controls</li><li>• Valuation of property, plant and equipment</li><li>• Valuation of investment property</li><li>• Valuation of Pension Fund net liability</li></ul> <p>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.</p>
Materiality	We have determined planning materiality to be £1.6m (PY £1.61m) for the group and £1.57m (PY £1.61m) for the Authority, which equates to 2% of the Group and Authority's prior year 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 £78k (PY £80k).
Value for Money arrangements	<p>Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:</p> <ul style="list-style-type: none"><li>• The Council's Medium Term Financial Strategy (MTFS)</li><li>• The Council's arrangements for the establishment of Publica Group (Support) Limited and the contract monitoring processes in place to ensure performance and quality standards are delivered in line with the original Business Plan to demonstrate the Value for Money is being achieved.</li></ul>
Audit logistics	<p>Our interim visit will take place in February 2019 and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report.</p> <p>Our fee for the audit will be £38,043 (PY: £49,406) for the Authority, subject to the Authority meeting our requirements set out on page 13.</p>
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..

# Key matters impacting our audit

External Factors		Internal Factors
<p><b>The wider economy and political uncertainty</b></p> <ul style="list-style-type: none"><li>Local Government funding continues to be stretched with increasing cost pressures and demand from residents. Cheltenham Borough Council expect the “core” central government funding to reduce by a further 1.4% in 2019/20.</li><li>The Council has a funding gap in 2019/20 of £2.019m and has identified £1.621m of efficiency savings and additional income towards this gap to date.</li><li>Cabinet intend to meet the funding shortfall in 2019/20 from the Budget Strategy (Support) Reserve in order to deliver a balanced budget.</li></ul>	<p><b>Changes to the CIPFA 2018/19 Accounting Code</b></p> <p>The most significant changes relate to the adoption of:</p> <ul style="list-style-type: none"><li>IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.</li><li>IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.</li></ul>	<p><b>New audit methodology</b></p> <ul style="list-style-type: none"><li>We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit.</li><li>It will enable us to be more responsive to changes that may occur in your organisation and more easily incorporate our knowledge of the Authority and group into our risk assessment and testing approach.</li><li>We can ensure that our resources and testing are best directed to address the risks we identify in an effective way.</li></ul>
Our response		
<ul style="list-style-type: none"><li>We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.</li><li>We will consider whether your financial position leads to material uncertainty about the going concern of the group and will review related disclosures in the financial statements.</li><li>We will review the Council's progress against previously agreed recommendations within the 2017/18 Audit Findings Report as part of our work.</li></ul>	<ul style="list-style-type: none"><li>We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.</li><li>As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.</li></ul>	<ul style="list-style-type: none"><li>You will see changes in the terminology we use in our reports that will align more closely with the ISAs.</li><li>We will ensure that our resources and testing are best directed to address your risks in an effective way.</li><li>We will continue to keep you informed of any changes to the audit or financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.</li><li>We have invited members of your Finance Team to our Local Government Chief Accountant Workshop, due to take place on 7 February 2019 in Bristol.</li></ul>

# 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	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Gloucestershire Airport Limited	Yes	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of the group financial statements	<ul style="list-style-type: none"><li>• Risk of management override</li><li>• Pension net liability valuation</li><li>• Valuation of property, plant and equipment</li><li>• Valuation of investment properties</li></ul>	<p>Specific scope procedures on balances to have audit procedures applied, to be performed by component auditor.</p> <p>The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor’s audit documentation and meeting with appropriate members of management.</p>
Cheltenham Borough Homes	Yes	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of the group financial statements	<ul style="list-style-type: none"><li>• Risk of management override</li><li>• Pension net liability valuation</li><li>• Valuation of property, plant and equipment</li><li>• Valuation of investment properties</li></ul>	<p>Specific scope procedures on balances to have audit procedures applied, to be performed by component auditor.</p> <p>The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor’s audit documentation and meeting with appropriate members of management.</p>

# 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	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Publica Group (Support) Limited	Yes	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement the group financial statements	<ul style="list-style-type: none"> <li>Risk of management override</li> <li>Pension net liability valuation</li> <li>Valuation of property, plant and equipment</li> <li>Valuation of investment properties</li> </ul>	<p>Specific scope procedures on balances to have audit procedures applied, to be performed by component auditor.</p> <p>The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor’s audit documentation and meeting with appropriate members of management.</p>
UBICO Limited	No	Analytical procedures at Group level	None	Analytical review performed by Grant Thornton UK LLP.

## Key to Audit Scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component’s financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

## 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.

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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"><li>• there is little incentive to manipulate revenue recognition</li><li>• opportunities to manipulate revenue recognition are very limited</li><li>• The culture and ethical frameworks of local authorities, including Cheltenham Borough Council, mean that all forms of fraud are seen as unacceptable</li></ul> <p>Therefore we do not consider this to be a significant risk for Cheltenham Borough Council.</p>
Management over-ride of controls	<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>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• evaluate the design effectiveness of management controls over journals</li><li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li><li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li><li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li><li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li></ul>

# 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 group revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used</p> <p>.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li><li>• evaluate the competence, capabilities and objectivity of the valuation expert</li><li>• discuss with the valuer the basis on which the valuation was carried out</li><li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li><li>• test revaluations made during the year to see if they had been input correctly into the group's asset register.</li><li>• evaluating 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 at year end.</li></ul>
Valuation of investment property	<p>The Authority revalues its investment properties on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work</li><li>• evaluate the competence, capabilities and objectivity of the valuation expert</li><li>• discuss with the valuer to confirm the basis on which the valuations were carried out</li><li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li><li>• test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register</li><li>• evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li></ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of pension fund net liability	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• agree the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures.</li> <li>• obtain assurances from the auditor of the Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> <li>• obtain assurances that the admission agreement for Publica Group (Support) Limited has been amended to reflect the actual terms</li> </ul>

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 Report in July 2019.



# 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 read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- 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 legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
  - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- 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 group'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.

