



Notice of a meeting of Audit Committee

**Wednesday, 24 April 2019
6.00 pm
Pittville Room, Municipal Offices**

Membership	
Councillors:	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

1.	APOLOGIES	
2.	DECLARATIONS OF INTEREST	
3.	MINUTES OF THE LAST MEETING	(Pages 3 - 6)
4.	PUBLIC QUESTIONS These must be received no later than 12 noon on the fourth working day before the date of the meeting	
5.	ANNUAL GOVERNANCE STATEMENT Darren Knight, Executive Director of People and Change	(Pages 7 - 28)
6.	COUNTER FRAUD UNIT REPORT Counter Fraud Unit	(Pages 29 - 36)
7.	REVIEW OF DRAFT ACCOUNTING POLICIES 2018/19 Sarah Didcote, Finance Manager, Publica Group and Deputy Chief Finance Officer	(Pages 37 - 64)
8.	AUDIT PROGRESS REPORT AND SECTOR UPDATE Grant Thornton	(Pages 65 - 84)
9.	PLANNED AUDIT FEE FOR 2019/20 Grant Thornton	(Pages 85 - 88)
10.	PROPOSED 2019/20 INTERNAL AUDIT PLAN AND	(Pages

		INTERNAL AUDIT CHARTER Internal Audit	89 - 110)
11.		INTERNAL AUDIT MONITORING REPORT Internal Audit	(Pages 111 - 144)
12.		BRIEFING NOTES Crematorium Capital Scheme - Mike Redman, Director of Environment	(Pages 145 - 150)
13.		WORK PROGRAMME	(Pages 151 - 154)
14.		ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION	
15.		DATE OF NEXT MEETING 24 th July 2019	

Contact Officer: Sophie McGough, Democracy Officer, 01242 264130
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Audit Committee

Wednesday, 23rd January, 2019
6.10 - 7.40 pm

Attendees	
Councillors:	Steve Harvey (Chair), David Willingham (Vice-Chair), Victoria Atherstone, Matt Babbage, Jonny Brownsteen, Jo Stafford and Tony Oliver
Also in attendance:	Sarah Didcote and Pauline Hartree

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 19 September 2018 be agreed and signed as an accurate record.

4. PUBLIC QUESTIONS

There were no public questions.

5. IT & CYBER SECURITY REPORT

The Chair welcomed Tony Oladejo, ICT Audit and Compliance Manager, who introduced the IT and Cyber Security report which had been circulated with the agenda.

Mr Oladejo explained that the report was a follow up to previous work and he summarised the key activities undertaken by ICT to date, as well as the planned work.

Mr Oladejo reported that there is continuing progress on cyber security and that Publica had recently recruited a Cyber Officer to ensure that there is constant and consistent focus and horizon scanning on this area of their work.

Looking ahead, Publica ICT will be working with other government agencies and other partners to provide improved assurance, advice and guidance on current and future cyber security challenges and mitigation.

A focus on prevention of threats to cyber security is a priority for Publica, with emphasis on information, training and education. To date, there have been no breaches of security.

Members had a number of questions and comments about the recent 'health check', part of which, Mr Oladejo explained, involves the supplier attempting to gain unauthorised access to our networks from outside through our firewalls and other security barriers. They also attempt to access all networks from internally to test and rate vulnerabilities on licences, applications and passwords. Once they gain access, they highlight and rate all vulnerabilities so the risk can be properly assessed and mitigated. Members enquired as to the name of the supplier which was provided.

The Chair requested a top level report to this committee of what their findings are in order to get a better understanding of what the suppliers undertake. Clearly this is sensitive information and Mr Oladejo will take that request back to Publica. The Chairman asked that he and the Vice Chairman be given access to the full report from NTS.

Raising awareness is recognised as a requirement as staff, including Members, need to be sufficiently competent and knowledgeable about cyber security. In response to a question about plans for ensuring staff are more informed, Mr Oladejo explained that ICT is working with the learning and development team on the roll out of training packages in the spring. This will be completed by all staff online, and will be mandatory. A communications plan is being developed to support the roll out. It was suggested that members of this committee would be useful trial users of the training packages and Councillor Brownsteen offered to represent the committee.

With regard to GDPR training for new councillors, it was suggested that it should be mandatory before they are set up on the council's network. Mr Oladejo suggested he share the GDPR written guidance with the committee.

In response to a number of other questions, Mr Oladejo confirmed that Publica is actively involved with NCS and that in terms of working with suppliers there is a very robust due diligence process. He also confirmed that looking at licences is part of the health check. He would refer more detailed questions to Publica's technical officer for a response.

The report was noted and the Chair thanked Tony for presenting it and taking questions.

6. EXTERNAL AUDIT PLAN FOR 2018/19

The Chair welcomed Sophie Morgan-Bower who introduced the External Audit Plan and summarised the key points.

Of the 'significant risks' identified on page 3, 'management override of controls' has to be included.

Members raised a number of questions and comments:

- Under 'value for money arrangements' on page 12, Ms Morgan-Bower confirmed that the work proposed for Publica Group (Support) Limited is

related to the council's contract management, monitoring and governance arrangements.

- On page 6, it was noted that UBICO Limited has no risks recorded. This is because UBICO is not significant in terms of the group.
- Regarding assurances for the Pension Fund and Public Group (Support) Limited referenced on page 9, Ms Morgan-Bower confirmed that these are written assurances and are standard procedure.
- It was noted that The Cheltenham Trust is not included in the group audit scope. This is because they are a completely independent body, outside of the council's audit scope.

The report was approved by the committee.

7. CERTIFICATION OF GRANTS AND RETURNS

Ms Bower-Morgan explained the detail of the certification of grants and returns, and the specifics highlighted in the letter, resulting in one recommendation.

In response to a question regarding the reference to cells, Ms Bower-Morgan confirmed that this is the way of reporting to the Department of Work and Pensions.

The report was noted.

8. INTERNAL AUDIT MONITORING REPORT

Lucy Cater, Assistant Director, SWAP Internal Audit Services introduced and summarised the internal audit monitoring report and pointed out that Appendix E is new to the report.

Substantial assurance around treasury management and bank reconciliation.

The audit plan for 2020 is currently being developed. Members of the committee are requested to let Ms Cater have suggestions for inclusion in the plan. The Chair emphasised that the role of the committee is to provide robust challenge.

There were particular questions regarding the UBICO error which had been identified and confirmation was given that relevant parties, including the cabinet member, had been informed. Sarah Didcote, Business Partner Manager, confirmed that this issue had been fully investigated and that processes and financial controls have been improved which the internal audit team will follow up.

Action: Sarah Didcote to send Councillor Chris Coleman, Cabinet Member Clean and Green Environment, a copy of the report.

The report was noted.

9. BRIEFING NOTES

The Chair thanked Councillor Brownsteen for suggesting the tour of Leisure-at before the start of this meeting to see the redevelopment work.

The briefing note was noted.

10. WORK PROGRAMME

Members requested that 'draft accounting policies' be added to the agenda for the next meeting. 'External audit plan' can be removed from the next meeting agenda.

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

There were no items.

12. DATE OF NEXT MEETING

The date of the next meeting is 24 April 2019.

Steve Harvey
Chairman

Cheltenham Borough Council Audit Committee – 24 April 2019 Draft Annual Governance Statement

Accountable member	Cabinet Member Corporate Services, Councillor Alex Hegenbarth
Accountable officer	Darren Knight, Executive Director People and Change
Ward(s) affected	All
Significant Decision	No
Executive summary	<p>The Council has a statutory duty to prepare an Annual Governance Statement (AGS) (Appendix 1) to be approved as part of the Annual Statement of Accounts.</p> <p>The AGS is for the period 1st April 2018 to 31st March 2019 and indicates how the Council is meeting the requirements of the Accounts and Audit (Amendment) (England) Regulations 2011 and, from 1st April 2015 the Accounts and Audit Regulations 2015 in relation to the publication of a Statement on Annual Governance.</p> <p>In addition to this CIPFA issued a 'Statement on the Role of the Chief Financial Officer in Local Government (2015)'. The Annual Governance Statement reflects compliance with the CIPFA statement for reporting purposes.</p> <p>The Audit Committee needs to satisfy itself that the AGS fairly reflects the arrangements within the Council, and that the suggested action plan will address the significant governance issues identified by the review.</p> <p>Due to the change in the completion of the Annual Statement of Accounts, a Draft AGS is being brought to this Committee for consideration and comment.</p> <p>Section 5 of the AGS hasn't been completed due to timings, This will be completed following the completion of the Internal Audit Annual Plan 2018/19 and the finalisation of the Internal Audit Opinion. The final AGS which will come to this Committee in July 2019 for approval.</p>
Recommendations	1. That the Audit Committee consider the Draft AGS and make comment as necessary
Financial implications	<p>There are no financial implications arising from the report</p> <p><i>Contact officer: Sarah Didcote, Publica Finance Manager sarah.didcote@publicagroup.uk, 01242 264125</i></p>

Legal implications	There are no direct legal implications arising from the content of the report. Contact officer: shirin.wotherspoon, One Legal shirin.wotherspoon@teWKesbury.gov.uk, 01684 272017
HR implications (including learning and organisational development)	There are no direct HR implications arising from the content of the report. Contact officer: Carmel Togher, HR Business Partner Carmel.togher@publicagroup.uk 01242 264391
Key risks	If the Council fails to have an effective review of its governance arrangements especially during a period when it is continually modernising and improving its services, then there is a risk that it will not maintain its good conduct and high ethical standards.
Corporate and community plan Implications	Good governance helps to deliver the Council aspirations to be an excellent, efficient and sustainable Council. It also ensures that risks are identified and managed to protect its assets and workforce.
Environmental and climate change implications	None.

1. Background

- 1.1 The Accounts and Audit (England) Regulations 2011 regulation 4 requires councils to conduct an annual review of the effectiveness of their system of internal control, including the arrangements for the management of risk. Following the review, the Council must approve an Annual Governance Statement (AGS), and from 1st April 2015 the Accounts and Audit Regulations 2015 in relation to the publication of a Statement on Annual Governance.
- 1.2 The AGS should be prepared and included as part of the Annual Statement of Accounts; and that it be authorised by the Leader of the Council and the Head of Paid Service.
- 1.3 A draft AGS for the 2018/19 financial year relating to the governance of the Council is attached at Appendix 2. It has been drawn up with regard to the Code of Practice on Local Authority Accounting in the UK 2016/17. It also has regard to guidance issued by CIPFA / SOLACE framework Delivering Good Governance and the Council's Local Code of Corporate Governance.
- 1.4 The AGS highlights where progress has been made in reducing risks within the Council over the period 2018/19 or where further work is planned for 2019/2020.
- 1.5 The Local Code of Corporate Governance was approved by this committee in March 2017 and is consistent with the principles of the CIPFA / SOLACE framework Delivering Good Governance (2016).
- 1.6 The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to manage the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 1.7 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise

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

1.8 The 2018/19 Annual Review of Effectiveness

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

2. Reasons for Recommendations

- 2.1** The Final AGS will form part of the Annual Statement of Accounts that will be considered by the Audit Committee for approval on 25th July 2019. Under the CIPFA Public Sector Internal Audit Standards the chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:

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

3. Alternative Options Considered

- 3.1** None

4. Consultation and Feedback

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

5. Performance Management – Monitoring and Review

- 5.1** A monitoring report will be brought to Audit Committee in April 2020, which will report back on the action summarised in the Annual Governance Statement.

Report author	Contact officer: Ann Wolstencroft, Programme & Governance Manager , Cheltenham Borough Council ann.wolstencroft@cheltenham.gov.uk 01242 264158
Appendices	Appendix 1 – DRAFT Annual Governance Statement 2018/19
Background information	None

**Annual Governance Statement
2018/19**

DRAFT

Contents

Section 1 - Scope of Responsibility

Section 2 - Purpose of Governance Framework

Section 3 - Governance Environment

Section 4 - Principles

Section 5 - Review of Effectiveness

Section 6 - Significant Governance Issues during 2018/2019 - Action plan review

Section 7 - Significant Governance Issues during 2018/2019

Section 8 - Approval of Leader and Chief Executive

1. Scope of Responsibility

Cheltenham Borough Authority (“the authority”) is responsible for ensuring that:

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

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

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

The authority has developed and approved a code of corporate governance, which is consistent with the core principles and sub-principles as set out in the CIPFA/SOLACE “Delivering Good Governance in Local Government: Framework (2016)” (‘the Framework’). This statement explains how the authority has complied with the code and also meets the requirements of Regulation 6(1)(a) of the Accounts and Audit Regulations 2015 (England) which requires the authority to conduct a review at least once a year on the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts.

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

2. Purpose of Governance Framework

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

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

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

The governance framework has been in place at the authority for the year ended 31 March 2019 and up to the date of approval of the Annual Statement of Accounts.

3. Governance Environment

The key elements of the authority's governance arrangements are outlined in the Local Code of Corporate Governance. The governance framework includes arrangements for:

- Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users;
- Reviewing the authority's vision and its implications for the authority's governance arrangements;
- Measuring the quality of services for users, ensuring that they are delivered in accordance with the authority's objectives and ensuring that they represent the best use of resources;
- Defining and documenting the roles and responsibilities of the executive (Cabinet), non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication;
- Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff;
- Reviewing and updating Financial Rules, Contract Rules, Constitution, Scheme of Delegation and supporting procedure notes / manuals, which clearly define how decisions are taken and the processes and controls required to manage risks;
- Ensuring effective counter fraud and anti-corruption arrangements are developed and maintained;
- Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015);
- Undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities;
- Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful;
- Whistleblowing referrals and for receiving and investigating complaints from the public;
- Identifying the development needs of members and senior officers in relation to their strategic roles, supported by the appropriate training;
- Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation; and
- Incorporating good governance arrangements in respect of partnerships, including shared services and other joint working and reflecting these in the authority's overall governance arrangements.

4. Principles

The main areas of the authority's governance framework, and the key evidence of delivery, are set out over the next pages under the headings of the core principles and sub-principles from the CIPFA/SOLACE "Delivering Good Governance in Local Government: Framework (2016).

Principle A

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

Behaving with Integrity
Demonstrating strong commitment to ethical values
Respecting the rule of the law

- The roles and responsibilities of Members and all office holders are set out in the authority's Constitution. The Constitution also sets out how decisions are made and the procedures that are followed to ensure these are efficient, transparent and accountable to local people. The Constitution is supported and underpinned by a Code of Conduct for Members', Code of Conduct for Employees and a Protocol for Member/Officer Relations.
- The Code of Conduct for Members' requires declarations at meetings to be made by Members where necessary and these declarations are recorded in the minutes of the meeting. .
- The authority has a Standards Committee to maintain and promote high standards of conduct by observing and monitoring the operation of the Code of Conduct for Members'.
- Statutory Officers' responsibilities are defined in the Constitution and are employed in accordance with statutory guidance.
- The s151 officer leads the promotion and delivery of good financial management through the Executive Leadership Team, attendance at Council, Cabinet and Committee meetings and organises specialist workshops/training for officers and Members as appropriate and as part of the member induction programme following borough elections every 2 years. Induction is open to all members.
- Registers of interest are completed annually by Members and officers and a register of gifts and hospitality is maintained. Declarations of interest are declared and recorded at meetings.
- The Monitoring Officer and s151 meet regularly with the Chief Executive to discuss any matters relevant to their statutory functions. Both the s151 officer and the Monitoring Officer are members of the authority's Executive Leadership Team (ELT).
- Internal audit reviews are designed to ensure services are complying with internal and external policies and procedures / statutory legislation. Where non-compliance is identified, this is reported to management and to Members via the Audit Committee.
- Whistleblowing Policies have been updated and have been ratified by the Audit Committee.
- A Gloucestershire wide Counter Fraud Unit has been established to help prevent and detect fraud and corrupt practices, including abuse of position. The service reports to Audit Committee twice a year.

Principle B

Ensuring openness and comprehensive stakeholder engagement

Openness

Engaging comprehensively with institutional stakeholders
Engaging with individual citizens and service users effectively

- The annual accounts are published in a timely manner and in accordance with specified timescales so that the financial position and performance of the authority is open to public scrutiny in a timely manner.
- A Transparency Policy Statement is in place and the authority publishes data such as payments to suppliers, senior officers' salaries and structure, contracts and tenders etc. in line with the local government transparency code which is available on the authority's website.
Committee meetings, agendas and minutes are published in accordance with the Forward Plan and publication of agendas is done in accordance with the Local Government Act 1972. Where statutory timescales are not met then the appropriate consultation takes place with the Chair of the Overview and Scrutiny Committee with regard to call-in. Council, Cabinet and Committee reports clearly outline their purpose, so the public can understand what the decision is aiming to achieve. Reports also address financial legal, equalities, risk and sustainability implications to aid Members in their decisions making.
- Members and the public are able to ask questions at Council, Cabinet and the Overview and Scrutiny Committee. Public questions can be asked at other committee meetings, e.g. Licensing, Planning. All meetings are held in public unless exempt business is under discussion.
- Overview and Scrutiny committee promotes open and transparent decision making, democratic accountability and holds the Cabinet to account for its decisions.
- As part of the budget setting process consultation takes place through the authority's website and by attendance at meetings of the parish councils and business community by the Executive Director Finance and Assets and Cabinet Member Finance / Leader of the Council.
- Engagement with staff happens in a number of ways; whole authority staff sessions held a minimum of once a year, directorate team meetings, divisional team meetings, one-to-one meetings, monthly #wearecbc newsletter with a foreword from a member of the Executive Leadership Team, etc.
- Outside the budget process, engagement and consultation with the public is undertaken through public meetings, surveys and other mechanisms as required throughout the year or around specific topics, e.g. Cheltenham Plan.
- A Statement on Community Involvement is approved which sets out the opportunities by which the public and organisations can engage with the planning system, including the procedures and

methods used to consult on planning applications. This is due to be refreshed in 2019.