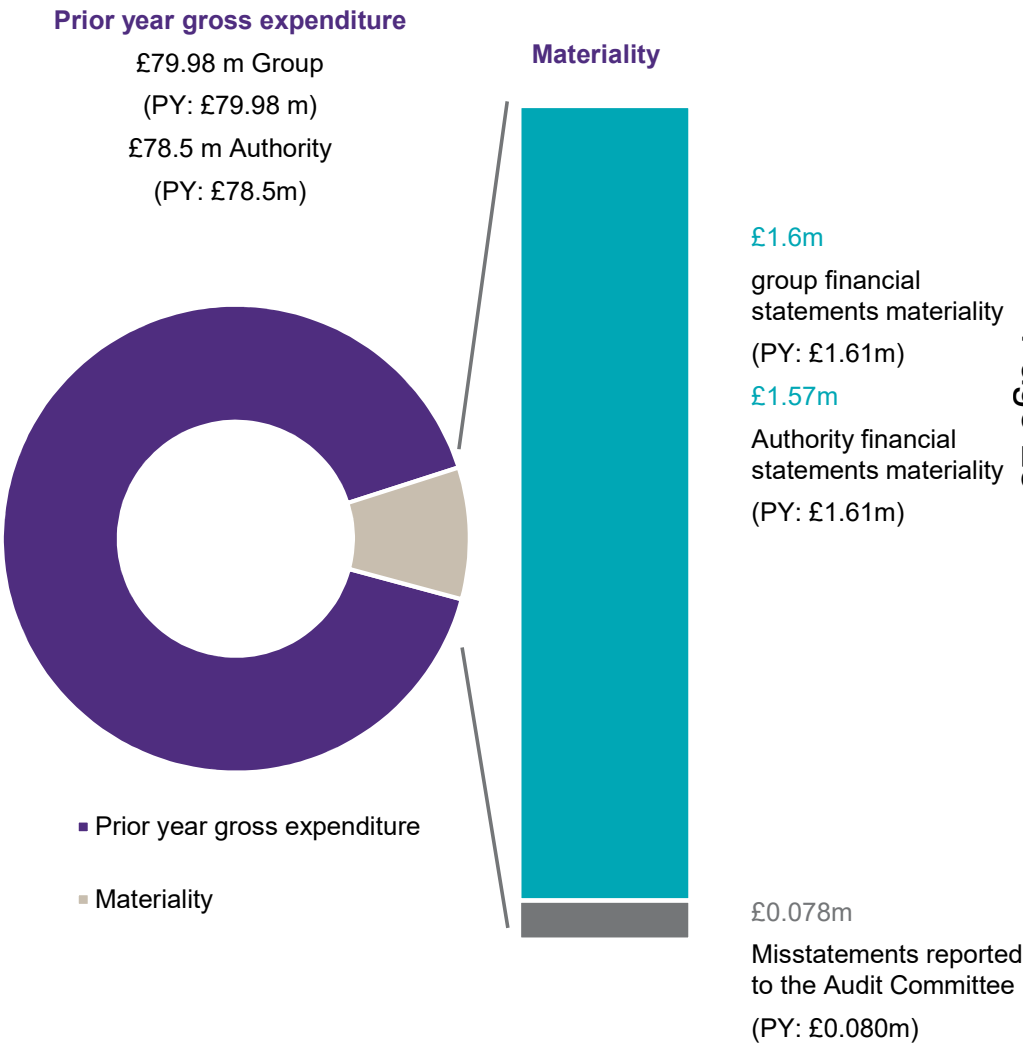
## Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.6m (PY £1.61m) for the group and £1.57m (PY £1.61m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £20k for senior officer remuneration. 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 group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £78k (PY £80k).

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.



# Value for Money arrangements

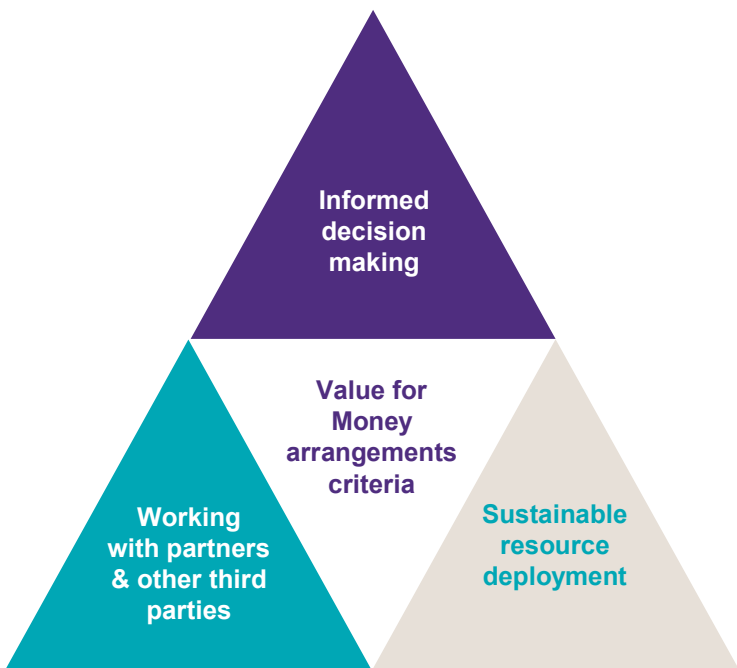
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

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 audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority 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 £2.019m with £1.6m of savings plans and additional income, with the residual gap to be funded from the Budget Strategy (Support) Reserve during 19/20, and also includes a number of unidentified savings over the period to 2022/23.

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 2018/19 performance against savings plans.
- Consider the use of reserves in 2019/20 to reach the balanced budget



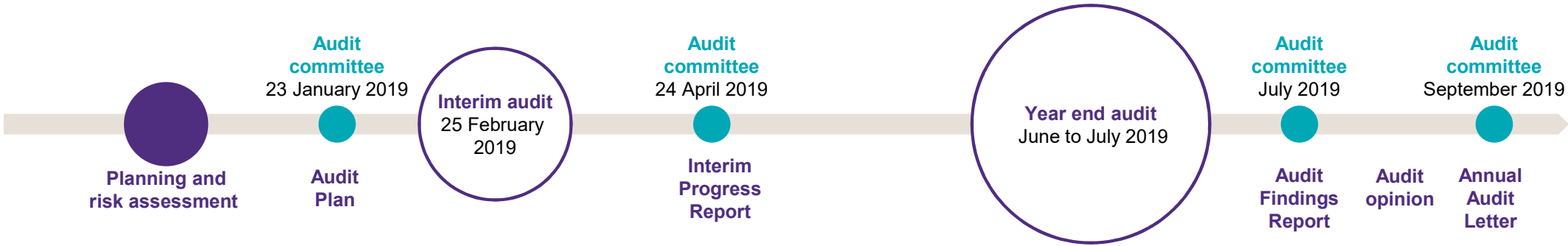
### Publica Group (Support) Limited

The Council transferred a number of services to Publica from 1 November 2017. Publica provides ICT, HR and finance services for Cheltenham Borough Council.

Work proposed:

- Review the Council's 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 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 & 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.

**Audit fees**

The planned audit fees are £38,043 (PY: £49,406) for the financial statements audit completed under the Code, which are in line with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.



**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.

**Our requirements**

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

Any proposed fee variations will need to be approved by PSAA.



**Nick Halliwell, Audit Incharge**

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

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# Independence & non-audit services

## Auditor independence

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 relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. 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.

In our 2017-18 Audit Plan we brought a specific issue to the attention of those charged with governance. 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. The company started operations on 1 November 2017. 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 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 of the audit of either the Councils or the company. We were subsequently approached to be the external auditors of Publica Group (Support) Limited and were subsequently appointed through the formal appointment process.

We reported this breach to those charged with governance to ensure that they were fully appraised of the situation and can confirm that they did not have any concerns with either our appointment as external auditors to the Council or to Publica 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 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

# Independence & non-audit services

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. 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 £38,043 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.
Certification of Housing Benefit	19,906	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 £20k in comparison to the total fee for the audit of £36k 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 all 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 group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. 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.





Paul Jones  
Section 151 Officer  
Cheltenham Borough Council  
Municipal Offices  
Promenade  
Cheltenham  
GL50 9SA

Grant Thornton UK LLP  
2 Glass Wharf  
Temple Quay  
Bristol  
BS2 0EL

T +44 (0)117 305 7600

[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

11 December 2018

Dear Paul

**Certification work for Cheltenham Borough Council for year ended 31 March 2018**

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

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

We have certified the Housing Benefit subsidy claim for the financial year 2017/18 relating to subsidy claimed of £28.703 million. Further details are set out in Appendix A.

We identified a number of issues from our certification work which we wish to highlight for your attention. There were a number of errors from the extended testing that we carried out on this year's subsidy return which recurred from 2016/17. There was no new areas where we identified errors for 2017/18. The extrapolated financial impact on the claim, which we have reported to the DWP, was again relatively insignificant to the total subsidy receivable.

As a result of the errors identified, the claim was amended and qualified, and we reported our findings to the DWP. The DWP may require the Council to undertake further work or provide assurances on the errors we have identified.

The indicative fee for 2017/18 for the Council was based on the final 2015/16 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2017/18 was £8,361. This is set out in more detail in Appendix B.

Yours sincerely

Grant Thornton UK LLP

**Appendix A - Details of claims and returns certified for 2017/18**

Claim or return	Value	Amended?	Amendment value	Qualified?	Comments
Housing benefits subsidy claim	£28,702,799	Yes	£(5,358)	Yes	See below

**Findings from certification of housing benefits subsidy claim**

**Amendment to Cell 28**

We identified a number of errors within Rent Rebates expenditure in relation to the classification of overpayments. Officers were able to review the whole of the population and we agreed the amendment of £(5,358) required to the claim as a result.

**Amendment to Cell 102**

We identified a number of errors within Rent Allowances expenditure in relation to the classification of expenditure. Officers were able to review the whole of the population and we agreed the reclassification required to the claim as a result. There is no impact of this error on subsidy claimed.

**Observations**

We identified errors in two classes of benefit where no impact on subsidy was noted and therefore have not been classified as errors for subsidy purposes.

- One case where benefit was underpaid due to the Authority miscalculating the claimant's earned income, in respect of Rent Rebates
- Five cases where benefit was underpaid due to the Authority miscalculating the claimants' earned income, in respect of Rent Allowances.

**Recommended actions for officers**

We recommend that the Council as part of its internal quality assurance process, should increase its focus or level of testing in respect of the areas where we identified errors from our testing.



**Appendix B: Fees for 2017/18 certification work**

Claim or return	2015/16 fee (£)	2017/18 indicative fee (£)	2017/18 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£8,361	£8,361	£8,361	Nil	N/a
Total	£8,361	£8,361	£8,361	Nil	N/a

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## Cheltenham Borough Council Audit Committee – 23<sup>rd</sup> January 2019 Internal Audit Monitoring Report

<b>Accountable member</b>	Cabinet Member Corporate Services, Councillor Alex Hegenbarth
<b>Accountable officer</b>	Paul Jones, Chief Financial Officer
<b>Ward(s) affected</b>	<b>All</b>
<b>Key/Significant Decision</b>	<b>No</b>
<b>Executive summary</b>	<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>
<b>Recommendations</b>	<b>The Audit Committee considers the monitoring report and makes comment on its content as necessary</b>
<b>Financial implications</b>	<p>There are no financial implications arising from the report</p> <p>Contact officers: Paul Jones, Section 151 Officer <a href="mailto:Paul.Jones@cheltenham.gov.uk">Paul.Jones@cheltenham.gov.uk</a>, 01242 264365</p>
<b>Legal implications</b>	<p>None specific arising from the report recommendation</p> <p>Contact officer: Peter Lewis, Head of Legal Services, One Legal <a href="mailto:peter.lewis@teWKesbury.gov.uk">peter.lewis@teWKesbury.gov.uk</a>, 01684 272012</p>
<b>HR implications (including learning and organisational development)</b>	<p>There are no specific HR implications arising from the content of the report. The HR Team continue to work closely with colleagues from SWAP to ensure that any HR related recommendations from audits are actioned.</p> <p>Contact officer: Julie McCarthy, HR Manager, Operations, Payroll and Support Centre <a href="mailto:Julie.McCarthy@publicagroup.uk">Julie.McCarthy@publicagroup.uk</a>, 01242 264355</p>

<b>Key risks</b>	That weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives, if recommendations are not implemented.
<b>Corporate and community plan Implications</b>	<i>“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.” (Chartered Institute of Internal Auditing UK and Ireland).</i> Therefore, the internal audit activity impacts on corporate and community plans.
<b>Environmental and climate change implications</b>	Relevant to particular audit assignments and will be identified within individual reports.
<b>Property/Asset Implications</b>	No Response Received  <b>Contact officer: Dominic.Stead@cheltenham.gov.uk</b>

## 1. Background

- 1.1** The Annual Audit Plan 2018/19 was aligned with the corporate and service risks facing the Council as identified in the consultation with the Corporate Management 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 a 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.

<b>Report author</b>	<b>Lucy Cater, Assistant Director, SWAP Internal Audit Services</b> <b>lucy.cater@swapaudit.co.uk</b> <b>01285 623340</b>
<b>Appendices</b>	1. SWAP Report of Internal Audit Activity

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# Cheltenham Borough Council

## Report of Internal Audit Activity

Plan Progress 2018/2019

January 2019

# Contents

The contacts at SWAP in connection with this report are:

**Gerry Cox**

Chief Executive

Tel: 01935 385906

[gerry.cox@swapaudit.co.uk](mailto:gerry.cox@swapaudit.co.uk)

**Ian Baker**

Director of Quality

Tel: 07917 628774

[ian.baker@swapaudit.co.uk](mailto:ian.baker@swapaudit.co.uk)

**Lucy Cater**

Assistant Director

Tel: 01285 623340

[lucy.cater@swapaudit.co.uk](mailto:lucy.cater@swapaudit.co.uk)

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## Internal Audit Plan Progress 2018/2019

### 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 2018/19 Audit Plan was reported to, and approved by, Audit Committee at its meeting in April 2018.

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

## Internal Audit Plan Progress 2018/2019

### Outturn to Date:

**We rank our recommendations on a scale of 1 to 3, with 1 being a major area of concern requiring immediate corrective action and 3 being a minor or administrative concern**

### ● Internal Audit Work

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 A** of this document.

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Internal Audit Annual Plan 2018/19. 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.

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.

Further information on all the finalised reviews can be found within **Appendix C**.

At **Appendix D** we have included a schedule of the high priority recommendations that were identified during 2017/18. These will be updated when the follow-up audit has been completed.

**Appendix E** summarises all 2017/18 and 2018/19 recommendations and the progress made against these.

## Internal Audit Plan Progress 2018/2019

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 2018/19 is detailed in **Appendix B**. 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.

No Changes have been made to the plan since the last meeting of this Committee.

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

- **No Assurance**
- **Partial**
- **Reasonable**
- **Substantial**

#### Audit Framework Definitions

#### Control Assurance Definitions

<b>No Assurance</b>	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.
<b>Partial</b>	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.
<b>Reasonable</b>	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.
<b>Substantial</b>	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.

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 3 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.

Categorisation of Recommendations	
<b>Priority 1</b>	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
<b>Priority 2</b>	Important findings that need to be resolved by management
<b>Priority 3</b>	Finding that requires attention.