- Performance against the corporate plan is monitored via Overview and Scrutiny and reported on an annual basis, reports are published on the authority's website.
- Transparency data is published on the website and includes, supplier payments, senior management structure charts, annual pay policy statement, and from 2018 gender pay gap as at 31 March for the previous financial year. Where data is not available in the published data sets, instructions are available on how to make a Freedom of Information Request and the procedure that will be followed to answer the request.

Principle C

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

Defining outcomes
Sustainable economic, social and environmental benefits

- The vision for Cheltenham is articulated in the Cheltenham Vision document approved by Council on 26 March 2018. The vision sets out the ambitions, aspirations and actions that the authority, together with its key partners, will take to bring about a thriving town in terms of businesses and their workforces, culture and creativity, people and communities.
- The values contained within the vision for Cheltenham reflect the fact that sustainability is of central importance to how the ambitions for the town will be achieved.
- The authority's objectives and actions to deliver the place vision provide the framework for the corporate plan. The corporate plan is reviewed and updated on an annual basis. The document sets out the context of the year ahead in terms of needs, challenges and opportunities, the actions to deliver the priority outcomes and the milestones, indicators and risk by which progress will be measured. Economic, social and environmental impacts are factors taken into account in delivery of the corporate plan actions.
- Having adopted the Joint Core Strategy the authority continues to develop and adopt its local plan which sets out the detailed plans for delivering sustainable, social and environment benefits across the Borough.
- All Cabinet and Council reports include an environmental impact assessment.

Principle D

Determining the interventions necessary to optimise the achievement of the intended outcomes

Determining interventions
Planning interventions
Optimising achievement of intended outcomes

- A mixed economy approach to service delivery is in place. In order to continue to deliver the priority outcomes of Members, and to operate within a more constrained financial cost base, the authority has over a number of years created a number of new organisations to deliver once in-house provided services at reduced cost.
- Each commissioned service is assigned a client officer who undertakes frequent and direct liaison with the service provider and monitors the contract performance and delivery. Each member of the Executive Leadership Team holds accountability for a commissioned service and provides the strategic guidance and support to the client officers. Executive Leadership Team and client officers keep relevant Cabinet members apprised of commissioned service performance as well as Cabinet Members being engaged directly in performance meetings with commissioned service providers.
- Council approved in February 2018 a new Executive Board structure with a focus on place and growth, finance and assets and people and change, this new structure has now been fully implemented. The Medium Term Financial Strategy (MTFS) has been reshaped in line with these areas with a member of the Executive Board having individual and collective accountability, working with Members, to achieve financial sustainability.
- As part of the 2018-19 budget process Council approved the authority's first commercial strategy which sets out the authority's ambition to be an enterprising and commercially focused authority with the objective of working towards becoming financially sustainable by 2021/22. The purpose of this strategy is to drive down the Council's net costs via a commercial mind-set with the aim to hold down council tax as far as possible, now and in the longer term, while also protecting frontline services from cuts – an immensely challenging task in the present climate.
- The strategy was adopted by Full Council with the vision "to become an enterprising and commercially focused Council which people are proud to work for and which others want to work with. We will use our assets, skills and infrastructure to shape and improve public services and enable economic growth in the Borough. We shall generate significant levels of new income for the Council working towards the objective of enabling it to become financially sustainable by financial year 2021/22".
- The drive towards financial sustainability includes identifying new opportunities to generate

income and investment in projects which provide good financial returns. Our commercial strategy aligns closely with other key strategies including place-making, economic growth, digital transformation, workforce and skills development, investment and asset management which have a combined message that Cheltenham Borough Council has entered a new era of business enterprise, growth and innovation.

- Our budgets are prepared annually in accordance with objectives, strategies and the MTFS is finalised following consultation with Members, customers, stakeholders and officers.
- Financial stewardship in respect of both capital and revenue proposals is reviewed and challenged by the Budget Scrutiny Working Group and considered regularly by the Executive Leadership Team
- The MTFS is a live document and is updated as necessary, to respond to the changing environment and in such circumstances would be discussed by the Executive Leadership Team to determine any necessary mitigating actions which would then be discussed with the Cabinet.
- Processes are in place to identify and respond to external changes, for example: changes to legislation and regulation, emerging risks and opportunities, for example, risk management, development and delivery of the corporate strategy, performance management, medium term financial planning, budget monitoring are designed to capture and incorporate external factors and to enable the authority to respond appropriately.
- Corporate risks are considered by Corporate Management Team (CMT) on a monthly basis and service risks are monitored and managed at directorate team level. Any risks scoring 16 or more are escalated to the corporate risk register.
- Corporate performance is reported as explained in section C above.
- CMT meets on a monthly basis to consider progress with corporate projects which are supported by their own governance arrangements. Any significant variances against expected time, cost, and quality would be discussed with the relevant cabinet member and appropriate action taken, within the approved budget and policy framework. Any matters requiring ELT overview/oversight/decision are escalated by the Executive Director People and Change who is a member of the Corporate Management Team and who acts as a conduit between the two strategic groups.

Principle E

Developing the entity's capacity, including the capability of its leadership and the individuals within it

Developing the entity's capacity
Developing the capability of the entity's leadership and other individuals

- The authority was re-accredited with the Investors in People (IIP) award in February 2017 which demonstrates a commitment to the development of staff to achieve the authority's corporate and strategic objectives. Work has and continues to take place on the improvement actions raised following the IIP assessment.
- Going forward, and as set out within the corporate plan approved by Council, an organisational change programme is focusing on the modernisation of the authority, with staff having the necessary skills, behaviours and competencies to achieve the authority's future ambitions.
- During the year the Council has developed a HR strategy and action plan. This has been combined with the organisational development required for modernisation and the IIP action plan to provide a comprehensive picture of what is needed to develop/ support our people over the next few years to ensure the Council achieves our corporate objectives.
- To support the day to day delivery of services and the modernisation programme collaboration continues with Publica support services in the areas of Human Resources, Finance and ICT. The Executive Director of People and Change is lead commissioner for HR and ICT and the Executive Director of Finance and Assets is lead commissioner for Finance.
- All new employees take part in an induction programme and ongoing staff development needs are identified through the appraisal process and 1:1's. Appraisals were undertaken online for the first time in 2018/19 and a new Learning Management System will be introduced over the next year. The Chief Executive is appraised by the Group Leaders.
- All new Members undertake a comprehensive Members induction programme which is delivered after each borough election (i.e. every 2 years). New Members are matched with a senior officer under a buddy stem to provide practical support as they develop their casework. Training is provided for Members on an ongoing basis as appropriate and necessary. Members on certain committees (e.g. Planning and Licensing) are required to undertake training before attending those committee meetings together with on-going training. The authority is a member of the Local Government Association who provide individual mentoring and support to Members and officers as necessary or requested.

Principle F

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

Managing risk
Managing performance
Robust internal control
Managing data
Strong public financial management

- A corporate governance group meets on a quarterly basis, is chaired by the Chief Executive, and its attendees are the other statutory officers, Executive Director for People and Change plus internal audit, counter fraud, risk manager and HR.
- Officers are required to maintain Service / Operational Risk Registers and the CMT reviews the corporate risk register on a monthly basis which is then provided to informal cabinet.
- Any service level risks which score 16 or above are incorporated in the corporate risk register.
- The MTFS is reviewed and updated on regular basis to ensure the s151 Officer, ELT, CMT and Members are aware of the financial standing of the authority in terms of delivering against cost reduction or revenue raising targets. Performance against budget is reported to Cabinet and any significant variances explained.
- The Statement of Accounts is produced and published annually in accordance with statutory legislation. Aligned with this is the production of this Annual Governance Statement which identifies how the Authority has met its governance reporting obligations.
- External Audit recommendations are reported to Audit Committee following the completion of their annual audit process with follow-ups of recommendations also reported.
- Internal Audit is delivered through the South West Audit Partnership (SWAP) and processes ensure compliance with Public Sector Internal Auditing Standards. Internal Audit recommendations are followed up and reported to Audit Committee with further follow up is reported where recommendations have not been actioned in full.
- Copies of all Internal Audit reports are provided to the S151 officer who ensures that other relevant Executive Directors are made aware of any significant issues or recommendations.
- The Audit Committee reviews and approves the Risk Management Policy on an annual basis. Risks are identified when undertaking Internal Audit reviews and reported when necessary.
- A risk-based Audit Plan is drafted annually following consultation with Officers, Members and

the S151 Officer. The Audit Plan is approved at Audit Committee prior to the financial year.

- Audit reports, once completed are discussed with the service manager. Executive summaries, including findings, and progress on the Annual Plan are reported to Audit Committee, on a quarterly basis.
- Recommendations made in audit reports are followed up 6 months after the completion the audit and findings reported to Audit Committee.
- The authority's services are delivered through a mix of direct service delivery and delivery through other standalone organisations, e.g., Cheltenham Borough Homes, Ubico deliver environmental services including waste management, street cleansing and grounds maintenance; The Cheltenham Trust is responsible for the authority's town hall, Pittville Pump Room, Leisure@ and Prince of Wales Stadium. Contracts and agreements are in place with each of these organisations which include performance management and reporting arrangements. Client officers monitor contractual requirements and performance measures.
- In November the Cabinet agreed to the establishment of an in-house team to undertake the functions currently delegated to the JWC.
- Organisational performance against the authority's corporate plan objectives is reviewed by the Corporate Management Team and by the Overview and Scrutiny Committee on a quarterly basis and reported to Cabinet.
- A Counter Fraud Unit has been established and supports all the Gloucestershire Local Authorities, West Oxfordshire District Authority and other third parties. Where investigations identify possible improvements to the internal control framework, the Counter Fraud Unit will liaise with the Internal Audit Team to ensure the improvements are followed up and implemented by Management.
- The Government adopted the EU General Data Protection Regulations and introduced the Data Protection Act 2018. This required the Council to undertake a wide range of compliance activity that was managed by a project team, these activities included the appointment of a Data Protection Officer, the Councils Borough Solicitor, reviewing all of the information that holds, preparing document retention schedules and training every elected Member and employee.
- A new Data Protection Policy was approved by Cabinet on the 18 April 2018, this document provides a framework for all other Information security and Information Management Policies all of which are available to all data users on the Councils intranet. It also provides the terms for the roles and responsibilities for the Data Protection Officer, Senior Information Risk Officer (SIRO) and the Single Point of Contact (SPoC).
- A range of training document was produced to support the training on Data Protection these are regularly reviewed and are used to deliver an agreed annual training programme which includes induction for elected Members and employees.

- The GDPR Project Board has been renamed the Data Protection Project Board and will continue through 2018/19. The project sponsor and chair for this board is the Executive Director for People and Change whose role includes the responsibilities of the (SIRO) as defined in the Data Protection Policy.
- The authority is part of the Gloucestershire Information Sharing Partnership. This will enable data to be shared when necessary.
- Audit reviews ensure data is held securely whether electronic or hard-copy.
-

Principle G

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

Implementing good practice in transparency
Implementing good practices in reporting
Assurance and effective accountability

- The authority publishes its performance in achieving delivery of its corporate plan objectives on an annual basis. Performance monitoring reports considered by Overview and Scrutiny are published on the authority's website in accordance with publication standards and guidelines.
- Data in respect of transparency is published on the Authority's website.
- The Statement of Accounts is produced and published annually in accordance with statutory legislation. Aligned with this is the production of the Annual Governance Statement which identifies how the authority has met its governance reporting obligations
- External Audit recommendations are reported to Audit Committee, following the completion of their annual audit process, follow-ups of recommendations are also reported
- Internal Audit processes ensure compliance with Public Sector Internal Auditing Standards. Internal Audit recommendations are followed-up and reported to Audit Committee, further follow-up is planned if recommendations haven't been actioned in full.

5. Review of Effectiveness

The authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is

informed by the work of the senior managers, the annual opinion from the Head of Internal Audit, the officer Corporate Governance Groups and comments made by the external auditors, other review agencies and inspectorates.

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

- Directors complete an Annual Assurance Statement at the end of each financial year. These governance declarations provide appropriate management assurance that key elements of the system of internal control are in place and are working effectively and help to identify areas for improvement.
- Annual Assurance Statements are also completed by Client Officers in respect of external service providers, The Cheltenham Trust, One Legal, Publica, Ubico and CBH.
- Where the assurance review highlights elements that do not fully or partially meet the systems of internal control then the Directors and Client officers explain what action needs to be taken within an agreed timeframe.
- CMT review the Corporate Risk Register on a monthly basis and service risk registers are managed by each manager.
- The SWAP Assistant Director (Head of Internal Audit) provides the Audit Committee, as the Committee charged with governance, with an Annual Opinion on the control environment of the authority, which includes its governance arrangements.
- Investigation of, and decisions on, allegations of failure to comply with Members Code of Conduct are considered and determined through processes involving the Monitoring Officer/Independent Person(s)/Standards Committee/Sub-Committee as set out in the Constitution.
- A full induction programme is delivered for newly elected members.
- The S151 Officer ensures training and awareness sessions are carried out for the Audit Committee periodically.
- The External Auditors (Grant Thornton) present progress reports to the Audit Committee.
- The External Auditor's Annual Audit Letter and follow-up of management responses to issues raised in the Letter or other reports are overseen by the Audit Committee.
- Performance with regard to achievement of corporate priorities, budgets and risk are reported and monitored as outlined in this statement.
- The Audit Committee review the Annual Governance Statement.
- The Audit Committee review the Annual Statement of Accounts and reports from both Internal Audit (SWAP) and External Audit (Grant Thornton), including quarterly progress reports.

- Council approves the annual budget, reviews and approves the Treasury Management Strategy.
- Internal Audit monitors the quality and effectiveness of systems of internal control. Audit reports include an opinion that provides management with an independent judgement on the adequacy and effectiveness of internal controls. Reports including recommendations for improvement are detailed in an action plan agreed with the relevant Executive Director/Service Manager.
- The Annual Internal Audit Opinion for 2018/19, in respect of the areas reviewed during the year, was 'XXXXXXX'
- The Authority's Financial Rules and Contract Rules are kept under review and revised periodically if necessary.
- Other explicit review/assurance mechanisms, such as the Annual Report from the Local Government Ombudsman and reports from SWAP or Grant Thornton.

6. Significant Governance Issues During 2018/2019 - Action plan review

In preparing 2017/18 AGS and reviewing the effectiveness of the governance arrangements a number of areas were identified where the Council needed to focus attention and improve arrangements over the next financial year. These areas of work were planned to strengthen the control framework and are set out in the table below. These have been reviewed by the Lead officers, two of the three issues have been fully addressed the third to do with Ubico Recyclates / Data Monitoring is being managed by the Client Team, SWAP will be undertaking a review of their audit 2018 audit and will report progress to the Managing Director for Place and Economic Development and to Audit Committee.

No	Key Area of Focus	Planned Actions	Lead officer/ client officer	Progress as at December 2019 (Lucy to update April 19)
1	Publica Group Ltd	Given that Publica only became operational in November 2017, during 2018/19 the Council needs to embed the governance arrangements relating to Publica. This includes implementing new Service Delivery Plans which will enable improved performance reporting using a new set of Key Performance Indicators and new arrangements for engagement between Publica and Council Members.	Darren Knight	<p>A set of draft client metrics have been developed covering ICT, HR, Health & Safety and Procurement.</p> <p>These are being sent to Publica to review in December for their feedback and response.</p> <p>We plan that from April 2019 there will be a revised set of performance metrics in place that will give the Council the assurance it is understands the level of performance it is receiving. This need was also identified by the Publica Board in October</p> <p>Publica have appointed a Client Manager who is now meeting on a regular basis with the CBC client</p>

				<p>office. The Executive Director meets with the Publica Group Manager on a quarterly basis.</p> <p>Greater collaboration is also forming between CBC Modernisation Team and Publica's Transformation Team with monthly meetings to share learning and looking at opportunities for collaboration</p>
2	General Data Protection Regulation (GDPR)	The Data Protection Regulatory framework is due to change in May 2018. The Council needs to take action to ensure it is compliant with the new requirements.	Bryan Parsons	<p>The council completed stage one of the GDPR project to appoint a Data Protection Officer, access the level of compliance, train all staff and elected Members and to prepare an action plan to address any outstanding RISKS.</p> <p>Stage 2 of the project is now underway to monitor the risks on the action plan and to put in place processes that will ensure that the council remains compliant.</p> <p>Internal Audit are currently undertaking a follow up review of their audit carried out prior to the May 2018 implantation date</p> <p>The Data Protection Officer provided assurance to the Executive Board in May 2018 that the Council</p> <p>I would consider that this issue has now been fully addressed and the DPO will report further on this in report to Exec Board May 2019</p>
3	Ubico Recyclates / Data Monitoring	Robust controls were not operating for the management of the recycle. Value for money was not discussed or explored. Reporting of Ubico performance was inadequate to give CBC assurance that the contract is performing as expected.	Karen Watson	<p>This function has been subject to an audit review and management actions agreed. These actions have recently been reviewed by the new in house client management team and changes in the process are being implemented. From 31 March 2019 this function will not be managed by the JWT.</p> <p>More robust budget and performance monitoring is now taking place by the new in house client management team and the new finance resource and performance reporting now in place by Ubico is slowly improving</p>

				<p>accuracy of reporting. This is now enabling value for money discussions to start taking place. A VFM review is planned in the next 18 months before contract renewal in 2022.</p> <p>This issue has not been fully addressed and will be carried forward to 2018/19 Significant Issues Action Plan and will be Managed by the Client Team. There will also be a follow up review by the Internal Audit Team</p>
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7. Significant Governance Issues During 2018/2019

In preparing this 2018/2019 statement and reviewing the effectiveness of the governance arrangements a number of areas have been identified where the Council needs to focus attention and improve arrangements over the next financial year. These areas of work are planned to strengthen the control framework and are set out in the table below.

No	Key Area of Focus	Planned Actions	Lead officer
1	Ubico Recyclates / Data Monitoring	Robust controls were not operating for the management of the recycle. Value for money was not discussed or explored. Reporting of Ubico performance was inadequate to give CBC assurance that the contract is performing as expected.	Karen Watson - Client Team Manager
		Carried forward from 2017/18	
2	Learning & development	Implementation of Learning and Development system to enable us to strengthen our compliance with regards to statutory training.	Ann Wolstencroft – Programme & Governance Manager

The Annual Internal Audit Opinion, as drafted by the SWAP Assistant Director (Head of Internal Audit), lists XX pieces of audit work being conducted during 2018/19, which includes consultancy and advisory services. XXXXX assurance reviews were completed (finalised) during the year with X scoring a 'partial' assurance and X scoring a 'no' assurance, therefore there is a sound system of internal control at the Council which will continue to help mitigate any risks to the organisation going forward.

The 'partial' and 'no' assurance audits that were issued during the year are captured in X above. Recommendations and actions have been agreed with Management, follow-up reviews have been planned for 2018/19 to ensure actions are being implemented.

Internal Audit follow-up reviews were conducted during 2018/19 on areas where weaknesses were identified in the previous year. Some recommendations have not been actioned and therefore a further follow-up will be undertaken during 2019/20.

8. Approval of Leader and Chief Executive

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

Signed on behalf of Cheltenham Borough Council:

Steve Jordan

Leader of the Authority

Date:

(END)

Pat Pratley

Chief Executive

Date:

Cheltenham Borough Council Audit Committee – 24 April 2019 Counter Fraud Unit Report

Accountable Member	Cabinet Member Corporate Services, Councillor Alex Hegenbarth
Accountable Officer	Paul Jones Executive Director Finance and Assets Paul.Jones@cheltenham.gov.uk
Report Author	Emma Cathcart Counter Fraud Manager 01285 623356 Emma.Cathcart@cotswold.gov.uk
Ward(s) affected	All indirectly
Key/Significant Decision	No
Executive summary	<p>The purpose of the report is to provide the Audit Committee with assurance over the counter fraud activities of the Council. The Counter Fraud Unit will continue to provide Audit Committee with direct updates biannually.</p> <p>Work plans are presented to the Audit Committee detailing progress and results for consideration and comment as the body charged with governance in this area.</p> <p>The report also provides the Audit Committee with an update in relation to the Regulation of Investigatory Powers Act (RIPA), the Investigatory Powers Act 2016 and the Council's existing policies and arrangements.</p>
Recommendations	<p>That the Audit Committee:</p> <p style="padding-left: 40px;">a) Notes the report and makes comment as necessary.</p>
Financial implications	<p>The report details financial savings generated by the Counter Fraud Unit.</p> <p>Contact Officer: Paul Jones, Executive Director Finance and Assets Paul.Jones@cheltenham.gov.uk</p>

Legal implications	<p>In general terms, the existence and application of an effective fraud risk management regime assists the Council in effective financial governance which is less susceptible to legal challenge.</p> <p>The Counter Fraud Unit adheres to the appropriate legislation when conducted work on behalf of the Council and other partners.</p> <p>The Council is required to ensure that it complies with the Regulation of Investigatory Powers Act 'RIPA' 2000, the Investigatory Powers Act 2016 and any other relevant/statutory legislation regarding investigations. Any authorisations for directed/covert surveillance or the acquisition of communications data undertaken should be recorded appropriately in the Central Register.</p> <p>Contact officer: Vikki Fennell, One Legal Vikki.Fennell@teWKesbury.gov.uk</p>
HR implications (including learning and organisational development)	<p>The HR team continue to work closely with the Counter Fraud Unit on all internal investigations.</p> <p>The promotion of effective counter fraud controls and a zero tolerance approach to internal misconduct promotes a positive work environment.</p> <p>Contact officer: Deborah Bainbridge, Business Manager People Deborah.Bainbridge@publicagroup.uk 01285 623148</p>
Key risks	<p>The Council is required to proactively tackle fraudulent activity in relation to the abuse of public funds. The Counter Fraud Unit provides assurance in this area.</p> <p>Failure to undertake such activity would accordingly not be compliant and expose the authority to greater risk of fraud and/or corruption.</p> <p>If the Council does not have effective counter fraud and corruption controls it risks both assets and reputation.</p>
Corporate and community plan Implications	<p>In administering its responsibilities; this Council has a duty to prevent fraud and corruption, whether it is attempted by someone outside or within the Council such as another organisation, a resident, an employee or Councillor.</p> <p>The Council is committed to an effective counter fraud and corruption culture, by promoting high ethical standards and encouraging the prevention and detection of fraudulent activities, thus supporting corporate and community plans.</p>
Environmental and climate change implications	<p>N/A</p>
Property/Asset Implications	<p>There are no property implications associated with this report.</p> <p>Contact officer: Dominic Stead, Head of Property Services dominic.stead@cheltenham.gov.uk</p>

1. COUNTER FRAUD UNIT REPORT

- 1.1. The Counter Fraud Unit provides Audit Committee with direct updates biannually. The Audit Committee is the body which oversees the Council's counter fraud arrangements and it is therefore appropriate for the Committee to be updated in relation to such activity.
- 1.2. The work plan for 2018/2019 was developed with focus on the priorities set out in the Home Office UK Anti-Corruption Strategy 2017 – 2022. Corporately, the team have focussed on promoting integrity across the public sector through awareness training and by raising the profile of the Counter Fraud Unit.
- 1.3. Work has commenced on the Home Office Bribery and Corruption Assessment. The template takes the organisation through a number of key questions to consider and better understand the threat and how the Council can mitigate the risks. Completion of the assessment is also being informed by the work SWAP are conducting in relation to Gifts and Hospitality and Declarations of Interest.
- 1.4. In 2019/2020, focus will also move to reducing corruption in public procurement and the team will be working with the Procurement Team to review risks.
- 1.5. Attached at Appendix 2 is a copy of the work plan which is provided to Audit Committee with results of work undertaken during 2018/2019.
- 1.6. More specifically, over the period October 2018 to March 2019, the team have supported the Council in the following areas:
 - Single Point of Contact for Department for Work and Pensions (DWP) referrals. As at 31 March 2019, 192 Local Authority Information Exchange Forms have been received or referred to DWP for action.
 - Undertaking the investigation of alleged fraud and abuse in relation to the Council Tax Reduction Scheme (Council Tax Support). 32 cases have been opened since 1 April 2018 and the team carried over 19 live cases from 2017/2018. 29 cases have been closed.
This has resulted in 6 sanctions (penalties), 4 Civil Penalties and an amount exceeding £15,000 of recoverable Council Tax Support and fines being calculated. In addition overpayments of Housing Benefit exceeding £8,000 have been generated.
In October 2018 we commenced the Joint Working pilot with the DWP to enable a joined-up approach to investigation and sanction of cases involving Housing Benefit and Council Tax Reduction.
 - Review of the NNDR empty void premises – rolling review of premises rated as empty recommenced in January 2019. 52 visits completed in January 2019 - 6 were identified as occupied. A further 8 had anomalies or account amendments referred to the team. A batch of a further 54 visits have been commenced. This exercise is a record keeping one. Due to the fact that there is no liability for three months on empty premises and when occupied other reliefs are likely to be applied – mandatory relief for Charities or Small Business Rate Relief.
 - Proactive review of CTAX properties with a single person discount. 78 cases were referred for data matching and intelligence checks. The CFU would not recommend expanding the test exercise to further SPD account checks. The format in which the results are provided made the task of reviewing quite laborious and time-consuming, and the data is not sufficiently detailed to provide conclusive indicators of fraud or irregularity.
 - National Fraud Initiative - Student matches. 39 matches of Student Loan receipt and Housing Benefit receipt were reviewed. 2 were identified as potential fraud cases and

referred to the DWP. Of these, 1 case is now an open joint working case between DWP and CBC for Housing Benefit and Council Tax Support fraud investigation. The other case was opened for joint working but is now closed as there is no effect to benefit payments or Council Tax Support.

- Disciplinary – 2 internal cases have been referred to the CFU for investigation since April 2018. 1 was closed, the allegation was not proved and 1 resulted in the issue of a written warning.
- Work with Cheltenham Borough Homes:
 - 140 referrals have been made requesting checks for homelessness, right to buy, succession or housing applications. In relation to right to buy applications, additional checks have been introduced to ensure that any resultant benefit issues are addressed.
 - A number of Housing Benefit overpayments and Council Tax liability amendments have been created due to work the CFU undertake for CBH which has a direct impact on Revenues and Benefits accounts. This includes providing new addresses for debtors, removal of Single Occupier Discounts and Housing Benefit overpayments (for example where customers have gone abroad in excess of the permitted length of time). To date an underpayment of Council Tax in the region of £1,255 has been invoiced; Housing Benefit overpayments of £1,600 have been calculated; a non-dependant deduction of £11.90 per week has been added to a claim.
 - The successful prosecution of a tenant for unlawful subletting. The defendant pleaded guilty and received a £300 Fine and £150 costs were awarded.

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

- 2.1.** The Council's own RIPA Policies are based on the requirements of The Regulation of Investigatory Powers Act 2000 (RIPA), the Investigatory Powers Act 2016 and the Codes of Practice relating to directed surveillance and the acquisition of communications data.
- 2.2.** The Policies have been reviewed and the redrafts are to be presented to the Council's Governance Group, with a suggested staff awareness and training plan. Following this, the Policies will be presented to Audit Committee for review and approval.
- 2.3.** The arrangements relating to officers involved in the authorisation of the RIPA process remain the same as last year. The Senior Responsible Officer is the Chief Executive, Pat Pratley and the Authorising Officers are the Executive Director Finance and Assets, Paul Jones and the Director of Environment, Mike Redman.
- 2.4.** The Council takes responsibility for ensuring its procedures relating to surveillance and the acquisition of communications data are continuously improved and all activity is recorded.
- 2.5.** There have been no RIPA applications made by the Council during 2018. There have been four Non-RIPA applications made during 2018. Three related to overt activity and one related to an internal investigation.

Risk Assessment

Appendix 1

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

Appendix 2

Cheltenham Borough Council

Department / Area	Task	Member Update
Corporate / Strategy	Delivery of two reports for Audit (and Risk) Committee	April / September
Corporate / Strategy	RIPA Coordinator Role - Review of Policies / annual report to Members / advisory role for staff	Update April 2018
Corporate / Strategy	Serious and Organised Crime: Coordination of the provision of work for Gloucestershire Constabulary	SOC Strategic Partnership Board attended by CFU on behalf of CBC
Corporate / Strategy	Completion and follow up of Home Office Serious and Organised Crime Checklist	Work commenced with SWAP - to 2019/2020 work plan
Corporate / Strategy	Completion of Home Office Bribery and Corruption Assessment Template	Work commenced with SWAP - to 2019/2020 work plan
Corporate / Strategy	Staff Fraud Awareness Sessions	Completed
Housing	Review of supported living services / care in rented accommodation	Work to be undertaken by Housing / Benefit Managers Council wide
HR	Drafting / consultation / implementation of HR / CFU Internal Investigation Protocol	Work commenced with HR - to 2019/2020 work plan
HR	Review of Policy and Procedure: Staff Declarations of Interest / Conflicts of Interest	Work commenced with SWAP and Governance Officer - to 2019/2020 work plan
HR	Review of HR Recruitment and Vetting Policy and Procedures	2019/2020 work plan
ICT / Revenues and Benefits	Earthlight / GIS Support: Rate Avoidance / CTAX Evasion	Ongoing as required
Policy	Drafting / consultation / adoption of Corporate Enforcement Policy	Draft issued, consultation period, forward plan May 2019
Policy	Drafting / consultation / adoption of Money Laundering Policy	2019/2020 work plan
Policy	Drafting / consultation / adoption of Debt Recovery Policy	Pending
Revenues and Benefits	Coordination of joint working initiative with DWP for future joint investigation of HB and CTRS	Complete November 2018
Revenues and Benefits	NFI - students / benefits	Complete - 2 cases referred to DWP for joint investigation
Revenues and Benefits	C1 Empties	390 properties visited. 48 confirmed occupied. 120 updates / anomalies identified.
Revenues and Benefits	NNDR Empties	372 premises visited. 16 liabilities amended. 199 confirmed empty.
Revenues and Benefits	Absent for Care / Absent to provide Care Review	Not commissioned

SWAP	Review of the Gifts and Hospitality Policy and Procedure	Work commenced with SWAP and Governance Officer - to 2019/2020 work plan
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Department	Member Update
Extraordinary Cases: Investigation / Sanction / Prosecution	Q1 - 1 case referred Q2 - 0 Q3 - 0 Q4 - 0
Revenues and Benefits: CTRS Investigation / Sanction / Prosecution	Q1 - £3281.84 / 1 Reg 11 Penalty Q2 - £17,933.61 / 3 Reg 11 Penalties and 2 Civil Penalties Q3 - £527.68 / 2 Reg 11 Penalties and 1 Civil Penalty Q4 - 0
Revenues and Benefits: Investigation Cases - Rate Avoidance / CTAX Evasion	Q1 - 17 cases referred Q2 - 0 Q3 - 3 cases referred Q4 - 1 case referred
CTAX SPD Review and Enforcement	Q1 - 0 Q2 - 78 accounts reviewed Q3 - 0 Q4 - 0
Housing / Tenancy Fraud : Work delivered via CBH	Q1 - 6 cases referred / 1 property recovered Q2 - 7 cases referred Q3 - 11 cases referred / notice served on 2 properties Q4 - 10 cases referred / 1 prosecution unlawful sublet; Fine £300 Costs £150
HR - Internal investigation relating to serious and / or gross misconduct	Q1 - 1 Q2 - 1 Q3 - 0 Q4 - 1

Debt: Tracing and Recovery Support / Summons

Q1 - 4
Q2 - 0
Q3 - 10 / £9,000 served
Q4 - 5 / £8,000 served

Cheltenham Borough Council Audit Committee – 24th April 2019 Review of Draft Accounting Policies 2018/19

Accountable member	Councillor Rowena Hay, Cabinet Member for Finance
Accountable officer	Sarah Didcote, Deputy Section 151 Officer
Ward(s) affected	All
Key Decision	Yes
Executive summary	To update Members on the Council's draft accounting policies included in the 2018/19 draft Statement of Accounts, providing members with the opportunity to review these policies ahead of the approval of the final audited 2018/19 Statement of accounts in July 2019.
Recommendations	That Audit Committee note the content of these draft accounting policies and make any comments as necessary.

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

1. Background

- 1.1 Audit Committee is requested to review the council's accounting policies, as included in the statement of accounts, on an annual basis. The council's auditors, Grant Thornton have recommended that this review is done prior to the review and sign-off of the council's final audited statement of accounts in July of each year. This is to aid the committee's understanding of the policies in place and their application in the statement of accounts.
- 1.2 This report therefore includes the draft accounting policies included in the draft statement of accounts. It should be noted that this report to Audit Committee has been prepared relatively early in the year end closedown timetable, due to the earlier statutory deadline for the completion of the draft statement of accounts of 31st May 2019. These draft accounting policies may be updated during the closedown process, although the final accounting policies will be reviewed as part of the final audited statement of accounts, to be presented to the Committee on 24th July 2019.

2. Accounting Policies

- 2.1 The statement of accounts are prepared in accordance with proper accounting practices and regulations by following the CIPFA Code of Practice on Local Government Accounting ('The Code'), supported by International Financial Reporting Standards (IFRS's) and International Accounting Standards (IAS's).
- 2.2 The council's accounting policies outline the relevant accounting principles and methodologies adopted by the council, in order to meet these statutory requirements. They can be used to aid understanding of the statements as well as providing a comparison to other organisations. Any changes to accounting policies from previous financial years are disclosed as a separate note to the accounts.
- 2.3 Publica Financial Services have completed a thorough review of the accounting policies for 2018/19 to ensure they are up to date and relevant to the statements, a copy of which is included as Appendix A to this report.

3. Changes to accounting policies in 2018/19

- 3.1 There are no material changes to the accounting policies in 2018/19. However the draft accounting policies have been updated for changes in accordance with IFRS 9 and IFRS 15.
- 3.2 IFRS 9 Classification and subsequent measurement of financial assets (draft accounting policy 1.18):

Under IFRS 9 applicable from 2018/19, the authority's financial assets are classified into three types:

- Financial assets at amortised cost – where payments consist solely of principal and interest and the reason for holding is to collect cash flows.
(previously classified as Financial Instruments, Loans & Receivables)
- Fair value through Other Comprehensive Income (OCI) – where payments consist solely of principal and interest and the reason for holding is to collect cash flows and sell *and* where payments do not consist solely of principal and interest but where the authority has designated the instrument as Fair value through OCI.

- Fair value through Profit and Loss (P&L) - where payments do not consist solely of principal and interest.

(The previous category of Available for sale assets has now been removed and are now disclosed as either Fair Value through OCI or Fair Value through P&L categories, whichever is applicable)

- 3.3** IFRS 15 – This requires the disclosure of any material contracts provided by the council. Under the accrual concept (draft accounting policy 1.2) Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services, in accordance with the performance obligations in the contract.

An assessment will be made during the preparation of the 2018/19 statement of accounts as to whether there are any material contracts to be disclosed.

4. Conclusion

- 4.1** It should be noted that the draft accounting policies may be updated as part of the final audited statement of accounts. Audit committee will have the opportunity to review the final version as part of the approval of the overall statement of accounts in July 2019.

Report author	Contact officer: Sarah Didcote sarah.didcote@publicagroup.uk, 01242 264125
Appendices	Appendix A - Draft Accounting Policies 2018/19
Background information	Code of Practice on Local Authority Accounting in the UK 2018/19 Accounts Accounts and Audit Regulations 2015

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EXTRACT NOTES TO THE DRAFT STATEMENT OF ACCOUNTS 2018/19

1. DRAFT ACCOUNTING POLICIES

1.1 GENERAL PRINCIPLES

The Statement of Accounts summarises the council's transactions for the financial year and its position at the end of the financial year. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the CIPFA/LASAAC Code of Practice on Local Government Accounting in the United Kingdom 2018/19 (The Code) supported by International Financial Reporting Standards (IFRS's), International Accounting Standards (IAS's) and statutory guidance.