### Definitions of Risk

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

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major		↔	1 = Minor		Comments
						Recommendation					
						5	4	3	2	1	
2017/18 Audits – Draft / In Progress at Annual Opinion											
ICT	Protection from Malicious Code		Position Statement								
ICT	ICT Policies		Final Report	Reasonable	1			1			
ICT	Public Services Network Submission (PSN)		Final Report	Reasonable	2			2			
Key Financial Control	Fighting Fraud Locally		Final Report	Reasonable	5		1	4			
Key Financial Control	Serious and Organised Crime Checklist		Final Report	Reasonable	1			1			
Key Financial Control	Serious and Organised Crime Audit		Final Report								
Governance	Audit Committee Effectiveness		Discussion Document								
Follow-Up	Safeguarding		Final Report								10 of the 11 Recommendations have been actioned
Advice and Consultancy	Equalities and Diversity		Complete	Non-Opinion							

# Internal Audit Work Plan Progress 2018/2019

## APPENDIX B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
2018/19 Audit Plan									
Governance	Annual Governance Statement	1	Final Report	Substantial	-				See Appendix C
Operational	Licencing / Planning / Planning Enforcement	1	Position Statement Issued	N/A	-				See Appendix C
ICT	Data Protection Act 2018 (GDPR)	1	Draft Report						
Advice and Consultancy	Workforce Strategy	1	Initial Meeting						
Operational	Procurement and Contract Management	1	In Progress						
Other Audit Involvement	Disabled Facilities Grant Certification	1	Complete	N/A					
ICT	Public Services Network Submission (PSN)	2							
Operational	Members and Officers Gifts and Hospitality and Declarations of Interest	2	In Progress						
Operational	Regulatory Awareness and Compliance	2	In Progress						
Operational	Business Continuity Management	2	Final Report	Reasonable	5	1	3	1	See Appendix C
Follow-Up	Ubico Recyclates	2	In Progress						

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
Follow-Up	Ubico Data Monitoring	2	In Progress						
Advice and Consultancy	Ubico Finance Review (New)	2	Final Report	Position Statement	1			1	See Appendix C
Advice and Consultancy	DFG Process (NEW)	2	In Progress						Day taken from contingency
Advice and Consultancy	P & ED Transformation Project	1 – 2							
Key Financial Control	Revenues and Benefits	3							
	• National Non-Domestic Rates		In Progress						
	• Council Tax		In Progress						
	• Council Tax Benefit		In Progress						
Key Financial Control	Core Financials	3							
	• Accounts Payable		Draft Report						
	• Accounts Receivable		In Progress						
	• Main Accounting		In Progress						
	• Payroll		In Progress						
	• Treasury Management and Bank Reconciliation		Draft Report						



Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
Key Financial Control	Systems Administration	3	In Progress						
Key Financial Control	Human Resources	3	In Progress						
Key Financial Control	Other Support Service provided by Publica • Procurement	3	In Progress						
Advice and Consultancy	Commissioning	3							
Governance	Risk Management	4							
Governance	Performance Management	4							
Key Financial Control	Serious and Organised Crime	4							
Operational	Discretionary Housing Payments (DHP)	4	Final Report	Reasonable	5			5	
Operational	Corporate Culture	4							
Advice and Consultancy	CBC Organisational Change Project (Not yet defined)	3 – 4							
Follow-Up Audits	Follow-Ups of Recommendations made in Substantial and Reasonable Audits	1 – 4	On Going						
	• MTFS								All recommendations Actioned

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
	• Grant Payments to Third Parties								1 recommendation complete, 1 waiting further information
	• S106 Agreements and Funds								3 recommendations complete, 2 have revised target dates
Advice and Consultancy	Cemetery and Crematorium Development	1 – 4	On Going						
Advice and Consultancy	Parking Strategy / Cheltenham Task Force	1 – 4	On Going						
Advice and Consultancy	Public Governance	1 – 4	On Going						
Advice and Consultancy	Change Programmes	1 – 4							
Other Audit Involvement	Provision for Grant Certifications	1 – 4							
Other Audit Involvement	Management of the IA Function and Client Support	1 – 4	On Going						
Other Audit Involvement	Contingency – Provision for New Work based on emerging risks								
	Other ICT Audits – to be agreed with SWAP ICT Auditor and ICT								
	Leisure and Culture Trust – Days from 2017/18								Scope to be discussed with CFO

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
Adding Value / Benchmarking Reports	Gifts and Hospitality								
	B & B VAT Charges								
	Risk Policy / Strategy								
	Data Protection Policy and Information								
	Business Continuity Management								
	Sickness Management								
	Parking Services								
	Business Rates Maximisation								
	Revenues Debt Recovery								
	Building Control Market Share and Fee Structure								

**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.

**2018/19 Annual Governance Statement – Substantial Assurance**

The Heads of Service and Directors were asked to complete and return a Management Assurance Statement (MAS). The MAS is a declaration that adequate governance measures are in place.

A proportion of the Managers Assurance Statements were examined and were confirmed as completed fully, correctly and in line with the required templates. The MAS are therefore able to be taken as assurance in compiling the Annual Governance Statement.

The Annual Governance Statement was compared to the CIPFA Governance Framework (2016) and was completed in line with the framework's requirements. The statement was drafted, and then considered at the Audit Committee meetings ahead of the deadline of 31st May. The statement is publicly available, within the Annual Statement of Accounts on Cheltenham Borough Council's website.

It is recognised that the Annual Governance Statement is drafted by the Head of Internal Audit based on MAS returns and knowledge of the governance environment gained through audit work carried out during the year. It should be noted that although requested by the Council, consideration should be given to it being completed outside of internal audit to further demonstrate independent assessment.

**2018/19 Planning Process – Position Statement**

A review of the Planning process was included in the 2018/19 Annual Internal Audit Plan. The scope of the review was to assess that planning applications were being processed in accordance with agreed processes and procedures and

that officers or elected members were not being unduly influenced in the decisions they make.

A Terms of Reference document was drafted with input from the Director of Planning, but due to the changes being introduced within the Planning service, as part of the Council's Modernisation project, and following discussion with the Interim Head of Planning, we have agreed that an audit at this time will not add any value. We have issued this Position Statement which provides information on where the service is at this current time.

- An Interim Head of Planning was appointed in September 2018 on a fixed term contract until March 2019.
- The appointment focusses on the performance agenda, reviewing operational practices to improve application processing times. We were advised that whilst statutory timeframes with regard to speed of determination of all applications are being met and exceeded, a potential risk does exist with regard to the 10% threshold, set by the Ministry of Housing, Communities and Local Government (MHCLG), as a Quality performance indicator in respect of Major applications. The tolerance is based upon the number of major applications which are allowed at appeal in a 2 year rolling timeframe expressed as a percentage of the total number of major planning applications determined in that timeframe. In the last return published by MHCLG the Council was at 5.1% and therefore uncomfortably close to the threshold. If the authority was designated, the Applicant would have the right to apply directly to the Ministry to determine major applications with the Council relegated to a role of a consultee to the application process as well as losing any fee income associated with the proposed development, which can be significant. Therefore, there is a real risk of both significant reputational and financial harm to the Council should this take place. Whilst, most recent calculations show that this figure is now 0% as a result of the rolling nature of the calculation, given the small number of major applications which the authority deals with in a 2 year rolling period and the fact that there are currently a number of appeals in the system which potentially could be unsuccessful at appeal, this area of the service needs to be carefully monitored to ensure the Council does not again find itself close to the threshold.
- The planning applications allocations process and sign off procedure has been reviewed and changes put in place to ensure fair and equitable workloads which focuses on ensuring that the correct level of work is allocated to each officer based upon experience and seniority. This is driving efficiencies in the service and greater consistency in report writing.
- The pre-application advice and charging regime has recently been reviewed, however, the service considers that a further review is needed to ensure realistic performance targets are set (currently set at 10 days for all responses) as well as reviewing the charging regime to maximise revenue in a commercial context. In addition, the review is also aimed at providing a much more responsive and customer focused service, including fast tracked response (with higher fees) and the introduction of Planning Performance Agreements.

- A number of access reports have been developed to allow managers and officers to monitor ongoing performance. This has allowed performance management to be put in place by providing meaningful data on individual officer performance as well as a breakdown of service performance at each level of the process. Performance management data is shared openly across all officers and reported at appropriate intervals via the email Member Briefing.
- To help manage the planning application process, a new system 'ENTERPRIS' is being developed. This will remove the paper-based systems currently being used and allow for effective agile working.
- Mobile technology is being introduced which will allow officers to access systems whilst on site/from home thus improving some of the delays currently being experienced. Laptops have now been provided to all officers and mobile phones are in the process of being ordered. There is some delay in the latter due to the corporate renegotiation of the mobile phone contract.
- We were advised that there were no instances where officers had reported being unduly influenced by applicants/developers or where complaints had developed further.

In September 2016 Audit Cotswolds undertook an audit of the Planning Applications process, a 'Satisfactory' level of assurance was given at that time and we can confirm that the recommendations made in that review have been actioned. Once the current re-designing of the service is complete and time given to embed the new ways of working and use of the new technology, a compliance audit may be considered appropriate to provide Members with the assurances they seek.

#### **2018/19 Business Continuity Management – Reasonable Assurance**

The Corporate Business Continuity Plan (CBCP) was reviewed and found to have been last updated in 2016. Within the document footer it states the last review was October 2014 as version 3, however there is no provision within the document to record revision history to either confirm the changes made or the review dates they occurred on.

It has been recognised that Cheltenham Borough Council (CBC) have identified the need to review and update both their service Business Continuity Plans (BCPs) and the CBCP. Service areas had been tasked with updating their BC Plans and at the time of the audit this was in process. Service providers had also been requested by CBC to provide copies of their BCP's which, at the time of the audit conclusion, all had done so. Due to the service BCP's being developed, only the CBCP was subject to review as part of this audit.

The ICT service plan last updated in October 2016 had been completed using the same template as the CBCP. This ICT plan has also not been reviewed as an up to date shared ICT service plan has been developed with the partner

authorities of CDC, FODDC and WODC. This shared plan is currently being provided to Leadership Team within CBC for approval for use by CBC going forward.

The CBCP was assessed for its compliance to the Civil Contingencies Act 2004 and generally complied with the high-level requirements. Recommendations have been made to address the identified weaknesses.

During our comparison exercise we found CBC were the only authority that had developed a text messaging service to alert staff of issues and any actions required. This allows prompt delivery of crucial information to key staff when required.

With the current CBCP in place and a review underway to bring it up to date we can confirm there are controls in place that, in the case of an emergency, would allow CBC to manage the situation and help maintain the expected delivery of services.

#### **2018/19 – Ubico Financial Review**

This review has found that Ubico's accounting processes during 2017/18 were unsatisfactory to accurately manage the expenditure incurred while maintaining vehicles at its Cheltenham depot. We identified:

- Considerable expenditure was allocated to Cheltenham that should have been allocated / coded to other partners
- Documents used to record which partner expenditure was made on behalf of often lacked sufficient detail to accurately allocate expenditure within the business system;
- Significant expenditure was made on items used at the Cheltenham depot for the benefit of a number of Ubico's partners but solely charged to Cheltenham.

However, since April 2018, we can confirm substantial improvements have been made to ensure expenditure is correctly allocated to the appropriate partner:

- The new process for accounting for spare parts was reviewed and appears sound; however, as it had only recently been implemented, there were insufficient transactions to give assurance it was working correctly.
- Expenditure on new tyres and repairs for 2018/19 to date was tested and found to only consist of expenditure on Cheltenham vehicles.
- Vehicle hires made on behalf of all partner councils was accurately recorded, however a small amount of expenditure was still allocated to Cheltenham for vehicles hired on behalf of other partner Councils.

Within certain areas (fuel, spare parts and tyres) interservice transfers were carried out to correct some incorrectly charged items. However, our testing identified that at year end Cheltenham Borough Council was overcharged by £72,878 through subsidising expenditure for Ubico's other partner Councils, broken down as follows (please note all values are net VAT):

Partner Council	Amount
Tewkesbury Borough Council	£35,663
Cotswold District Council	£18,873
Stroud District Council	£13,603
West Oxfordshire District Council	£2,019
Forest of Dean District Council	£1,970
Gloucester County Council	£750

In addition, we identified expenditure of £99,519 for items such as hire/repairs of plant vehicles (based at Cheltenham's depot but are used on behalf of Tewkesbury Borough Council as well as Cheltenham), (stock) spare parts and tools used on any Council's vehicle serviced at the Cheltenham depot. A further £100,339 could not accurately be attributed to any council due to insufficient detail or absence of records.

It should be noted that similar testing was not carried out within the other Partner's cost centres to identify if they were charged for expenditure made on behalf of Cheltenham.



Audit Name	Priority	Recommendation	Management Response	Due Date	Update January 2019
2017/18 – Ubico Recyclates and Data Monitoring	2	The Lead Commissioner- Housing Services & Waste (LC-HS&W) has agreed to seek assurance, supported by appropriate evidence, from the JWT that CBC is receiving value for money for its recyclates.	<p>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 offered by the individual re-processors at each review point. If the price offered is below that based on the calculation, then the necessary challenge is being completed.</p> <p>In addition, as a result of a long standing arrangement between the CDC/JWT CM and the Salvation Army, an increase in income for the authority on textiles and shoes has been secured as detailed in the Tender Acceptance Report for Textiles &amp; Shoes.</p> <p>A significant reduction in the price paid for the recycling of wood/timber has also been secured resulting in a reduction in cost for the authority as detailed in the Tender Acceptance Report for Wood.</p> <p>The JWT CM is updating the GOSS BPA on a monthly basis of any movement in the material prices and the likely effect that might have on the income being received by the Council. From April 2018 the JWT CM will also present the latest prices to the Cabinet Lead as part of the monthly meeting together with the amount of income received and any variances likely at year end."</p>	30/04/18	Follow-Up in progress

# High Priority Recommendation Follow-Up

## APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update January 2019
2017/18 – Ubico Recycles and Data Monitoring	2	<p>Budget Variances</p> <p>The LC-HS&amp;W has agreed to ensure that:</p> <ul style="list-style-type: none"> <li>- controls are put in place to monitor the Ubico budget to ensure CBC is receiving value for money and realising benefits as new partners join.</li> </ul> <p>the KPI's being reviewed provide the Council with meaningful measures, are approved and implemented in a timely manner.</p> <p>Robust information regarding budget variances are discussed at regular intervals and communicated to the ESPB where necessary.</p> <p>Risks of reduced recycle income is identified and monitored accordingly."</p>	<p>The JWT CM is now discussing budget variances with the GOSS BPA on a monthly basis.</p> <p>Income updates (current income against projected budgets) will be built in as part of the monthly meetings with the Cabinet Member and CL-HS&amp;W. This will be implemented from April 2018 and the update will be recorded in the action notes. This will also be extended to the quarterly ESPB meetings with Ubico in order that a fuller understanding of budget pressures (or otherwise) is available to all relevant parties.</p> <p>The JWT have reviewed the Ubico performance template and revised KPIs have been put forwards which will be used in all ESPB meetings from April 2018</p> <p>We have agreed with UBICO that there is a requirement for more robust variance reporting so that a narrative is provided to accompany any variances, and that analysis is undertaken by Ubico each quarter to provide the council with greater confidence that the end of year projected variance is as accurate as possible. Ubico have advised that additional resources are required to support their financial reporting, and that they will be looking to provide this from April 2018 at no additional cost to CBC. We will closely monitor how effectively Ubico implement our requirements as we change our conversation at our quarterly monitoring meetings to more strategic discussions from the new financial year.</p> <p>The Client Officer and Customer Relations Manager will attend meetings between JWT Contract manager and finance staff and will be proactively engaging with Ubico Managers so that the budget is managed in a more proactive way.</p> <p>We have built into the Terms of Reference the requirement for Ubico to demonstrate any growth/efficiency opportunities going forward</p>	30/11/18	Follow-Up in Progress