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

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

1.2 ACCOUNTING CONCEPTS

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

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

- Relevance
- Reliability
- Comparability
- Materiality

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

Accruals of Income and Expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services, in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where

there is a gap between the date supplies are received and their consumption, they are carried as Inventories on the Balance Sheet.

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

Going Concern

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

Primacy of legislative requirements

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

1.3 EMPLOYEE BENEFITS

Benefits Payable during Employment

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the council can no longer withdraw the offer of any benefits.

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

Post-Employment Benefits

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

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

value of liabilities during the year as they move one year closer to being paid - charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Interest income on plan assets: the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Gains/losses on settlements: the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – charged to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Measurement of the net defined benefit liability: changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve.
- Contributions paid to the Gloucestershire pension fund: cash paid as employer's contributions to the pension fund, in settlement of liabilities.

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

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

Discretionary Benefits

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

1.4 GRANTS AND CONTRIBUTIONS

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

Amounts received as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as Revenue or Capital Grants Received in Advance. When the conditions are satisfied, the grant or contribution is credited to

the relevant service line (if ring-fenced) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

1.5 OVERHEADS AND SUPPORT SERVICES

The authority operates and manages its corporate and support services separately and expenditure relating to these activities is reported to key decision makers as separate activities. These overheads are not therefore apportioned to services.

1.6 COUNCIL TAX RECOGNITION

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

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

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

1.7 NATIONAL NON-DOMESTIC RATES (NNDR) INCOME RECOGNITION

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

1.8 VAT

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

1.9 NON-CURRENT ASSETS - RECOGNITION OF CAPITAL EXPENDITURE

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

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

The initial cost of an asset is recognised to be:

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

Measurement

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

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

- Dwellings – Current value, using the basis of existing use value for social housing (EUV-SH)
- Other Land and Buildings – Current value, using the basis of existing use value (EUV) where an active market exists or Depreciated Replacement Cost (DRC), where there is no active market for the asset or it is specialised
- Infrastructure – depreciated historic cost
- Community assets – historic cost (where known). The cost of many of the council's parks, gardens and open spaces is not known and they are

therefore shown at Nil value. The Code offers the option for authorities to measure community assets at valuation, which is the requirement for Heritage assets. The council has so far not adopted to change its accounting policy in this way as it does not currently have the management information to make reasonable valuation estimates of community assets.

- Assets under construction – historic cost
- Surplus Assets – Current value, using the Fair Value basis (see paragraph 1.19 *Fair Value Measurement*).
- In the case of assets that have short useful lives or low values (or both) i.e. Vehicles, Plant and Equipment, depreciated historic cost is used as a proxy for current value.

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- Council dwellings – straight-line allocation over each significant component's estimated useful life
- Other buildings, Vehicles, Plant, Furniture and Equipment, Infrastructure, Surplus assets – straight-line allocation over the asset's estimated useful life.

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

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

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

Componentisation

Where a *material* item of Property Plant and Equipment has components whose cost is *significant* in relation to the total cost of that item, *and* which have different estimated useful lives and/or depreciation methods, they are identified as separate assets and depreciated separately.

The council's current Componentisation Policy for non-dwelling assets defines a material item as an individual building exceeding a gross book value of £872,100 and a significant individual component as one which exceeds 20% of the gross replacement cost of that building. Significant components are identified as separate assets and separately depreciated if their estimated useful lives are considered significantly different to the 'host' building or other components. 'Material' buildings are considered for componentisation whenever such a building is acquired, enhanced, or revalued after 1 April 2010.

With effect from 1st April 2017 separate building components (including the 'host' or residual building) have been identified for dwellings where their current replacement

cost and useful lives can be estimated reliably.

1.11 NON-CURRENT ASSETS - HERITAGE ASSETS

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

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

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

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

Statues and Monuments

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

Archaeology

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

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

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

1.12 NON-CURRENT ASSETS - INVESTMENT PROPERTY

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

Investment properties are measured initially at cost and subsequently at fair value (see paragraph 1.19 *Fair Value Measurement*). Properties are not depreciated but are revalued annually as necessary dependent on changes in market conditions in the year. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Such gains and losses, however, are not permitted by statutory arrangements to have an impact on the General Fund Balance and are therefore reversed out in the Movement in Reserves Statement and credited to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital

Receipts Reserve.

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

1.13 NON-CURRENT ASSETS - INTANGIBLE ASSETS

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

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

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

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

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

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

asset in the Revaluation Reserve).

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

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

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

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

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

1.15 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

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

1.16 CHARGES TO REVENUE FOR NON-CURRENT ASSETS

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

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

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

1.17 LEASES

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

Defining a Finance Lease

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

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

leased asset. The present value of the minimum lease payments is calculated by discounting at the rate inherent in the lease. If this rate cannot be determined the incremental borrowing rate applicable for that year is used. The council recognises “substantially all” to mean 90% of the value of the asset. In some circumstances, a level of 75% is used if the council believes that using this level will give a result that better reflects the underlying transaction

- The leased assets are of such a specialised nature that only the lessee can use them without major modifications
- If the lessee cancels the lease, the lessor’s losses associated with the cancellation are borne by the lessee
- Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (e.g. in the form of a rent rebate equalling most of the sales proceeds at the end of the lease)
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

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

Lessee Accounting for a finance lease

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

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

Lessor Accounting for a finance lease

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

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

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

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

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

Defining an Operating Lease

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

Lessor Accounting for an operating lease

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

Lessee Accounting for operating leases

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

1.18 FINANCIAL INSTRUMENTS

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

Financial Liabilities

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

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

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

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

Financial Assets

Under IFRS 9 applicable from 2018/19, the authority's financial assets are classified into three types:

- Financial assets at amortised cost – where payments consist solely of principal and interest and the reason for holding is to collect cash flows
- Fair value through Other Comprehensive Income (OCI) – where payments consist solely of principal and interest and the reason for holding is to collect cash flows and sell *and* where payments do not consist solely of principal and interest but where the authority has designated the instrument as Fair value through OCI
- Fair value through Profit and Loss (P&L) - where payments do not consist solely of principal and interest.

Previously the authority's financial assets were classified into two types:

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

Financial assets at amortised cost (formerly Loans and Receivables)

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

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

Deposits, bonds and loans are assessed on recognition for impairment due to the likelihood that payments due under the contract will not be made and, if material, a provision for twelve month expected credit losses set aside from the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the risk of default increases significantly after initial recognition and for trade and lease receivables a provision is set aside based on expected lifetime credit losses, if deemed significant or material.

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

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

Fair value through OCI (includes former Available-for-Sale financial assets)

These are initially measured at cost (equivalent to fair value) and carried at fair value. For instruments quoted in an active market, fair values are based on their market prices at the reporting date, except where the instruments will mature within twelve months of that date, in which case they are assumed not materially different to (and therefore equal to) their carrying values.

Interest receivable is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Dividends from equity instruments designated by the authority as Fair value through OCI are credited to the same line when they become receivable by the council.

Changes in fair value are balanced by an entry to the Financial Instruments Revaluation Reserve (FIRR) (formerly the Available-for-Sale Reserve), with the gain or loss being recognised in Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement.

Any gains or losses held in the FIRR on de-recognition of the asset are credited or charged to the General Fund Balance via the Movement in Reserves Statement.

Fair value through P&L (includes former Available-for-Sale assets – unquoted equity investments at cost)

These are initially measured at cost and carried at fair value. For instruments quoted in an active market, fair values are based on their market prices at the reporting date, except where the instruments will mature within twelve months of that date, in which case they are assumed not materially different to (and therefore equal to) their carrying values.

Dividends are credited to the Financing and Investment Income and expenditure line in the Comprehensive Income and Expenditure Statement (CIES) when they become receivable by the council. Changes in fair value and any gains or losses on de-recognition are charged or credited to the same line in the CIES and, since purchase of the instruments scored as capital expenditure, reversed to the Capital Adjustment Account via the Movement in Reserves Statement (MIRS). Sale proceeds on de-recognition are credited to usable capital receipts via the MIRS.

1.19 FAIR VALUE MEASUREMENT

The authority measures certain non-financial assets (Surplus Assets, Investment Property and Assets Held for Sale) and its Fair value through OCI and Fair value through P&L financial assets at fair value at the balance sheet date.

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

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

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

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

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

1.20 INVENTORIES

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

1.21 CASH AND CASH EQUIVALENTS

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

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

1.22 PROVISIONS

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

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

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

1.23 CONTINGENT LIABILITIES

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

Contingent liabilities are not recognised in the Balance Sheet but, where material,

disclosed in a note to the accounts.

1.24 RESERVES

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

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

1.25 CONTINGENT ASSETS

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

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

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

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

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

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

1.27 EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

1.28 ESTIMATION TECHNIQUES

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

1.29 JOINTLY CONTROLLED OPERATIONS

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

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

1.30 INTERESTS IN COMPANIES AND OTHER ENTITIES – GROUP ACCOUNTS

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

Basis of Consolidation

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

of Cheltenham Borough Homes Limited.

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

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

At 31st March 2019 the council also had a 14.29% shareholding in Ubico Limited, a local authority owned company which has seven members, providing environmental services to the shareholder councils. Since the council does not have control or significant influence over the company, its accounts are not consolidated into the group accounts, however full disclosure notes are provided.

The council also has an interest in Publica Group (Support) Limited, a Joint Venture company limited by guarantee, in which the council is one of four members. The council's share of the company's profit for the year and net assets at the balance sheet date have not been consolidated into the Group Accounts on the basis of immateriality.

The council also has an interest in the South West Audit Partnership (SWAP), a company limited by guarantee. As the council does not have any controlling or significant influence in the company it is classed as an investment, and is not included in the Group Accounts.

Accounting Policies

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

Cheltenham Borough Homes (CBH) Limited

The financial statements for CBH have been prepared under the historical cost convention in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including Financial Reporting Standard 102 (FRS102) and the Housing SORP 2014: Statement of Recommended Practice for Registered Social Housing providers.

Consequently dwellings owned by CBH are initially valued at historic cost. For the purposes of the group accounts they have been re-valued at Current value to bring them into line with the council's accounting policies, using the existing use value for social housing (EUV-SH) appropriate to the dwellings' tenure as affordable homes. Any revaluation gains or losses are treated as described in paragraph 1.10 (Measurement).

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

Gloucestershire Airport Limited

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

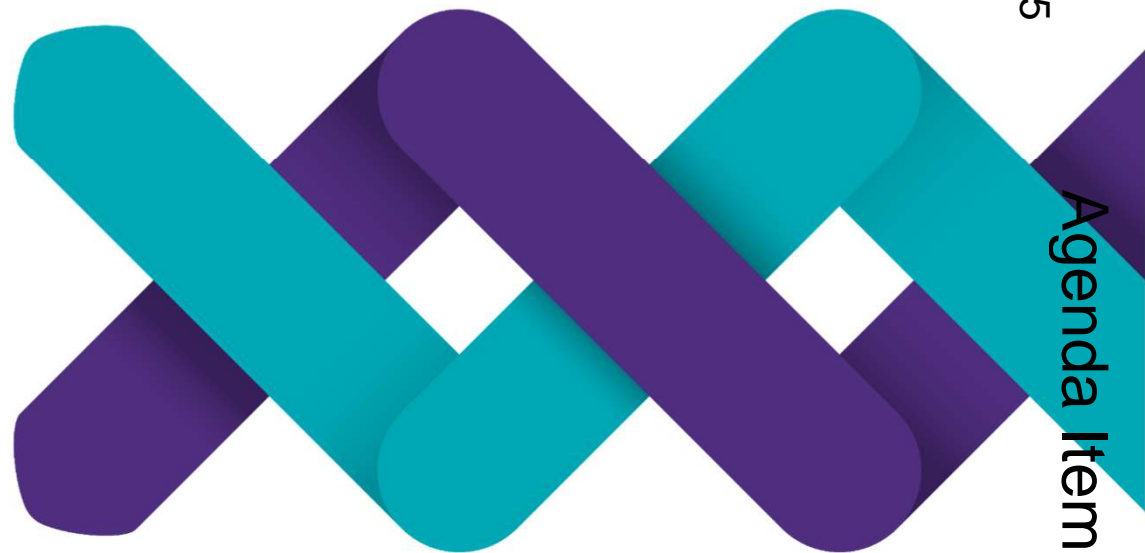
Since Investment Property and Property, Plant and Equipment (PPE) assets held by the airport have been valued at fair value no adjustments are required to the value of non-current assets on consolidation with the council's accounts. Unlike in the airport accounts, however, where any gains in value over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

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Audit Progress Report and Sector Update

Cheltenham Borough Council
Year ending 31 March 2019

April 2019



Contents

Section	Page
Introduction	3
Progress at April 2019	4
Audit Deliverables	5
Sector Update	9
Links	17

Introduction



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

The paper also includes:

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

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

PSAA Contract Monitoring

Cheltenham Borough Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, www.psaa.co.uk.

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the document at Appendix A. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

Progress at March 2019

Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2018/19 financial statements.

We commenced our interim audit in February 2019. Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

There are no issues that we need to bring to the Committee's attention from the work we have completed to date.

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2019. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin on the 25 June with findings reported to you in our Audit Findings Report. We will present our report at the July Audit Committee meeting and issue our audit opinion by the 31 July deadline.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

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

Details of our initial risk assessment to determine our approach were included in our Audit Plan. We identified two significant Value for Money Risks – Medium Term Financial Strategy, and Publica Group (Support) Ltd – and are currently carry out our audit work on this.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. The certification work for the 2018/19 has not yet started. We will agree our overall project plan for completing this work with officers.

Meetings

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

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Publica officers attended our Financial Reporting Workshop in February, which helps to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Complete
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due

Council responsibilities

In our Audit Plan presented to the Audit Committee in January 2019 we have communicated our expectations around the Council's responsibilities for timely production of the draft accounts supported by appropriate working papers. Should delays be experienced in the provision of these requirements or should additional work be required on our part due to complex technical issues, new arrangements and delays in response to queries additional costs will be incurred.

Any additional fees are subject to approval by PSAA.

Results of Interim Audit Work

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

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

	Work performed	Conclusions and recommendations
Review of information technology controls	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.	Conclusions and any recommendations resulting from the review of information technology controls will be communicated to the Audit Committee via the Audit Findings Report.
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>We will undertake a walkthrough of the pension liability system during the final audit.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p> <p>We will report on the results of the pension liability system during the final audit.</p>

	Work performed	Conclusions and recommendations
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We will undertake detailed testing of journal entries during the final audit.</p>	No issues have been identified that we wish to highlight for your attention, subject to completion at the final audit stage.
Early substantive testing	<p>We have undertaken substantive testing for months 1-10 on the following areas:</p> <ul style="list-style-type: none"> • Employee remuneration • Operating expenditure • Revenue - fees & charges 	No issues have been identified that we wish to highlight for your attention, subject to substantive testing for months 11-12 at the final audit stage.

Sector Update

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

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

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

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Public Sector Audit Appointments – Report on the results of auditors’ work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors’ work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors’ local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

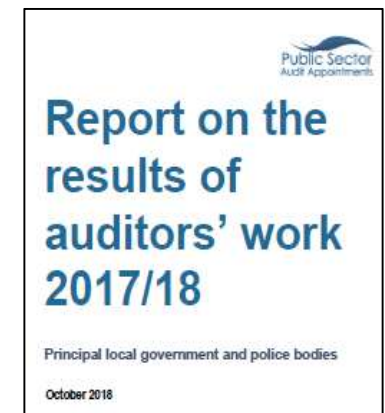
The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts.

The report is available on the PSAA website:

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



National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

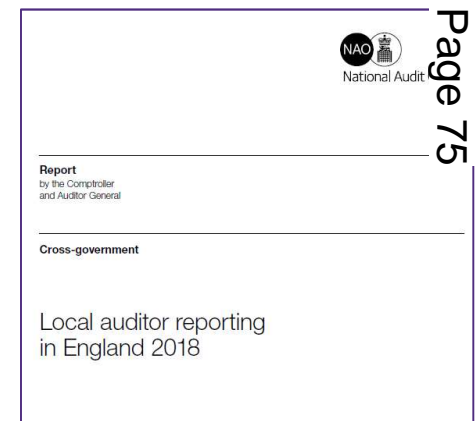
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>



National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

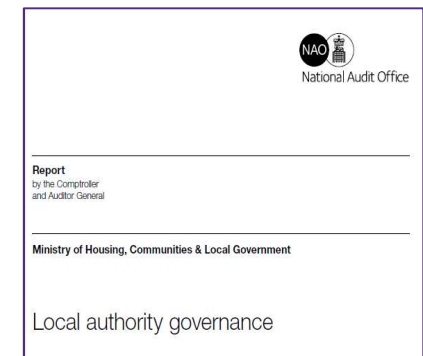
Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>



National Audit Office – Planning for new homes

The National Audit Office (NAO) has recently published a report on *Planning for new homes*. This report is part of a series on housing in England, including *Housing in England: overview (2017)* and *Homelessness (2017)*. The latest report focuses on the Ministry of Housing, Communities and Local Government's (MHCLG's) objective for housing in England to deliver a million homes by the end of 2020; half a million by the end of 2022; and to deliver 300,000 net additional homes a year on average.

The report recognises that increasing the supply of new homes is a complex task and one of the measures MHCLG has introduced to help achieve the objective is reforming the planning system. The report notes that the planning system is fundamental to providing new homes and it assesses how effectively MHCLG supports the planning regime to provide the right homes in the right places through:

- supporting local authorities to produce plans for how the supply of new homes will meet need in their area;
- supporting local authorities and the Planning Inspectorate in having effective and sufficiently resourced planning processes and teams to deal with planning applications and appeals; and
- working effectively with local authorities, other government departments and developers to ensure infrastructure to support new homes is planned and funded.