## High Priority Recommendation Follow-Up

## APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update January 2019
2017/18 – Ubico Recyclates and Data Monitoring	2	<p>Budget data</p> <p>The LC – HS should ensure that a breakdown of each service charge, used to compile the annual budget, is received to ensure it is appropriate and reflects the service being charged to CBC, in comparison to other service users. Furthermore, this will allow CBC to challenge the value for money service."</p>	<p>Each of the services operates differently so direct comparisons from cost information can be misleading. For instance, Tewkesbury council recently introduced a co-mingled collection of recycling in wheeled bins. CBC have introduced a kerbside sort requiring specialist vehicles. This results in staff having to hand pick materials and sort them into relevant compartments in the vehicle. In the more urban areas of Cheltenham, traffic congestion, access issues and servicing flats are likely to slow collections down compared to the other councils. Gloucester City Council and Forest of Dean Council operate similar systems to Cheltenham i.e. kerbside sort on specialist vehicles. It is important that councils operating the same methodology are focussed upon. The consultant is gathering cost data from Gloucester and Forest of Dean. In addition research is being carried out with several councils that use different operational systems provided by both private sector contractors and Direct Service Organisations. Research findings will be reported to the Lead Commissioner – Housing Services and Waste and Managing Director, Place &amp; Economic Development. The findings of this research will determine discussions and any potential actions with Ubico. This work is due to be reported by the end of May 2018.</p> <p>Contained within the 2018/19 Joint Waste Committee Action Plan is a 'Benchmarking review of current collection services to understand the relative cost and performance of current waste and recycling services across Gloucestershire'. The target date for completion is October 2018 and this will give us valuable data in which to further scrutinise the services being provided by Ubico to the Council and challenge any discrepancies going forwards.</p> <p>In addition, the JWT will compile and provide quarterly information, along the lines of Appendix A, to Senior Management Group, which is comprised of Officers from each of the districts, from the new financial year (18/19) onwards.</p>	30/11/18	Follow-Up in Progress

## High Priority Recommendation Follow-Up

## APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update January 2019
2017/18 – Council Tax	2	Council Tax Completion Notices must be considered during the Council Tax Base calculation and evidenced accordingly.	Estimates will be included in tax base at 3th November for any properties where completion notices have been served but not yet included on valuation list.	30/11/18	Recommendation Actioned

## High Priority Recommendation Follow-Up

## APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update January 2019
2017/18 – Other GOSS Area Health and Safety	2	GOSS HS should produce a list of duties carried out at each of its clients and document any associated risks. Appropriate policies should then be written on behalf of each client and approved at the appropriate level.	HS policies are already in place at CBC, CDC, FoDDC, Ubico and WODC. These will continue to be reviewed in line with current procedures. The working practices of officers transferring into Publica aren't due to change significantly, therefore existing Council HS policies will be branded for Publica use and approved by the Board. In the interim period until Publica Board can meet to approve these policies, the GOSS HS Manager (in his role as advisor to Publica) has produced a transformation document stating there will be a brief transition period, until all policies have been adopted by Publica, which all Publica employees will be required to comply with Council policies."	30/03/18	<p>Follow-Up      Audit Complete      Complete Recommendation Complete</p> <p>All HS policies currently still in place for CBC, CDC, FODDC and WODC.</p> <p>Publica adopted a more streamlined approach, retaining a Corporate H&amp;S Policy supported by more user-friendly statements and guidance documents rather than a vast number of policies which may not be relevant to everyone in the organisation.</p> <p>All documents ready to go on the portal. (just waiting for final approval)</p> <p>Same approach will be taken for council retained staff</p>

## High Priority Recommendation Follow-Up

## APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update January 2019
2017/18 – Other GOSS Area Health and Safety	2	The GOSS HS Manager should work with senior management from each of GOSS's clients to ensure each appoints a 'responsible person' in line with the Regulatory Reform (Fire Safety) Order 2005. This should be a senior officer who is made aware of all responsibilities that come with the position.	OSS HS, in consultation with their clients, have identified Responsible Persons at each client (including Publica). Training on the role and responsibilities of the position will be provided to each officer at which time appointment letters will be issued."	31/01/18	Follow-Up Audit Complete Recommendation Complete
2017/18 – IR35	2	To ensure compliance with HMRC guidance, all supplier request forms should be updated to state the service manager from the hiring authority is responsible for completing the ESS to determine employment status.	Revise the new supplier request form to reflect the responsibilities on the public body not sole trader.	31/07/18	Follow-Up Audit Complete Recommendation Complete  Amendments to the form have been made and checked by the relevant teams.