The report finds that at present, the system is not providing value for money and that the supply of new homes has failed to meet demand. It notes that a number of factors have contributed to the planning system not working and some of these include:

- the process of setting the need for new homes;
- the reductions in local authority capability;
- the under-performing Planning Inspectorate; and
- failures in the system to ensure adequate contributions for infrastructure.

The report recognises that MHCLG's new National Planning Policy Framework is an important step, but it is too early to tell whether the changes it introduces will be effective. The report also makes a number of recommendations for MHCLG to implement alongside the framework to help the planning systems work more effectively.

The report concludes that the Department and government more widely need to take this much more seriously and bring about improvement if they are to meet their ambition of 300,000 new homes per year by the mid-2020s.

The report is available on the NAO website:

<https://www.nao.org.uk/report/planning-for-new-homes/#>



CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.



ICEAW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICEAW) has published a paper on the 'expectation gap' in the external audit of public bodies.

Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

What's the problem?

- **Short-term solvency vs. Longer-term value:**
 - LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports:** 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'
- **Other powers and duties:** implementing public interest reports in addition to VFM
- **Restricted role of questions and objections:** Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance:** 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'
- **Audit committees not consistently effective:** Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees:** firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.
- **Impact of audit independence rules:** new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role
- **Other stakeholders expectations not aligned with audit standards**

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

Future financial viability of local public bodies

Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

The ICAEW puts forward two solutions:

Solution a) If CFOs want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



Brexit Room - Increasing readiness and resilience within your locality

Local authorities have always navigated uncertainty and faced challenges on behalf of communities and this role has never been more important than now. Whilst the outcome of Brexit remains uncertain at a national level, it is essential for councils to set a path to ensure the continued delivery of vital services and the best possible outcomes for their local communities and economies. Whatever happens over the coming weeks and months, it is important that councils identify key Brexit scenarios and use these to frame robust local contingency plans.

From our conversations with the sector we know that local authorities are at different stages in their preparation for this big change.

Here's a brief summary of the issues that we are seeing:

Organisations

- Engaging non-EEA nationals within the workforce to ensure they understand their residency rights and are not receiving incorrect information from other sources
- Loss of access to key EU databases on policing and trading standards and changes to data sharing arrangements
- Uncertainty around continuation of EU funding beyond 2020 and the implementation of the UK Shared Prosperity Fund.

Services and suppliers

- Engaging with key suppliers to assess their risk profiles and resilience
- Dealing with the immediate strain on key services such as social care and trading standards
- Potential disruption to live procurement activities and uncertainty around the national procurement rulebook post OJEU.

Place

- Considering scenarios for economic shock, the associated social impact in the short, medium and long-term and the potential impact on local authority financial resilience
- Potential impacts on major local employers, key infrastructure investment programmes and transport improvements
- Civil contingencies and providing reassurance and support to residents and businesses.

Our approach

The Brexit Room is a flexible and interactive half-day workshop designed to sharpen your thinking on the impact Brexit could have on:

Your organisation – including considerations on workforce, funding, and changes to legislation

Your services and suppliers – ensuring that critical services are protected and building resilience within supply chains

Your place – using our proprietary Place Analytics tools we will help you to understand potential impacts on your local communities and economy and develop a place-based response, working with partners where appropriate.

We can work with you to identify key risks and opportunities in each of these areas whilst building consensus on the priority actions to be taken forward. You will receive a concise and focused write-up of the discussion and action plan to help shape the next stages of your work on Brexit.

For more information, follow the link below:

<https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/>

Links

Grant Thornton

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

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

National Audit Office

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

<https://www.nao.org.uk/report/planning-for-new-homes/#>

Ministry of Housing, Communities and Local Government

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

Public Sector Audit Appointments

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

Our team

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Engagement Lead



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Audit Incharge



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Manager



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"I have always been extremely pleased with the work done by colleagues from Grant Thornton, there is continuity of staff delivering the team who presented the bid. This continuity remains through the cycle of work that takes place during the year; allowing the team to continue to understand the corporate objectives whilst allowing us to ensure we comply with the required standards. The team are very friendly and approachable with an accommodating style".

Director of Finance, local audited body

Local Government audits 2018/19 and beyond

Grant Thornton's External Audit commitment

Audit 2018/19

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

"I have found Grant Thornton to be very impressive.....they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."

Director of Finance, County Council

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLACE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – pressure to maintain delivery in key services with rising demand through needs and higher expectations
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on commercialisation strategies and plans, investments, joint working with other Councils, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example financial management, reporting and governance, and governance implications for Council companies.
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery

- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections

- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people

- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality

- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support

- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

Our ref: GT/1920/CHELT

Ms Pat Pratley
Chief Executive
Cheltenham Borough Council
Municipal Offices
Promenade
Cheltenham
GL50 9SA

3 April 2019

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Dear Ms Pat Pratley

Planned audit fee for 2019/20

The Local Audit and Accountability Act 2014 (the Act) provides the framework for local public audit. Public Sector Audit Appointments Ltd (PSAA) has been specified as an appointing person under the Act and the Local Authority (Appointing Person) Regulations 2015 and had the power to make auditor appointments for audits of opted- in local government bodies from 2018/19.

For opted- in bodies PSAA's responsibilities also include setting fees and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

All grant work, including housing benefit certification, falls outside the PSAA contract, as PSAA no longer has the power to make appointments for assurance on grant claims and returns. Any assurance engagements will therefore be subject to separate engagements agreed between the grant-paying body, the Council and ourselves and separate fees agreed with the Council.

Scale fee

PSAA published the 2019/20 scale fees for opted-in bodies at the end of March 2019, following a consultation process. Individual scale fees have been maintained at the same level as in 2018/19, unless there were specific circumstances which required otherwise. Further details are set out on the [PSAA website](#). The Council's scale fee for 2019/20 has been set by PSAA at £38,043 which is the same as in 2018/19.

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

The audit planning process for 2019/20, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

There are no changes to the overall work programme for audits of local government audited bodies for 2019/20. Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors. Audits of the accounts for 2019/20 will be undertaken under this Code. Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

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

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

Value for Money conclusion

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

The NAO issued its latest 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 Council has put proper arrangements in place.

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

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

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2019	9,535.75
December 2019	9,535.75
March 2020	9,535.75
June 2020	9,535.75
Total	38,043.00

Outline audit timetable

We will undertake our audit planning and interim audit procedures in November to February. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in April and work on the whole of government accounts return in July 2020.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	November to February	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.

Phase of work	Timing	Outputs	Comments
Final accounts audit	June to July	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	January to April	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	July	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	September	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.

Our team

The key members of the audit team for 2019/20 are:

	Name	Phone Number	E-mail
Engagement Lead	Barrie Morris	0117 305 7708	Barrie.Morris@uk.gt.com
Engagement Manager	Sophie Morgan-Bower	0117 305 7757	Sophie.J.Morgan-Bower@uk.gt.com

Additional work

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

Quality assurance

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

Yours sincerely



Barrie Morris
Engagement Lead
Grant Thornton UK LLP

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Cheltenham Borough Council
Audit Committee – 24th April 2019
Proposed 2019/20 Internal Audit Plan
Internal Audit Charter

Accountable member	Cabinet Member Corporate Services, Councillor Alex Hegenbarth
Accountable officer	Paul Jones, S151 Officer
Ward(s) affected	All
Key/Significant Decision	No
Executive summary	<p>The Council must ensure that it has sound systems of internal control which facilitate effective management of all the Council's functions. The work planned by SWAP Internal Audit Services, the Council's Internal Audit service, is one of the control assurance sources to the Audit Committee and Senior Leadership Team and which supports the work of the external auditor. The work is also a key component of the Council's governance framework and as assurance source supporting the Annual Governance Statement, which forms part of the statutory accounting standards.</p> <p>Following CIPFA's guidance on Audit Committee the Committee this evening should "formally approve (but not direct) the Internal Audit plan".</p> <p>The Internal Audit Charter is a requirement of the arrangement between Cheltenham Borough Council and SWAP Internal Audit Services (SWAP). The charter ensures compliance with good practice as set out in the International Professional Practices Framework of the Institute of Internal Auditors and the Public Sector Internal Audit Standards (PSIAS).</p>
Recommendations	<p>The Audit Committee approves the Proposed 2019/20 Internal Audit Plan</p> <p>The Audit Committee approves the Internal Audit Charter</p>
Financial implications	<p>The audit plan is a risk-based plan which directs internal audit reviews towards the higher risk areas of the council. This ensures that audit resource is focused and directed towards ensuring that financial exposure to the council is minimised.</p> <p>Contact officer: Sarah Didcote, Deputy Section 151 Officer Sarah.didcote@cheltenham.gov.uk, 01242 264125</p>

Legal implications	<p>None specific arising from the report recommendation</p> <p>Contact officer: Peter Lewis, Head of Legal Services, One Legal, peter.lewis@tewkesbury.gov.uk, 01684 272012</p>
HR implications (including learning and organisational development)	<p>The HR implications are as detailed in the Internal Audit Plan. HR will work closely with Internal Audit in respect of the areas of coverage as detailed in Financial Management and People and Asset Management in order to meet the actions required.</p> <p>Contact officer: Carmel Togher, HR Business Partner</p> <p>Email: carmel.togher@publicagroup.uk</p> <p>Tel: 01242 264391</p>
Key risks	<p>The audit plan has been derived from consultation with Corporate Management Team, Executive Leadership Team, Audit Committee, the Internal Audit Team and through reference to relevant policy, strategy and protocol documents including the risk register. The plan is designed to capture key and emerging risks that this Council faces over the year and therefore the plan will remain as flexible as possible to ensure internal audit resources remain focussed and valued.</p> <p>Internal Audit activity is needed each year to satisfy assurance requirements. For example, Internal Audit review key financial systems annually because the external auditors may rely on this in their own work on final accounts. In addition, the requirement for the Council to review its system of internal control and governance procedures means that assurance is required on systems and procedures relating to the compilation of the Annual Governance Statement. If this work is not completed by Internal Audit additional fees from External Audit may be incurred.</p> <p>Furthermore, Internal Audit is a statutory function under the Accounts and Audit (England) Regulations 2015. <i>“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”</i></p> <p>The risk of failure to deliver core elements of the plan will be mitigated through the Partnership Board monitoring process. The representative from Cheltenham Borough Council is Paul Jones, Director, Assets and Finance (Section 151 Officer)</p> <p>Furthermore, Audit Committee will continue to receive quarterly reports through 2019/20 from Internal Audit detailing the work undertaken in relation to the plan.</p> <p>Without an approved charter there is a risk that SWAP will not have:</p> <ul style="list-style-type: none"> • The support of management and the Council • Direct access and freedom to support senior management including the Chief Executive and the Audit Committee • Access to any records, personnel or physical property of the Council for audit work

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

1. Background

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

2. Reasons for recommendations

- 2.1** The primary role of Internal Audit is to provide assurance that the Council's systems constitute a proper administration of its affairs. To this end, Internal Audit carries out a programme of audits that is agreed annually with Corporate Management Team and Executive Leadership Team and is approved by the Audit Committee.
- 2.2** The requirements of the Public Sector Internal Audit Standards (PSIAS) and changes within the local authorities, SWAP Internal Audit Services, as the Internal Audit provider, needs to respond to the changing environment and the areas where the organisation now requires assurances. This reinforces the requirement for Internal Audit to follow a more flexible and risk based plan.
- 2.3** The core financial systems delivered to the Council by Publica Group are covered within the Core Financials, this will cover Publica and client-side activities providing;
- Assurance to the client (Cheltenham Borough Council) over the controls, and system controls, operated by Publica Officers, for each financial module (system control testing)
 - Periodic assurance over the other services provided by Publica
 - The required support to the External Auditor
- 2.4** A summary of the Proposed Internal Audit Plan for 2019/20 is included at Appendix 1. This lists the risk based assurance and consultancy work planned for the year. Counter fraud related audit work has not been included in this audit plan.
- 2.5** The Internal Audit Plan outlines a preferred programme of work for the year as developed throughout January and February 2019. The Audit Plan presented is not "set in stone" and is intended to evolve in response to issues highlighted through risk and change management and monitoring. Any changes to the agreed plan will only be made through a formal process involving the Section 151 Officer.

3. Consultation and feedback

- 3.1** The plan has been developed following consultation with and feedback from Corporate Management Team, Executive Leadership Team, the Internal Audit Team and the Audit Committee.

4. Performance management – monitoring and review

The performance of SWAP Internal Audit Services is monitored by both the Audit Committee and the Audit Partnership Board as detailed in the Internal Audit Charter.

5. Internal Audit Charter

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

Report author	Contact officer: Lucy Cater, Assistant Director, SWAP Internal Audit Services, lucy.cater@southwestaudit.co.uk 01285 623340
Appendices	<ol style="list-style-type: none"> 1. Proposed 2019/20 Internal Audit Annual Plan and Internal Audit Charter 2. Risk Assessment
Background information	None

Risk Assessment

Appendix 2

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likelihood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
Aud1	Without the audit plan in place there is the risk of insufficient audit work being completed to provide a reasonable assurance to stakeholders that there is an effective control framework in place, adequately mitigating risks to the authority's risk appetite.	Section 151 Officer		3	3	9	Reduce	The Audit Committee approval of the annual plan	30/04/2019	Section 151 Officer	
Aud 2	Without the delivery of the approved audit plan there is the risk of insufficient audit work being completed to provide a reasonable assurance to stakeholders that there is an effective control framework in place, adequately mitigating risks to the authority's risk appetite.	Section 151 Officer		3	3	9	Reduce	Appropriate support from service managers to aid the internal audit team in the delivery of its work. Monitoring of the delivery of the internal audit plan by; the Section 151 Officer and the Audit Committee.	31/05/2020	Section 151 Officer	

Cheltenham Borough Council

Proposed 2019/20 Internal Audit Plan and Internal Audit Charter

The Internal Audit Plan: Summary

The internal audit plan represents a summary of the proposed audit coverage that the internal audit team will deliver throughout the 2019/20 financial year.

Delivery of an internal audit programme of work that provides sufficient and appropriate coverage, will enable us to provide a well-informed and comprehensive year-end annual internal audit opinion.



Introduction and Objective of the Internal Audit Plan

Internal audit provides an independent and objective opinion on the Authority's risk management, governance, and control environment by evaluating its effectiveness.

Prior to the start of each financial year, SWAP, in conjunction with senior management, put together a proposed plan of audit work. The objective of our planning process and subsequent plan is to put us in a position to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.

The outcomes of each of the audits in our planned programme of work, will provide senior management and Members with assurance that the current risks faced by the Authority in these areas are adequately controlled and managed.

It should be noted that internal audit is only one source of assurance, and the outcomes of internal audit reviews should be considered alongside other sources, as part of the 'three lines of defence' assurance model. Key findings from our internal audit work should also be considered in conjunction with completion of the Authority's Annual Governance Statement (AGS).

It is the responsibility of the Authority's Executive Leadership and Corporate Management Team, and the Audit Committee, to determine that the audit coverage contained within the proposed audit plan is sufficient and appropriate in providing independent assurance against the key risks faced by the organisation.

When reviewing the proposed internal audit plan (as set out in Appendix 1), key questions to consider include:

- Are the areas selected for coverage this coming year appropriate?
- Does the internal audit plan cover the organisation's key risks as they are recognised by the Executive Leadership and Corporate Management Teams and Audit Committee?
- Is sufficient assurance being received within our annual plan to monitor the organisation's risk profile effectively?

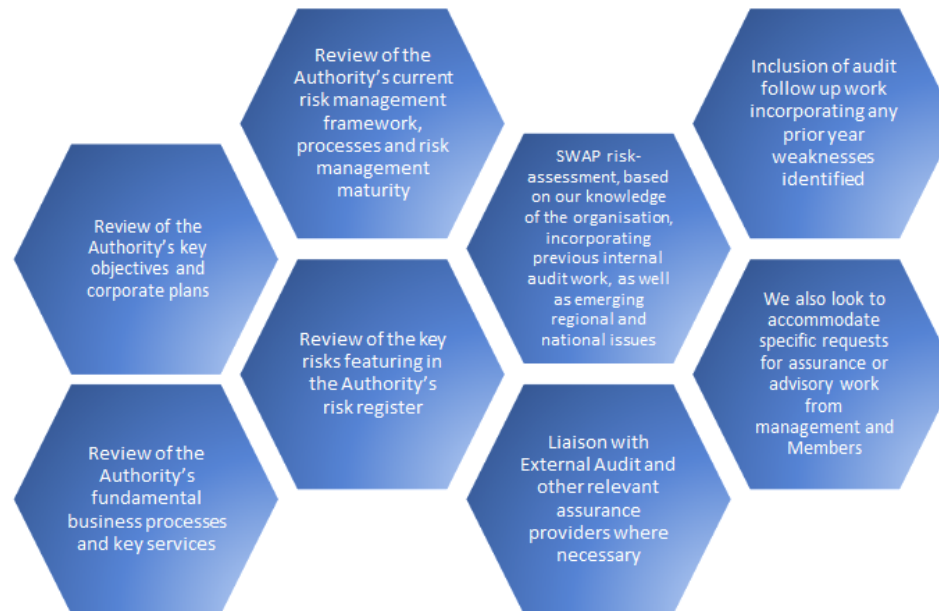
The Internal Audit Plan: Approach

To develop an appropriate risk-based audit plan, SWAP have consulted with senior management, and Members of the Audit Committee, as well as reviewing key documentation, in order to obtain an understanding of the organisation's strategies, key business objectives, associated risks, and risk management processes.



Approach to Internal Audit Planning 2019/20

The factors considered in putting together the 2019/20 internal audit plan have been set out below:



Due to the pace of change within Local Authorities, it is becoming increasingly difficult to accurately predict longer-term key organisational risks. Our approach to delivering your internal audit plan will remain flexible to meet that change and respond to new and emerging risks. We will adopt an 'agile' approach and each quarter I will review the next quarter's plan to ensure that we are auditing the right areas at the right time; any necessary changes will of course be agreed with Senior Management and the Audit Committee will be kept informed.