## High Priority Recommendation Follow-Up

## APPENDIX D

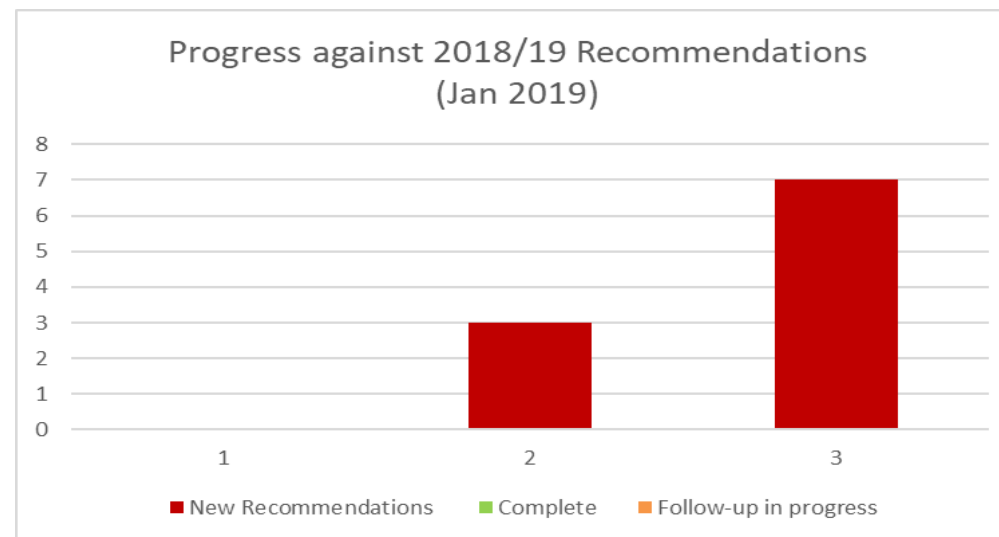
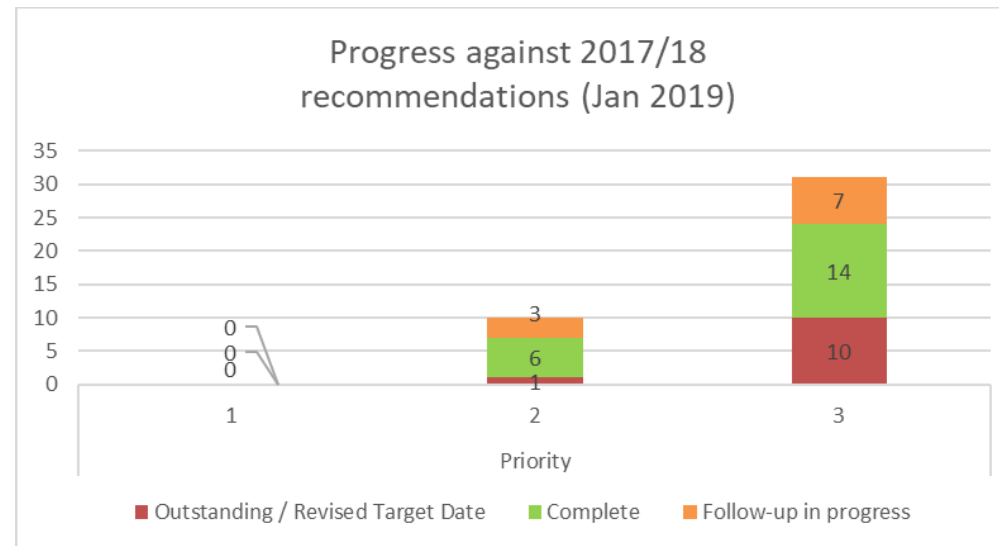
Audit Name	Priority	Recommendation	Management Response	Due Date	Update January 2019
2017/18 – IR35	2	An individual / service area should be assigned to oversee and own the IR35 process to ensure accountability.	Each Group Manager should appoint a person responsible for Overseeing the IR35 process and maintaining a register of 'off payroll' workers to avoid delays with recruiting.	31/07/18	Follow-Up Audit Complete Recommendation Complete  A register has been created and all Group Managers have been given access to this as well as relevant information / guidance.
2017/18 – Accounts Payable (Creditors)	2	The Accounts Payable Accountancy Manager should ensure that a quarterly review of all payments made during the past four months is undertaken to highlight any duplicate payments made.	We will run this new process for the middle of each quarter, i.e. February, May, etc. This will allow us time to make any necessary adjustments before quarter end.	01/06/18	Follow-Up Audit Complete Recommendation Complete After consideration it was decided we would go back 2 years due to the fact we have had some really late invoices received in the office. Currently we have completed this task for FODDC (G2), CDC (G4), CBH (G5), The Trust (G7) and Publica (P8).

## High Priority Recommendation Follow-Up

## APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update January 2019
2017/18 – Fighting Fraud and Corruption	2	The CFU should be consulted when the Procurement and Contract Strategy is reviewed to ensure fraud in relation to procurement is fully considered.	CFU Manager to work with Procurement and assist with a revised Strategy"	23/07/18	Will be followed-up during Serious and Organised Crime Audit in quarter 4





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# Briefing Notes

Committee Name:  
Audit Committee

Date: 23<sup>rd</sup> January 2016

Responsible Officer: Mark Sheldon

This note contains information to keep Members informed of matters relating to the work of the Cabinet or a committee but where no decisions from Members are needed.

If Members have questions relating to matters shown, they are asked to contact the Officer indicated.

## **Why has this come to scrutiny?**

On 26<sup>th</sup> February 2018 a discussion paper was presented to this committee to explain the detail of how the Leisure-at-Cheltenham redevelopment project was to be managed.

Alliance Leisure Services (ALS), providers of leisure facility development services to public sector organisations, had been appointed by The Cheltenham Trust. ALS's role has been to deliver the design and build element of the first phase of redevelopment of Leisure-at Cheltenham.

This briefing note has been submitted to this committee to provide an update on the success or otherwise, of using a development partner to deliver the Leisure-at redevelopment project, as recommended at Audit Committee on 25<sup>th</sup> July 2018. It has also been submitted to Overview and Scrutiny for information prior to their meeting on 14th January 2019.

## **1.1 Procurement and contractual arrangements**

- 1.2** Council approved a revised approach to managing the financing and project management of the scheme which led to the Council contracting directly with Alliance Leisure Services (ALS) who have subsequently delivered the project on behalf of the Council and its co-sponsor, The Cheltenham Trust.
- 1.3** In terms of procurement, Alliance Leisure Services has been procured through the Denbighshire Access Agreement and Framework Contract. This is a 4-year Development Framework that Denbighshire County Council procured after extensive tendering process to demonstrate value for money that complied with OJEU rules. The access framework is available to all Public Sector organisations and utilises JCT or NEC construction contracts.
- 1.4** ALS has acted as the development partner of the Council. Contractual relationships are that CBC contracted to ALS to deliver the scheme; ALS are contracted to both SPC (the project manager) and WFC (the construction company) under the terms of the Single Supplier Framework Agreement as supply chain partners, thus no direct contractual relationship between SPC and WFC
- 1.5** Under the framework agreement, a brief is determined by the client. ALS undertakes initial scoping, at its own risk, from preconstruction work e.g. surveys and design input from the

consultancy team. This then informs the 'cost certainty' element of the project from which the client can enter into a call off contract with ALS.

- 1.6** This method of procuring capital works using the development partner route reflects the fact that local councils have decreasing resources to manage larger capital projects and enables councils to:

- Reduce the impact on internal resources in local authorities
- Obtain cost certainty at the beginning of the contract which is adhered to
- Gain clarity on what is being delivered as a result of the upfront testing, design and detail prior to signing a contract to provide cost certainty Create best value for local authorities through market costing before the contract is signed and holding to prices throughout the project
- Transfer the project management and contract management to a readymade team including architect and project manager and with quantity surveyor skills, who are experienced in particular areas of work
- Transfer the financial risk to the partner (Alliance Leisure Services), to protect local authorities from cost over-runs during and/or at the end of the project.

## **2. Summary of Roles**

- 2.1** The revised approach to management of the project has meant that its successful delivery of the project is, contractually, the responsibility of Cheltenham Borough Council and, as such the project is required to work within Cheltenham Borough Council project governance and project management guidelines.
- 2.2** ALS's role will be to manage the design and build element of the project through to completion to the agreed cost and time, owning the risks on overspend and ensuring that adequate on the ground resources is available.
- 2.3** All other project impacts and risks will be the responsibility of CBC and as such, there is the need to ensure project governance processes are followed and project management resources are allocated to manage this element of the project.

## **3. Outcome of the Development Partner route**

The Joint Commissioning Group and ALS have been asked to provide feedback on the use of a development partner on the Leisure-at redevelopment project to determine the level of success in delivering the benefits outlined in 1.6.

### **3.1 Development Partner Procurement**

The procurement of a development partner to deliver the Leisure at redevelopment has been a new business model for both CBC and TCT. The benefits identified have been a speedier, OJEU compliant, procurement process offering a quick route to engaging a specialist team, ALS, and a fixed cost for the contract.

However, from the client side there were a number of concerns focused around development and understanding of the project brief which arose as a result of the initial lead on the project being The Cheltenham Trust.