The Internal Audit Plan: Risk Assessment

A documented risk assessment prior to developing an internal audit plan, ensures that sufficient and appropriate areas are identified for consideration.

As above, it is the responsibility of the Authority's Executive Leadership and Corporate Management Teams, and the Audit Committee to ensure that, following our risk assessment, the proposed plan contains sufficient and appropriate coverage.



Internal Audit Annual Risk Assessment

Our 2019/20 internal audit programme of work is based on a documented risk assessment, which SWAP will re-visit regularly, but at least annually. The input of senior management as well as review of the Authority's risk register has been considered in this process.

Below we have set out a summary of the outcomes of the risk assessment for Cheltenham Borough Council



The Internal Audit Plan: Coverage

Following our SWAP Risk Assessment above, we have set out how the proposed 2019/20 plan presented in Appendix 1 provides coverage of our core areas of recommended coverage.

Going forwards, we will look to align our audit programme of work with the Authority's Corporate objectives, as well as our core areas of recommended coverage.

Internal audit is only one source of assurance; therefore, where we have highlighted gaps in our coverage, assurance should be sought from other sources where possible in order to ensure sufficient and appropriate assurances are received.



Internal Audit Coverage in 2019/20

Following our SWAP risk assessment, we have set out below the extent to which the proposed plan presented in Appendix 1 provides coverage of our core areas of recommended coverage. Where we have highlighted limited or no coverage, Senior Management and Audit Committee should seek and document assurance from alternative sources, or consider re-focussing internal audit resource to provide coverage of these areas:



Internal audit coverage can never be absolute and responsibility for risk management, governance and internal control arrangements will always remain fully with management. As such, internal audit cannot provide complete assurance over any area, and equally cannot provide any guarantee against material errors, loss or fraud.

The Internal Audit Plan: SWAP

SWAP Internal Audit Services is a public sector, not-for-profit partnership, owned by the public sector partners that it serves. The SWAP Partnership now includes 26 public sector partners, crossing eight Counties, but also providing services throughout the UK.

As a company, SWAP has adopted the following values, which we ask our clients to assess us against following every piece of work that we do:

- Candid
- Relevant
- Inclusive
- Innovative
- Dedicated



Your Internal Audit Service

Audit Resources

The 2019/20 internal audit programme of work is summarised at Appendix 1. The current internal audit resources available represent a sufficient and appropriate mix of seniority and skill to be effectively deployed to deliver the planned work. The key contacts in respect of your internal audit service for Cheltenham Borough Council are:

Lucy Cater, Assistant Director – lucy.cater@swapaudit.co.uk, 07720 312470

Jaina Mistry, Principal Auditor – jaina.mistry@swapaudit.co.uk, 01285 623337

Shelley Coleman, Senior Auditor – shelley.coleman@swapaudit.co.uk, 01285 623343

Conformance with Public Sector Internal Audit Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Every three years, SWAP is subject to an External Quality Assessment of Internal Audit Activity. The last of these was carried out in March 2016 which confirmed conformance with the Public Sector Internal Audit Standards.

Conflicts of Interest

We are not aware of any conflicts of interest within Cheltenham Borough Council that would present an impairment to our independence or objectivity. Furthermore, we are satisfied that we will conform with our IIA Code of Ethics in relation to Integrity, Objectivity, Confidentiality, and Competency.

Consultancy Engagements

As part of our internal audit service, we may accept proposed consultancy engagements, based on the engagement's potential to improve management of risk, add value and improve the organisation's operations. Consultancy work that is accepted, will contribute to our annual opinion and will be included in our plan of work.

Approach to Fraud

Internal audit may assess the adequacy of the arrangements to prevent and detect irregularities, fraud and corruption. We have dedicated counter fraud resource available to undertake specific investigations if required.

The Internal Audit Plan: SWAP

Over and above our internal audit service delivery, SWAP will look to add value throughout the year wherever possible. This will include:

- Benchmarking and sharing of best-practice between our public-sector Partners
- Regular newsletters and bulletins containing emerging issues and risks
- Communication of fraud alerts received both regionally and nationally
- Annual Member training sessions

However, the primary responsibility for preventing and detecting corruption, fraud and irregularities rests with management who should institute adequate systems of internal control, including clear objectives, segregation of duties and proper authorisation procedures.

Our Reporting

A summary of internal audit activity will be reported quarterly to senior management and the Audit Committee. This reporting will include any significant risk and control issues (including fraud risks), governance issues and other matters that require the attention of senior management and/or the Audit Committee. We will also report any response from management to a risk we have highlighted that, in our view, may be unacceptable to the organisation.

Internal Audit Performance:

As part of our regular reporting to senior management and the Audit Committee, we will report on internal audit performance. The following performance targets will be used to measure the performance of our audit activity:

Performance Measure	Performance Target
<u>Delivery of Annual Internal Audit Plan</u> Completed at year end	>90%
<u>Quality of Audit Work</u> Overall Client Satisfaction <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i>	>95%
<u>Outcomes from Audit Work</u> Value to the Organisation <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i>	>95%

It should be noted that the audit titles and high-level scopes included below are only indicative at this stage for planning our resources. At the start of each audit, an initial discussion will be held to agree the specific terms of reference for the piece of work, which includes the objective and scope for the review.

Link to Key Priorities / Corporate Risk Register or Healthy Organisation Theme	Areas of Coverage and Brief Rationale	Proposed Quarter
Corporate Governance <i>Corporate Governance refers to the strategic management practices and values and beliefs by which the Council operates.</i>	Annual Governance Statement <i>Review of the Production of the Annual Governance Statement (AGS) and sample testing elements of the supporting information.</i>	1
Risk Management <i>Organisations which can demonstrate and operate under a structured and active risk management approach, are far more likely to be able to focus upon their key priorities and outcomes and, in doing so, take informed and robust decisions.</i>	Risk Management <i>A review of an element of Risk Management, the program of activity ensures full coverage of the service over a 3-year cycle – scope to be agreed with Service Area.</i>	4
Performance Management <i>Performance management provides a transparent platform upon which the service is accountable to its citizens and service users for the effectiveness of its service provision and delivery of its objectives.</i>	Performance Management <i>A review of an element of Performance Management, the program of activity ensures full coverage of the service over a 3-year cycle – scope to be agreed with Service Area.</i> Planning Applications <i>Review of the administration process for receiving, processing and determining planning applications.</i> Affordable Housing <i>Review to assess that affordable housing opportunities are facilitated, and delivered, through the planning process by maintaining a development programme. Identification and delivering housing regeneration opportunities is in accordance with the Local Plan and ensures funding from Central Government (New Homes Bonus)</i>	4 2 2

Link to Key Priorities / Corporate Risk Register or Healthy Organisation Theme	Areas of Coverage and Brief Rationale	Proposed Quarter
Financial Management <i>Effective Financial Management is the bedrock of any successful organisation and is vital to the ongoing ability of local authorities to deliver services that the public wants.</i>	Core Financials – Publica Controls and Transactional Testing <i>A review of the controls operating within Publica in respect of the Core Financial systems:</i> <ul style="list-style-type: none"> • Payroll • Accounts Payable (Creditors) • Accounts Receivable (Debtors) • Treasury Management and Bank Reconciliations • Main Accounting, Capital Accounting and Budgetary Control <i>Transactional testing will be undertaken for the Council where appropriate to ensure compliance with Council Policies and Procedures.</i> <i>Depending on previous years audit assurances a high-level review may be deemed appropriate.</i> Systems Administration (Business World) <i>A review of the controls operating within Publica in respect of the Business World System.</i> Human Resources <i>A review of an element of the Human Resources (HR) service – scope to be agreed with the Service Area.</i> Other Publica Area <i>Review to be undertaken of either Procurement / Health and Safety / Insurance. 2019/20 audit to be determined with Officers based on current and emerging risks.</i> Revenues and Benefits <i>A review of the controls operating in respect of:</i> <ul style="list-style-type: none"> • Council Tax • Council Tax Benefit • National Non-Domestic Rates <i>The programme of activity ensures full coverage of the services over a 3-year cycle</i>	3
	Business Rates Reset <i>Assessment of how the Council is planning for the impact of the Business Rates Reset.</i>	2

Link to Key Priorities / Corporate Risk Register or Healthy Organisation Theme	Areas of Coverage and Brief Rationale	Proposed Quarter
People and Asset Management <i>Organisations which can demonstrate and operate under a structured and active approach to people and asset management are far more likely to be able to focus any available investment against key priorities and, as a direct result, deliver improved outcomes.</i>	Asset Management <i>Review to ensure that the Council's activities for its property and land assets are co-ordinated to realise value.</i>	1
	Commercial Property / Investment Property <i>Review to ensure that decisions on commercial or investment properties are made in line with Council Strategies and / or Policies.</i>	1
	Safeguarding <i>Review to ensure that recruitment and HR guidance for Managers is in accordance with safer recruitment.</i>	1
	Apprenticeship Scheme <i>Review to ensure that the Council is complying with scheme requirements and maximising take-up. Consideration of the retention of apprentices and integration into the company once the initial apprenticeship is complete.</i>	2
	Remote Workers <i>Review to ensure policies and processes are in place, and adhered to, for remote / lone / home workers. Policies and processes are in accordance with statutory guidance / legislation.</i>	1
	Workforce Strategy (from 2018/19) <i>Review to ensure recruitment and retention policies support organisational objectives and aspirations for the future. HR strategy aligned with the organisation's overall strategy. Assessment of current and future skills gaps. Has the organisation given consideration to the demographic make-up of its workforce e.g. attracting younger talent.</i>	1 – 4
	Corporate Culture (from 2018/19) <i>Review to assess whether the existing culture and staff behaviour reflects the organisation's stated ethos and values. Do they stand in the way of the organisation achieving the transformation it seeks and how effective measures to re-shape the culture are.</i>	1 – 4

Link to Key Priorities / Corporate Risk Register or Healthy Organisation Theme	Areas of Coverage and Brief Rationale	Proposed Quarter
Information Management <i>Effective Information Management will facilitate and support effective working, better decision-making, improved customer service and business transformation.</i>	ICT Audits <i>Provision within the audit plan to allow for audits to be undertaken in respect of ICT Audits to be agreed between Service Area and SWAP ICT Auditor.</i>	1 – 4
Procurement and / or Contract Management <i>Assessing Procurement & Commissioning activity of a Local Authority is a critical determinant in establishing its effectiveness in both being able to deliver benefit for its community, but also in showing whether it can maximise value for money for its taxpayers.</i>	Commissioning (from 2018/19) <i>Review of the Council's commissioning arrangements.</i> Management and Monitoring of Contracts <i>Review to assess the arrangements in place for the management and monitoring of contracts. Audit to include service provision is in accordance with the contract, use of purchase orders, managers ensure contract sums paid agree with values included in contract, variances / extra charges are challenged, recorded and confirmed prior to payment.</i>	1 1
Programme and Project Management <i>Organisations which can demonstrate and operate under a structured and active approach are far more likely to be able to focus their efforts and successfully achieve the delivery of anticipated outcomes.</i>	Publica Transformation Programme <i>Provision made in the Audit Plan to enable IA to give assurance(s) to the Council in respect of the Publica Transformation Programme.</i> Publica Transformation Benefits Realisation <i>Provision made in the Audit Plan to enable IA to give assurance(s) to the Council in respect of Benefits Realisation for the Publica Transformation Programme.</i> Emerging Groups / Programmes / Projects <i>Provision made in the Audit Plan to enable IA to support any current, or emerging Groups / Programmes / Projects. E.g. Parking Strategy, Cheltenham Task Force, Cyber Business Park.</i> Recyclates <i>Support to the service responsible for Recyclates. Review to cover financial processes including purchase ordering, paying for goods, stock control and raising of debtor invoices.</i>	1 – 4 1 – 4 1 – 4 TBC

Link to Key Priorities / Corporate Risk Register or Healthy Organisation Theme	Areas of Coverage and Brief Rationale	Proposed Quarter
Other	Management <i>Preparation of IA Monitoring Reports and preparation and attendance at Audit Committee. Annual Audit Planning. Attendance at Governance and Risk Groups. High level programme monitoring. Liaison meetings with CFOs and Management Teams, including CFU.</i>	1 – 4
	Follow-Up Audits <i>Follow-Up of Previous Years audits with recommendations.</i>	1 – 4
	<i>Follow-Up of all High Priority Recommendations.</i>	1 – 4
	<i>Follow-Up of Business Continuity Audit (2018/19)</i>	1
	<i>Follow-Up of Ubico Financials (2018/19)</i>	1
	Grant Certification <i>Review (income and expenditure) and certification of Disabled Facilities Grants and Additional Funding, ensuring finding requirements have been met.</i>	2 and 3
	Working with the Counter Fraud Unit <i>Provision to work jointly with the Counter Fraud Unit, e.g. Bribery and Corruption Assessments</i>	1 – 4
	Follow-Up of Control Weaknesses identified by the Counter Fraud Unit <i>Provision to ensure control weaknesses, identified during Counter Fraud Unit activity, are being actioned</i>	3 – 4
	Contingency <i>Provision for new work based on emerging risks and Investigations.</i>	1 – 4
Reserve Audits <i>These audits will be used to substitute any work that cannot be progressed during the year for any reason.</i>	Health and Safety – Buildings Commitment to Carbon Reduction	

The Internal Audit Charter

Purpose

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

Approval

This Charter was last approved by the Audit Committee on 18th April 2018 and is reviewed each year to confirm it remains accurate and up to date.

Provision of Internal Audit Services

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

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by the Chief Financial Officer (S151 Officer) in consultation with the Chief Executive of SWAP.

Role of Internal Audit

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

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

Responsibilities of Management and of Internal Audit

Management¹

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

¹ In this instance Management refers to the Senior Management Team

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

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

Internal Audit

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

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

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. Members of SWAP who have transferred in to the department from other areas in Cheltenham Borough Council and / or Publica Group (Support) Ltd will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

Relationship with the External Auditors/Other Regulatory Bodies

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

Status of Internal Audit in the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. The Chief Executive of SWAP, Executive Director and the Assistant Director also report to the Chief Financial Officer (S151 Officer), and reports to the Audit Committee as set out below.

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

Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

Scope and authority of Internal Audit work

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

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

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the Council and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether Cheltenham Borough Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- reviewing the operations of the council in support of the Council's anti-fraud and corruption policy.
- at the specific request of management, internal audit may provide consultancy services provided:
 - the internal auditor's independence is not compromised
 - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
 - the scope of the consultancy assignment is clearly defined, and management have made proper provision for resources within the annual audit plan
 - management understand that the work being undertaken is not internal audit work.

Planning and Reporting

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

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

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

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Chief Financial Officer (S151 Officer), other relevant line management, and when appropriate, Publica Exec.

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

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

Revised March 2019

Cheltenham Borough Council
Audit Committee – 24th April 2019
Internal Audit Monitoring Report

Accountable member	Cabinet Member Corporate Services, Councillor Alex Hegenbarth
Accountable officer	Paul Jones, Chief Financial Officer
Ward(s) affected	All
Key/Significant Decision	No
Executive summary	<p>The Council must ensure that it has sound systems of internal control that facilitate the effective management of all the Council's functions. The work delivered by SWAP Internal Audit Services (SWAP), the Council's internal audit service, is one of the control assurance sources available to the Audit Committee, the Executive Leadership Team and Corporate Management Team and supports the work of the external auditor.</p> <p>The Annual Internal Audit Opinion presented to Audit Committee provides an overall assurance opinion at the end of the financial year. This Internal Audit Monitoring Report, however, is designed to give the Audit Committee the opportunity to comment on the work completed by the partnership and provide 'through the year' comment and assurances on the control environment.</p>
Recommendations	The Audit Committee considers the monitoring report and makes comment on its content as necessary
Financial implications	<p>There are no financial implications arising from the report</p> <p>Contact officers: Paul Jones, Director, Assets and Finance Paul.Jones@cheltenham.gov.uk, 01242 264365</p>
Legal implications	<p>None specific arising from the report recommendation</p> <p>Contact officer: Peter Lewis, Head of Legal Services, One Legal peter.lewis@tewkesbury.gov.uk, 01684 272012</p>
HR implications (including learning and organisational development)	<p>There are no 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 Julie.McCarthy@publicagroup.uk, 01242 264355</p>
Key risks	That weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives, if recommendations are not implemented.

Corporate and community plan Implications	<p><i>“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.” (Chartered Institute of Internal Auditing UK and Ireland).</i></p> <p>Therefore, the internal audit activity impacts on corporate and community plans.</p>
Environmental and climate change implications	<p>Relevant to particular audit assignments and will be identified within <i>individual reports</i>.</p>
Property/Asset Implications	<p>No Response Received</p> <p>Contact officer: Dominic.Stead@cheltenham.gov.uk</p>

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 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 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.

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

Cheltenham Borough Council

Report of Internal Audit Activity

Plan Progress 2018/2019

April 2019

Contents

The contacts at SWAP in connection with this report are:

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Lucy Cater

Assistant Director

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●	Role of Internal Audit	Page 1
●	Internal Audit Work	Page 2
●	Approved Changes to the Audit Plan	Page 3
●	Appendices:	
	Appendix A – Internal Audit Definitions	Page 4 – 5
	Appendix B – Internal Audit Work Plan Progress	Page 6 – 11
	Appendix C – Executive Summary of Finalised Audit Assignments	Page 12 – 18
	Appendix D – High Priority Recommendation Follow-Up	Page 19 – 25
	Appendix E – Summary of All Recommendations	Page 26

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.

The following changes have been made to the plan:

The Risk Management Audit has been deferred due to a change in officer and proposed changes to service provision, therefore an audit won't add any value at this time.

The Performance Management audit was originally included to review the Corporate Plan. As this has recently been updated and due to be presented to Council the audit was deemed unnecessary. The days have been allocated to support a new audit on Data Integrity.

Workforce Strategy and Corporate Culture have been deferred, following discussion with the client, and will be undertaken during 2019/20 to coincide with the new People Strategy and support the Modernisation Programme.

The Commissioning Audit has been deferred to 2019/20. We currently have two procurement audits in progress and data gathered from these audits will help to develop the scope.

The audit of Members ICT has been deferred to 2019/20 due to the changes being made to Members ICT arrangements.

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

No Assurance	The areas reviewed were found to be inadequately controlled. Risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	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.
Reasonable	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.
Substantial	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
Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management
Priority 3	Finding that requires attention.

Definitions of Risk

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	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

B

APPENDIX

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	-				Reported January 2019
Operational	Licencing / Planning / Planning Enforcement	1	Position Statement Issued	N/A	-				Reported January 2019
ICT	Data Protection Act 2018 (GDPR)	1	Final Report	Reasonable	1		1		See Appendices C, D & E
Advice and Consultancy	Workforce Strategy	1	Audit Deferred						Audit deferred to 2019/20 following discussion with the client
Operational	Procurement and Contract Management	1	In Progress						
Other Audit Involvement	Disabled Facilities Grant Certification	1	Complete	N/A					
Operational	Members and Officers Gifts and Hospitality and Declarations of Interest	2	Final Report	Reasonable	5		2	3	See Appendices C, D & E
Operational	Regulatory Awareness and Compliance	2	Complete						Desktop research identified that only one area included regulatory change which has been actioned. Days added back into contingency

Page 125

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
Operational	Business Continuity Management	2	Final Report	Reasonable	5	1	3	1	Reported January 2019
Follow-Up	Ubico Recyclates	2	Complete	N/A	-				See Appendices D & E
Follow-Up	Ubico Data Monitoring	2							
Advice and Consultancy	Ubico Finance Review (New)	2	Final Report	Position Statement	1			1	Reported January 2019
Advice and Consultancy	DFG Process (NEW)	2	Complete						Short consultancy piece of work to review change in process
Advice and Consultancy	P & ED Transformation Project	1 – 2							No IA Involvement requested
Key Financial Control	Revenues and Benefits	3							
	• National Non-Domestic Rates		Final Report	Substantial	-				See Appendix C
	• Council Tax		Final Report						
	• Council Tax Benefit		Final Report	Substantial	2			2	See Appendices C & E
Key Financial Control	Core Financials	3							
	• Accounts Payable		Final Report	Substantial	1			1	See Appendices C & E
	• Accounts Receivable		Final Report	Reasonable	2		1	1	See Appendices C, D & E
	• Main Accounting		In Progress						

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
	• Payroll		Draft Report						
	• Treasury Management and Bank Reconciliation		Final Report	Substantial	1			1	See Appendices C & E
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	Audit Deferred						Deferred to 2019/20
Governance	Risk Management	4	Audit Deferred						Request by client, audit won't add value due to proposed changes in system
Governance	Performance Management	4	Audit Dropped						Days allocated to the Integrity of Data audit following agreement with client
Key Financial Control	Serious and Organised Crime	4	In Progress						
Operational	Discretionary Housing Payments (DHP)	4	Final Report	Reasonable	5			5	See Appendices C & E
Operational	Corporate Culture	4	Audit Deferred						Audit deferred to 2019/20 following discussion with the client

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
ICT	Public Services Network Submission (PSN)	4	Audit Deferred						Deferred to 2019/20 due to timing of submission to Cabinet Office
ICT	Cybersecurity	4	In Progress						
ICT	Members ICT	4	Deferred						Audit deferred to 2019/20 due to the forthcoming changes in Members ICT arrangements
Operational	Integrity of Data (NEW)	4	In Progress						
Advice and Consultancy	CBC Organisational Change Project (Not yet defined)	3 – 4							No IA Involvement requested
Follow-Up Audits	Follow-Ups of Recommendations made in Substantial and Reasonable Audits	1 – 4	On Going						
Advice and Consultancy	Cemetery and Crematorium Development	1 – 4	Complete						
Advice and Consultancy	Parking Strategy / Cheltenham Task Force	1 – 4	On Going						
Advice and Consultancy	Publica Governance	1 – 4	On Going						
Advice and Consultancy	(Publica) Benefits Realisation	1 – 4	In Progress						
Advice and Consultancy	Change Programmes (Publica Transformation Programme)	1 – 4	Position Statement						

[illegible]

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 Data Protection Act 2018 – Reasonable Assurance

The Data Protection Policy was reviewed and approved by Cabinet in June 2018 to reflect the requirements of the Data Protection Act 2018. The Council's Monitoring Officer fulfils the statutory role of the Data Protection Officer (also approved by Cabinet in June 2018). The Officer is supported by the One Legal client support officer and the Council's SPOC (Single Point of Contact). Currently this role is undertaken by the Corporate Governance, Risk and Compliance Officer.

A new suite of Information Security Policies including a Data Breach Policy and Procedures have been developed by Publica which have been adopted by the Council. We were advised that One Legal and the Corporate Governance Group reviewed the policies and that the GDPR Project Team approved the policies, however, there is no record of either of these actions. We have recommended that the policies are formally approved by the appropriate authorising body.

We have been advised that data audits and a gap analysis have been undertaken and service area Action Plans developed to help achieve compliance. Progress against these plans is currently being monitored by the Project Manager and temporary resource has been appointed to help with data management activity. We have not undertaken testing in individual service areas as this falls outside of the scope of this review, but we are aware that actions to meet full compliance will take several years to achieve and therefore the assurance we can offer is reasonable.

One Legal provided initial training to staff and members. The Project Manager advised that on-going training and awareness materials were being developed to ensure that data protection considerations become embedded within

the organisation.

A sound process has been set up between One Legal and the Council's SPOC for reviewing/reporting data breaches; a register and supporting documentation is maintained by the SPOC. We can confirm no incidents have had to be reported to the Information Commissioner. Our review identified a couple of minor administrative errors that have been reported to the SPOC. Finally, we can confirm that observations from our previous review have been considered and implemented.

2018/19 Council Tax and NNDR – Substantial Assurance

New property valuations for Council Tax and NNDR are processed regularly and in accordance with Valuation Office guidelines, and the Civica Revenues and Benefits system is kept up to date with relevant notes. Reports are periodically run for outstanding referrals made to the Valuation Office who are then pursued for action or updates. Notifications issued by the Valuation Office are actioned accurately and in a timely manner. Samples of new and amended property valuations for both Council Tax and NNDR were tested and no issues were detected.

Reconciliations for Council Tax and NNDR are completed accurately, approximately twice per month to the General Ledger, and includes daily checks of the cash receipt load files in to the Council Tax and NNDR system. The Valuation Office Listings are reconciled weekly. The reconciliations are checked by an independent Officer, at minimum, on a monthly basis.

Exception reports for areas including arrears, credits and suppressed accounts are run each month and found to be actioned appropriately. The suspense accounts are checked and actioned on a daily basis by a Revenues Officer working with a Finance Officer to correctly re-allocate funds.

Following last year's Council Tax and NNDR audit one recommendation was made to include growth in new Council Tax Base calculations. We can confirm that properties that have been referred to the Valuations Office, but have not yet been added to the valuation listings, have been included in the 2019/20 Council Tax base calculations which have subsequently been approved by the Section 151 Officer.

Following the Grant Thornton audit of 2018, a recommendation was made to introduce an additional officer to undertake system administration duties. The Head of Revenues and Benefits is working on a restructure which will introduce a post to include these dedicated responsibilities.

2018/19 Housing Benefit / Council Tax Support – Substantial Assurance

Civica OpenRevenues system parameters are updated annually by the Deputy Revenues and Benefits Manager and the updates made are checked and agreed by an independent Officer. We were satisfied testing was performed on both test and live systems by the Benefits Team Leader and Senior Officer ensuring claims are calculated correctly prior to go-live, although evidence and sign off of the testing was not available to view. A recommendation is made to document the testing and results for the Deputy Revenues and Benefits Manager to review and sign off.

Cheltenham Borough Council is implementing a new Council Tax Support scheme for 2019/20. The new scheme was approved by Council in December 2018, and the implementation plan is being managed by the Deputy Revenues and Benefits Manager. We are satisfied the project is on target for completion.

We can confirm monthly reconciliations of the Housing Benefits system are completed. There was evidence of independent sign off of the reconciliations.

A new process, supporting the Verify Earnings and Pensions (VEP) alerts, was introduced in 2018 by the DWP, these are real time information notifications issued by HMRC. The system is portal based with limited reporting functionality. The alerts are managed and processed daily by the Benefits team and are in addition to the existing daily ATLAS (Automated Transfers to Local Authority Systems) alerts. Completed alert processing is subject to quality checking. Due to the increase in alerts processing as well as future changes to the Council Tax Support scheme, a recommendation is made to consider introducing a regular management information report which could help identify peaks, troughs and trends and any challenges in the workload received.

Following last year's Housing and Council Tax Support audit one recommendation was made to improve the Housing Benefit and Council Tax Support appeals information on the CBC website. We can confirm the CBC website has now been updated with full details of the HB and CTS appeals processes.

2018/19 Accounts Payable – Substantial Assurance

We are pleased to offer Substantial Assurance over the following procedures with Accounts Payable:

- Timeliness of payments

- Re-coding of invoices
- Feeder system payments
- Ensuring duplicate suppliers are not set up within Business World
- Identifying and recovering duplicate payments

One recommendation has been made in regard to extending a process already undertaken by the AP Team Leader to identify duplicate payments. The current process identifies duplicate payments made by a single client but does not identify if the same invoice had been paid by two clients. Our testing identified all duplicate payments made from the same client had been identified and recovered (or in the process of being recovered). However, we found one invoice that was paid by two partners (£764.57 overpayment) and another two invoices paid by two partners (£1352.70 overpayment) that had not been identified as part of the Service's current process. The service had therefore not contacted these suppliers to recover these duplicate payments.

2018/19 Treasury Management and Bank Reconciliation – Substantial Assurance

Treasury Management

Treasury Management (TM) advisers, Arlingclose, now provide services to CBC, CDC, FODDC and WODC. This was determined after a tender exercise in September 2017 and approved by each Council. The contract will run until 2020 with the option of extending for a further 2 years. Records of investments and diversification were reviewed regarding Treasury Management investments, which were found to be in line with the approved strategies of the authorities.

Bank Reconciliation

Our testing showed that although bank reconciliations were being carried out, there was no set procedure on who or when these should be completed. This had resulted in, as at 26th November, the September and October bank reconciliations for CBC and CDC not being verified and approved at a senior level. We can confirm this has since been addressed and a recommendation has been made to improve current processes.

2018/19 Accounts Receivable – Reasonable Assurance

We are pleased to offer a (high) Reasonable Assurance over the following procedures within the Accounts Receivable service:

- Debt recovery
- Debt write-offs
- Amending invoice subscriptions

The controls implemented by the Accounts Receivable (AR) Team Leader since December 2017 have been shown to ensure the Service's key tasks, i.e. Direct Debit runs and debt recovery have improved. We can confirm the outstanding debt is low at each of AR's clients investigated as part of this review. We can also confirm all debt write-offs have been approved in accordance with each authority's scheme of delegated authority.

However, we identified that AR officers are not recording evidence that debt recovery procedures are being followed or that the budget holder's authorisation to write-off unrecoverable debt has been obtained, in accordance with AR's procedures. We have therefore made a recommendation around this control weakness.

During a separate audit we identified three instances where requests had been received to amend invoice subscriptions; a new subscription was created but the original subscription remained active. This resulted, on two occasions, of a customer paying twice for the same service from the Council. We have therefore recommended that the AR team carry out a review of all active subscriptions to identify and rectify any other duplicate subscriptions.

2018/19 Discretionary Housing Payments – Reasonable Assurance

Meeting minutes (February 2018) were supplied to support the current DHP policy has been approved by Cabinet. We have identified some amendments to consider when the policy is next reviewed to improve clarification and transparency of the scheme.

A sample of awarded and refused DHP applications were examined to check accordance with Council policy and DWP guidance. All claims have evidence of a completed Council DHP application form and system notes which explain the rationale for the decision, but testing has found some inconsistencies with documentation to support how claims were calculated which should be addressed to ensure a full audit trail is maintained.

DHP decisions are not checked by a second officer, but all reconsiderations are processed by a more senior officer who was not involved with deciding the original claim; evidence was seen to support this during testing. Consideration should be given to introducing quality checks on refused DHP claims to check awards are decided consistently.

There are currently no formal measures in place to record and monitor DHP targets. Not all applicants in our test sample were informed of their DHP decision within the Council's 14-day target, but satisfactory explanations were provided for those which had not been.

Evidence was supplied to support the 3 mandatory DWP returns were submitted by the Council for 2017/18. We were advised the Council does not provide any additional DHP funding and this is a historical decision. Review of the Council's DHP spend over the last 3 years has found it has not utilised its DWP contribution, so no additional funding was required.

DHP's are promoted on the Council's website and with local organisations such as the Citizens Advice Bureau, and with Cheltenham Borough Homes; CBC should consider providing more information on DHPs to Housing Benefit claimants to further promote the scheme, this may help to make use of more of its government contribution.

DHP's are not formally monitored or reported internally but we were advised the DHP fund is monitored on an ad-hoc basis in Civica by the Head of Revenues and Benefits and Deputy Revenues and Benefits Manager.

2018/19 Members' and Officers' Gifts, Hospitality and Declarations of Interest – Reasonable Assurance

We are able to offer a Reasonable Assurance over the Members' and Officers' Declarations of Interest, Gifts and Hospitality process at Cheltenham Borough Council.

Members

The processes in place for elected Members to declare interests, gifts and hospitality are generally robust and effective. We are satisfied that adequate arrangements are in place to promote awareness of the process and to ensure that any relevant interests or offers of gifts and hospitality are declared by Members. The Monitoring Officer has in place a register of Members' interests and the information from the register is available on request.

Two recommendations have been made in the following areas: - Improvement of the secure storage of hard copies of Members' declarations information - Using electronically scanned forms to allow the Monitoring Officer to review declarations information in a timely manner

Officers

There is a process in place for officers to declare interests, gifts and hospitality. We are satisfied that adequate arrangements are in place to obtain declarations of interest from CBC officers annually, with a high return rate. There is little evidence to suggest that the content of declarations is reviewed, however, so there is room for improvement.

Information is available to officers on the staff intranet regarding the declaration of gifts and hospitality, but this information is not promoted meaning there is a risk that there is little engagement or awareness of the process.

Although there is a process in place and information is collected, the responsibility for the monitoring and review is unclear. This results in an increased risk that declarations made by officers, that could affect the reputation of the Council, are missed.

Two recommendations have been made to improve the current process:

- Officers' declaration forms should be reviewed to ensure the information provided does not leave the Council open to reputational risk
- Raising of awareness of the declaration process for officers

There is further opportunity for improvement in the overall governance and implementation of this process to reduce risk and increase efficiency. In addition to the above, the Counter Fraud Unit (CFU) plan to consult with Governance Officers to discuss the introduction of a risk-based approach to conflict of interest forms as part of their 2019/20 plan. This would provide an opportunity for collaborative working between CBC and the CFU to review the approach to the overall declarations process.

Audit Name	Priority	Recommendation	Management Response	Due Date	Update April 2019
017/18 – 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. 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 & 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. 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>	30/06/19	<p>Evidence was provided of the JWT (Joint Waste team) reviewing and challenging the recycle prices where necessary, however we were advised that they were not undertaking any proactive activity. For example, benchmarking against other organisations to determine whether the best values were being offered or contacting other partners to see whether there was scope to work together.</p> <p>Cabinet agreed in November 2018 to withdraw from the JWC (Joint Waste Committee) and to increase inhouse contract management facilities. Therefore, this proactive work will be undertaken by CBC officers once the JWT are no longer involved.</p> <p>We were advised that new prices had been negotiated with the Re-processors, and that from April 2019 the management of the new contracts would be handed back to the Council which would mean that the Council would have direct control over its recycle sales. We can confirm that operational monthly meetings between officers from Ubico, Publica Finance and the Council are now taking place which cover discussions regarding recycle values. Following a review by an independent consultant a new Environmental Services Strategic Partnership Board was set up in January 2019 and will meet on a quarterly basis.</p> <p>Further follow-up will be undertaken during 2019/20</p>

High Priority Recommendation Follow-Up

APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update April 2019
2017/18 – Ubico Recycles and Data Monitoring	2	<p>Budget Variances</p> <p>The LC-HS&W has agreed to ensure that:</p> <ul style="list-style-type: none"> - 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. the KPI's being reviewed provide the Council with meaningful measures, are approved and implemented in a timely manner. Robust information regarding budget variances are discussed at regular intervals and communicated to the ESPB where necessary. Risks of reduced recycle income is identified and monitored accordingly." 	<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&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</p>	30/11/18	<p>Robust budget monitoring controls have been introduced as follows: • The Interim Client Manager and the JWT Client Officer are working much closer so that there is an informed hand-over when the JWT's services are ceased. • Monthly operational meetings between Ubico, Publica Finance and the Interim Client Manager, Environmental Services are being held. • Ubico provide monthly KPI reports at these meeting which include commentary on any variances and associated risks. • Strategic quarterly meetings were introduced in January 2019. • The Cabinet Lead has regular 1:2:1 meetings. We have suggested that these discussions should be documented to evidence discussions held.</p> <p>These controls should ensure that the Council has a better understanding and awareness of performance and to address any concerns in a timely manner.</p> <p>Recommendation Complete</p>

High Priority Recommendation Follow-Up

APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update April 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 & 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</p>	31/07/19	<p>We were advised that following the Client arrangements for the Ubico Contract being brought back inhouse, the interim Client Manager will be working with the Public Finance Business Partner to undertake a value for money piece of work in close liaison with Ubico.</p> <p>Further follow-up will be undertaken during 2019/20</p>

High Priority Recommendation Follow-Up

APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update April 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"	01/06/19	

Page 140

Audit Name	Priority	Recommendation	Management Response	Due Date	Update April 2019
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High Priority Recommendation Follow-Up