- The Property team were not engaged at the early stages so had no input in the evaluation. Initial pre work, design and costs were in some instances superficial, not following RIBA plan of works, which created the need for the client to continually make design decisions and closely manage cost amendments and additions throughout the project.
- This method doesn't recognise Local Authority requirement to follow strict governance and standing order rules.

- 'Cost certainty' still included a number of provisional sums and therefore a requirement for a realistic contingency budget, which was utilised. The avoidance of financial risk to the client, whilst reduced was certainly not transferred.
- Feedback varied in whether this procurement framework was favourable, ranging from a preferred model for the future to avoiding it at all costs. It was apparent that not enough preparation with regard to contractual ownership and responsibility, and cost certainty was undertaken prior to commencing procurement by the client and more preconstruction work was required from ALS.
- There was some concern that ALS favoured the contractor rather than the client.

### **3.2 Staff Engagement**

While the project team worked hard to ensure the project was successful, concerns were raised that lack of TCT wider staff engagement resulted in missing input from subject matter experts on elements of the design.

Early engagement with staff is important to create 'buy in' for the project and ensure detailed considerations are captured. This will help build team confidence in the project and Leisure at, in general. It was suggested a 'staff champion' be selected to ensure regular updates were disseminated, feedback collated and reported back to project team.

### **3.3 Internal Project Management**

Benefit of internal project management ensured focus on wider public sector considerations such as public and stakeholder communication, rather than solely the design and build element of the project, and a level of control of the project and financial status, particularly with costs outside of the ALS contract.

Late engagement in project impacted early understanding of requirements and historic decision making. This resulted in some duplication of activity initially.

### **3.4 ALS Project Management**

The Project manager employed by ALS was concise, focused and professional and had a good relationship with the building contractor. The project was well managed and the need for internal full time resource was reduced.

Phase 1 snagging and initial handover dates could have been managed better and issue of planning should have been identified earlier. The ALS project manager should have challenged the works programme more.

There was some concern that cost plan and works quotations were not always scrutinised for best value and it was suggested that a quantity surveyor should be engaged for all capital projects.

### **3.5 ALS Project Organisation**

ALS worked well with the client overall, providing a pragmatic approach to resolving issues.

Some elements of the programme could have been more efficient, particularly as working within an operational environment. Greater understanding by ALS of the importance of public perception and impact when working with a public sector organisation would have been beneficial.

### **3.6 ALS Project Delivery**

Project was delivered on time and within budget on an operational site, with no significant safety issues reported. When building work was not up to standard the building contractor was challenged by ALS or SPC.

The initial phases were challenging and it was clear that contingency funds would be heavily relied upon. It was apparent that the Splashpad sub-contractor was not engaged in the project early on and this was partly responsible for design problems later in the project. Concern has already been mentioned with regard to flaws in the model and this resulted in lack of independent cost plan checks and need for variations to the design. There have also been no building services modification plans which could hamper building works in the future.

The project was delivered in very short time frames. More preparation time would have allowed for greater planning and design. In the future there should be a detailed client brief agreed prior to commencement of works, to be used as a benchmark.

ALS seemed to rely heavily on the project manager to take the lead on project delivery and there was some concern that ALS favoured the contractor rather than the client at times.

### **3.7 Financial Management**

Weekly financial updates, provided by ALS, tracked and challenged at meetings by Finance and internal project manager resulted in very tight financial control of the budget and additional spending which was successfully controlled with the help of strict sign off parameters. However those parameters resulted in delays to key additional spend decisions at times, impacting the programme of work but not the completion date of the project.

### **3.8 Reporting Mechanism**

Internal reporting mechanism and ALS reporting, site visits and progress meetings were timely and successful.

### **3.9 Other**

A strong open relationship was experienced between all project team members and all were comfortable to share frustrations and develop solutions.

From a client perspective, clarity on which organisation was the employer for the contract should have been resolved prior to procurement of the design partner. This would have helped a number of challenges regarding legal positions that arose throughout the project.

No consideration was given to work arising as a consequence of the project delivery which has since been proposed, with additional resource and cost implications.

## **4. Summary of the feedback**

The project was ultimately successful, being delivered on time and within budget.

Greater discussion and agreement prior to procurement of a development partner with regard to how the project should be approached and resourced was necessary. A comprehensive client brief must be prepared before seeking delivery partners and a

comprehensive procurement strategy must be defined at project inception.

Early engagement of key CBC personnel is required at initial discussion stages. This will help to ensure the correct level of preconstruction work is undertaken to finalise the survey and design element of the project prior to commencement of works. Higher levels of internal resourcing of the project were required than should have been necessary, had the appropriate level of planning, pre-works, been completed.

In conclusion, the project has resulted in many positive outcomes for Leisure-at-Cheltenham and provided an opportunity to test this procurement framework, identifying its strengths and weaknesses.

This report will be made available for consideration when approaching development of a capital project in the future.

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**Contact Officer**

Contact Officer: Jane Stovell

Tel No: 01242 264367

Email: [jane.stovell@cheltenham.gov.uk](mailto:jane.stovell@cheltenham.gov.uk)

**Accountability**

Councillor Flo Clucas

Cabinet member for Healthy Lifestyles

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# Audit Committee 2017-18 work plan

Item	Author
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25 <sup>th</sup> July 2018 (Report deadline: Mon 16 <sup>th</sup> July)	
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
Auditing Standards – communicating with the Audit Committee (moved from April)	Grant Thornton
19 September 2018 (Report deadline: Fri 7 <sup>th</sup> September)	
Audit Committee Update	Grant Thornton
Annual Audit Letter	Grant Thornton
Publication Letter	Grant Thornton
Internal audit monitoring report	Internal Audit
Counter Fraud update and future work provision	Counter Fraud Unit
23 <sup>rd</sup> January 2019 (Report deadline: Fri 11 <sup>th</sup> Jan)	
IT Security update	Tony Oladejo
Cyber Security Report	Tony Oladejo
External Audit Plan for 2018/19	Grant Thornton
Certification of grants and returns (for the previous year)	Grant Thornton
Internal audit monitoring report	Internal Audit
Leisure@ refurbishment project review – how did the ‘new’ governance approach work – Briefing Note	Mark Sheldon/Jane Stovell
24 <sup>th</sup> April 2019 (Report deadline: Wed 10 <sup>th</sup> 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

# Audit Committee 2017-18 work plan

Item	Author
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Annual governance statement – significant issues action plan	Internal Audit
Counter Fraud update and future work provision	Counter Fraud Unit
Annual review and approval of RIPA guidance policies	Counter Fraud Unit
Annual Governance Statement	Paul Jones/Darren Knight
Crematorium Capital Scheme	Mike Redman
<b>24<sup>th</sup> July 2019 (Report deadline: 12<sup>th</sup> July)</b>	
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
Annual Review of Risk Management Policy	Darren Knight

<b>ANNUAL ITEMS (standing items to be added to the work plan each year)</b>		
January	IT Security update	IT
	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 and approval of RIPA guidance policies	Counter Fraud Unit

## Audit Committee 2017-18 work plan

Item		Author
	Annual review of Code of Corporate Governance	Darren Knight
	Annual Governance Statement	Darren Knight
	Annual Review of Risk Management Policy	
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

Information Security annual report – awaiting confirmation from Tony O about when would be an appropriate time in the year to do this.

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