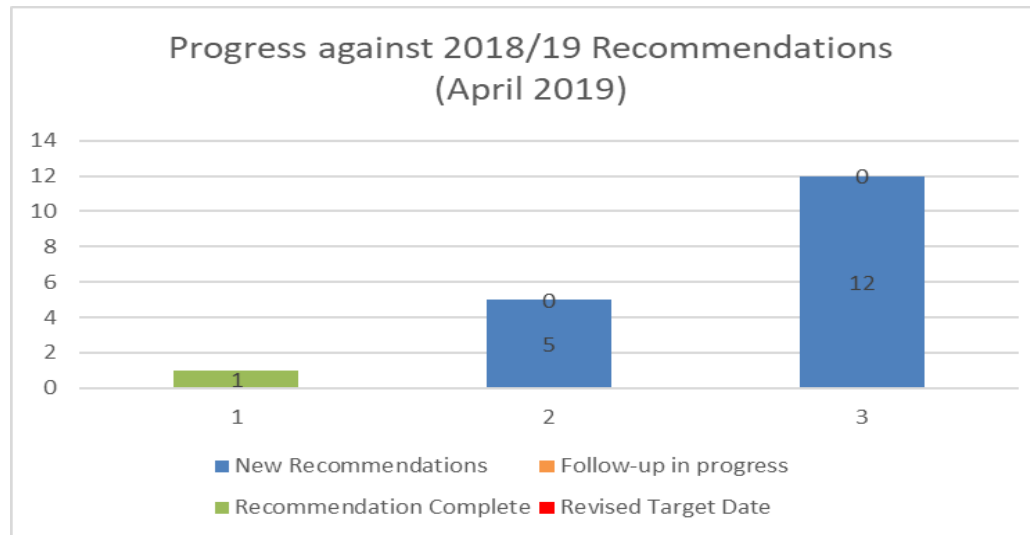
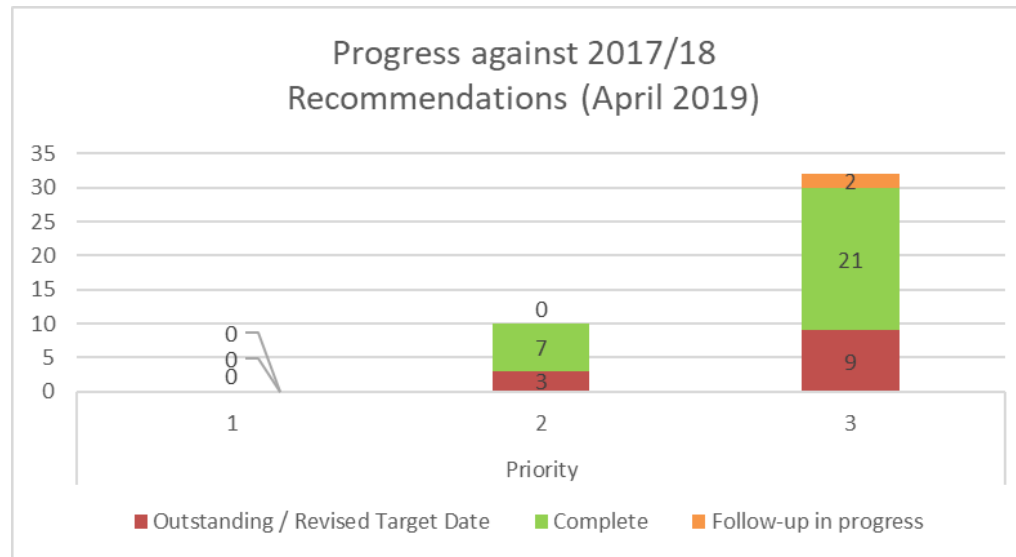
APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update April 2019
2018/19 Data Protection Act 2018	2	To comply with the Policy Framework (Appendix C) of the Constitution, the revised ICT policies must be formally approved by Senior Management.	Policies are going to be reviewed by CMT board on the 12th February 2019.	28/02/19	
2018/19 Business Continuity Management	1	A procedure is drawn up for authorised persons to follow to help guide them in determining if the plan should be actioned and, if so, what the actions following activation of the plan should be to ensure the necessary steps are taken when invoking the BCP.	We have the document, EAP Procedure Plan, which details the actions to be carried out in a variety of scenarios. Links to the relevant documentation to satisfy this requirement will be corrected/added within the CBCP. The documentation will be revision stamped and reviewed on a regular basis.		Recommendation Complete
2018/19 Business Continuity Management	2	Consideration could be given to aligning the BCP with the international standard ISO22301, as this provides a framework to plan, establish, implement, operate, monitor, review, maintain and continually improve a business continuity management system.	Consideration will be given to aligning the BCP with the international standard ISO22301 following the review of the Business Continuity Planning process which will be undertaken by the Civil Protection Team after April 2019.	30/06/19	
2018/19 Business Continuity Management	2	Consideration should be given to the clarity of the existing template and its ability to guide an officer in difficult and stressful times, and adopting an existing template, to better meet the authority's responsibilities.	An independent review of the CBC BCPs has been agreed with the Civil Protection Team this will commence after April 2019 when resources become available. The Corporate BCP will be identified as the first plan to be reviewed.	30/06/19	

High Priority Recommendation Follow-Up

APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update April 2019
2018/19 Business Continuity Management	2	Consideration could be given to the utilising the out of hours automated phone system, already in place, as an emergency information line for providing information to staff and / or the public if other methods of communication are down.	Consideration will be given to utilising the out of hours automated phone system already in place as an emergency information line after the review of the Business Continuity Plans.	30/06/19	
2018/19 Accounts Receivable	2	A review of all active subscriptions should be carried out, on behalf of each client, to identify any other duplicate subscriptions and these should all be corrected. Priority	Agreed. This will be carried out. Additional training will also be provided to AR officers to prevent this occurring again in the future.	31/03/19	
2018/19 Members' and Officers' Gifts, Hospitality and Declarations of Interest	2	We recommend that consideration is given to work between CBC and the Counter Fraud Unit (CFU) to refresh the approach to the declarations process as part of their planned work discuss the introduction of a risk-based approach to conflict of interest forms in 2019/20. Priority	The CFU manager agrees to review this with the support of SWAP and Governance Group as part of the 2019/2020 work plan. The Programme Manager agrees to work with the CFU to review their risk-based approach and see if this is appropriate for implementation at CBC.	31/03/20	
2018/19 Members' and Officers' Gifts, Hospitality and Declarations of Interest	2	We recommend that actions are taken to increase officer awareness on the responsibility to declare interests, gifts and hospitality. This may include (but not be limited to): - Regular reminders posted on the staff intranet - Sending out email reminders - Periodic training	he Programme Manager agrees to increase officer awareness through reminders on a quarterly basis and ensure periodic training is undertaken.	30/04/19	



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Cheltenham Crematorium Project
Lessons Learnt Update - Audit Committee – 24th April, 2019
Response to Scrutiny Task Group Recommendations

This document sets out the actions taken during the development of Cheltenham's new crematorium, in response to the Overview and Scrutiny Task Group recommendations, arising from its review of the previous cremator replacement project in 2009-11

Recommendation	Programme Response	Was the response successful?
On future projects, where the Council is bringing in a consultant to offer specialist knowledge and experience, the evaluation criteria should be set so that the 'quality' factor is given more weighting than 'cost' and a face-to-face interview should be carried out.	Selection of consultant for initial feasibility study was based on a 30:70 'cost to quality' weighting and an interview / presentation process was undertaken.	Yes. The results of the feasibility study, specifically the recommendation to build a new crematorium and the establishment of a programme budget, have been vindicated by the subsequent success of the development project.
At an early stage, more opportunities should be provided for the industry (in this case the funeral directors) to input any technical expertise or recommendations, whilst being cautious as to their own agendas.	Funeral directors were involved throughout the project development, from face-to-face meetings with consultants at the initial feasibility stage, through to invitations to take part in 'funeral walk-through rehearsals' in the new buildings.	Yes. Their views (most notably support for a new build solution) have been influential throughout the project. Their involvement and support helped mitigate the impact of significant and recurring problems with the old cremators.
During the procurement process there should be an agreed and adequate period of testing, to confirm that equipment is functioning properly before final payment is made. That the percentage of money retained for this purpose is more significant than the 5% held back on the earlier project.	A three month programme of commissioning and testing of the new cremators took place after they were delivered to site. In contract negotiations, it was agreed that 3% of the interim amounts payable would be retained, pending final sign-off on the project.	Yes. The design and installation of FT cremators was procured as a sub-contract by the lead contractor, Willmott Dixon, who thus remain liable to CBC for defects during the 12 months period following handover.
Consideration should be given to putting in place a maintenance contract at the same time as agreeing the purchase contract.	A 10 year maintenance contract is in place with the cremator suppliers. It was tendered and selected by Willmott Dixon with CBC involvement, alongside the design and	Yes. Whilst there were some procurement and contractual complexities surrounding the novation process, we were successful in obtaining a competitively tendered package

Cheltenham Crematorium Project
Lessons Learnt Update - Audit Committee – 24th April, 2019
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Recommendation	Programme Response	Was the response successful?
	installation contract. It has subsequently been novated to CBC.	(design, installation and maintenance) from a reputable cremator manufacturer, who is arguably the market leader.
On future projects of this size, at least two site visits are carried out to a preferred supplier and preferably another visit to the supplier with the second highest score.	In respect of the cremator selection, meetings were held with potential suppliers as part of the selection process, supplemented by the Bereavement Services Manager's extensive research into supplier performance at other UK sites.	Yes. CBC has a high degree of confidence in the cremators supplied and the manufacturer's ability to support them and was able to play a key role in the selection process, with additional expertise provided by Willmott Dixon and their consultants.
All projects over a certain cost and timescale need to be fully managed according to the project management principles and procedures adopted by the Council.	The programme and initial feasibility project were managed as 'high cost, high risk' initiatives according to the standards laid out in the project management guidelines (See also responses to subsequent recommendations).	Yes. The Programme has been delivered on time and within budget. The quality of the buildings has been welcomed by all stakeholders and will be subject to applications for various industry awards, as an exemplar of best practice.
On all significant projects, decisions are logged and brought to the Cabinet or Cabinet Member at the appropriate time, so that an audit trail can be maintained.	A decision log has been maintained throughout the programme and reviewed at each Programme Board meeting. As a member of Programme Board (which was typically chaired by the officer Project Sponsor), the Cabinet Member was therefore constantly in touch with the process and decisions made. Appropriate decisions were brought to Cabinet, or the Cabinet Member, in line with the provisions set out at the outset of the programme and to meet requirements set out in the Council's Constitution	Yes. A clear and complete audit trail is available for scrutiny as required.

Cheltenham Crematorium Project
Lessons Learnt Update - Audit Committee – 24th April, 2019
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Recommendation	Programme Response	Was the response successful?
Risks are managed at a high level by the senior manager on a project as well as the day to day project risks and added to the corporate risk register as soon as any high-scoring risks become apparent	A detailed project risk register has been maintained throughout the programme and discussed at each Programme Board meeting. A sub-group of key CBC officers has been responsible for the detailed monitoring of the register and progression of associated mitigating actions on a monthly basis. A corporate risk item has been updated and reported on a monthly basis throughout the programme. The contractor's risk register was also a standing item on contractor progress meeting agendas.	Yes. The programme has broken new ground in its management of risk, including the graphical monitoring of the assessed total risk score throughout the programme. The project team also used a quantified measure of financial risk and associated budget contingency arrangements as part of regular programme budget management.
The well-being and health and safety of crematorium staff on any operational or maintenance project are treated as a priority and regularly reviewed at every project meeting and staff given the opportunity to express their views.	Bereavement Services staff were involved throughout the design and introduction of the new facilities and given extensive and appropriate training. Decisions relating to the old crematorium were made in consultation with the Bereavement Services Manager, with health and safety given priority consideration and ultimately resulting in the closure of our former cremation operation.	The challenging decision by the Director of Environment to discontinue use of the old cremators, in consultation with the Council's health and safety advisor, was due in part to the associated health and safety risk. Although not the primary consideration, this then allowed staff to focus their efforts on preparing for the safe operational use the new buildings.
When dealing with such a significant contract in the future, managers should receive full support from their Directors.	The development programme was sponsored by the Director of Environment. The Director chaired Programme Board, the change control group and the risk management group and was in regular contact with the Bereavement Services Manager, the	Yes. The resources made available by the Director to the programme team were considered to be a major contribution to the success of the programme.

Cheltenham Crematorium Project
Lessons Learnt Update - Audit Committee – 24th April, 2019
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Recommendation	Programme Response	Was the response successful?
	<p>Programme Manager and other key members of the programme team.</p> <p>The resourcing framework for the programme included, from its outset, provision for backfilling within Bereavement Services and Property Services to enable key resources to focus on the programme.</p>	
<p>The Cabinet Member should be involved throughout in any significant projects in the area of their portfolio, but particularly at the tendering stage.</p>	<p>The Cabinet Member was a member of Programme Board throughout. Whilst taking no direct role in the contractor selection process, he was consulted as to the procurement strategy and selection criteria and briefed on the rationale for appointments, providing opportunities for challenge and scrutiny.</p>	<p>Yes. The Cabinet Member was able to support and formally approve the recommendations made by the programme team.</p>
<p>Legal options could continue to be explored, particularly any potential for joint claims with other authorities in the same position.</p>	<p>This was not within the scope of the development programme itself and whilst options for legal redress were explored, there was not considered to be any reasonable prospect of success.</p>	
<p>All Elected members should be made aware of problems on projects of this nature with potential impact across the town and the public kept Informed.</p>	<p>Regular member briefings were issued and the Cabinet Member and programme team sustained close contact with a working group of members formed from the original scrutiny task group. At key stages (e.g. ahead of the decision to build a new crematorium) member events were held to explain the recommendation and the associated risks.</p>	<p>Yes. Awareness that the Council had committed to a new crematorium was instrumental in helping to mitigate the impact of the continuing problems with the old equipment, both in the member community and in the public at large.</p> <p>The flow of information and explanation of the</p>

Cheltenham Crematorium Project
Lessons Learnt Update - Audit Committee – 24th April, 2019
Response to Scrutiny Task Group Recommendations

Recommendation	Programme Response	Was the response successful?
	Regular media briefings were provided on progress with the new crematorium and the difficulties with the old cremators, including several radio and television interviews.	risk profile made all aware of the inevitable issues and uncertainties which arise with a project of the ambition and scale involved in this case.
<p>The following recommendations for improving the crematorium should be explored:</p> <ol style="list-style-type: none"> 1. Ring fencing any finance secured from the sale of the Lodge for these improvements 2. Online booking system, initially for viewing bookings 3. New music system 4. New loop system in the chapels 5. Improved parking facilities 6. improved drop-off facilities for the disabled 7. introduce a policy on overhanging trees and shrubs 	<ol style="list-style-type: none"> 1. Secured by Cabinet decision in June 2016 2. Not deemed a high priority need as part of the development, but will be explored as part of future commercialisation work 3. Implemented and operational 4. Implemented and operational 5. Implemented 6. Implemented 7. Not a current priority to develop a specific policy, but is being managed on site within available landscape resources. 	High priority recommendations implemented successfully.
The abatement cleansing issue is dealt with swiftly as this Council cannot sustain the significant amount of payment into the CAMEO fund for not being compliant, which we are not at this present time.	Full mercury abatement is now in place in association with the new cremator plant and will contribute significantly to the financial profile of the service moving forwards.	Yes. Payment into the CAMEO fund has now ceased. Awaiting information on any credits which will be returned to CBC from the fund in relation to future mercury-abated cremations.

Cheltenham Crematorium Project
Lessons Learnt Update - Audit Committee – 24th April, 2019
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Recommendation	Programme Response	Was the response successful?
That the crematorium staff are formally thanked by the Council for their significant contribution to overcome the problems with the cremators.	<p>Crematory staff were specifically thanked through the Council's 'reward and recognition' scheme for their tireless efforts in keeping the old crematorium operational, in spite of repeated issues with the cremator plant.</p> <p>A further staff event is to be held to celebrate the successful delivery of the new crematorium, which will include both Bereavement Services staff and members of the project programme team.</p>	Details to be finalised.

Mike Redman
Director of Environment
9th April, 2019

Audit Committee 2019-20 work plan

Item	Author
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24th April 2019 (Report deadline: Wed 10th April 2019)	
Audit committee update	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
Annual Governance Statement	Darren Knight
Crematorium Capital Scheme	Mike Redman
Draft Accounting Policies	Sarah Didcote
24th July 2019 (Report deadline: 12th July 2019)	
Audit committee update	Grant Thornton
Auditing Standards – communicating with the Audit Committee	Grant Thornton
Annual Audit Fee letter for the coming year	Grant Thornton
Audit highlights memorandum - ISA 260 (for the previous year) inc. Financial Resilience	Grant Thornton
Internal audit opinion (for the previous year)	Internal Audit
Statement of Accounts (previous year) (inc. letter of representation)	Finance Team
Annual Review of Risk Management Policy	Ann Wolstencroft
18th September 2019 (Report deadline 6th September 2019)	
Internal audit monitoring report	Internal Audit
Counter Fraud update and future work provision	Counter Fraud Unit
22nd January 2020 (Report deadline 10th January 2020)	
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
24th March 2020 (Report deadline 12th March 2020)	

Audit Committee 2019-20 work plan

Item	Author
Audit committee update	Grant Thornton
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Annual review and approval of RIPA guidance policies	Counter Fraud Unit
Annual review of Code of Corporate Governance	Darren Knight
Annual Governance Statement	Darren Knight
Annual Review of Risk Management Policy	
22nd July 2020 (Report deadline 10th July 2020)	
Audit committee update	Grant Thornton
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Statement of Accounts (previous year) (inc. letter of representation)	Finance Team

Audit Committee 2019-20 work plan

Item	Author
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ANNUAL ITEMS (standing items to be added to the work plan each year)		
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
	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		

Audit Committee 2019-20 work plan

Item		Author
	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.