



## Notice of a meeting of Audit, Compliance and Governance Committee

**Tuesday, 24 March 2020  
6.00 pm**

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

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

### Agenda

<b>1.</b>	<b>APOLOGIES</b>	
<b>2.</b>	<b>DECLARATIONS OF INTEREST</b>	
<b>3.</b>	<b>MINUTES OF THE LAST MEETING</b> 22 January 2020	(Pages 3 - 8)
<b>4.</b>	<b>PUBLIC QUESTIONS</b> These must be received no later than 12 noon on the fourth working day before the date of the meeting	
<b>5.</b>	<b>AUDIT PROGRESS REPORT AND SECTOR UPDATE</b> Grant Thornton	(Pages 9 - 24)
<b>6.</b>	<b>EXTERNAL AUDIT PLAN (FOR THE CURRENT YEAR)</b> Grant Thornton	(Pages 25 - 44)
<b>7.</b>	<b>INTERNAL AUDIT MONITORING REPORT</b> South West Audit Partnership (SWAP)	(Pages 45 - 78)
<b>8.</b>	<b>PROPOSED 2020/21 INTERNAL AUDIT PLAN</b> South West Audit Partnership (SWAP)	(Pages 79 - 100)
<b>9.</b>	<b>COUNTER FRAUD UNIT REPORT</b> Counter Fraud Team	(Pages 101 - 108)

10.		<b>REVIEW OF DRAFT ACCOUNTING POLICIES 2019/20</b> Deputy Section 151 Officer	(Pages 109 - 134)
11.		<b>COVID-19 UPDATE</b> Grant Thornton (to follow)	
12.		<b>WORK PROGRAMME</b>	(Pages 135 - 136)
13.		<b>ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION</b>	
14.		<b>DATE OF NEXT MEETING</b> 22 July 2020	

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## Audit, Compliance and Governance Committee

**Wednesday, 22nd January, 2020**  
**6.00 - 7.30 pm**

Attendees	
<b>Councillors:</b>	Steve Harvey (Chair), David Willingham (Vice-Chair), Matt Babbage, Jonny Brownstein, Tony Oliver and Paul McCloskey (Reserve)
<b>Also in attendance:</b>	Lucy Cater (Assistant Director – SWAP), Emma Cathcart (Counter Fraud Manager), Aditi Chandramouli (Grant Thornton), Darren Knight (Executive Director People & Change), Sophie Morgan-Bowers (Grant Thornton), Barrie Morris (Grant Thornton) and Tony Oladejo (Publica)

## Minutes

### 1. APOLOGIES

Councillors Atherstone and Stafford had given their apologies. Councillor McCloskey would substitute for Councillor Atherstone.

### 2. DECLARATIONS OF INTEREST

No interests were declared.

### 3. MINUTES OF THE LAST MEETING

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

Upon a vote it was unanimously

**RESOLVED that the minutes of the meeting held on the 18 September 2019, be agreed and signed as an accurate record.**

### 4. PUBLIC QUESTIONS

No questions were received.

### 5. CYBER SECURITY UPDATE

Tony Oladejo, the Audit and Compliance Manager / Data Protection Officer, introduced the cyber security update as circulated with the agenda. The Executive Director of People & Change was also in attendance, as the Client Manager for Publica and explained that unfortunately nobody from IT had been able to attend.

Tony explained that the team provided a service across 29 sites within the four partner councils, including Ubico, CBH and The Cheltenham Trust, serving more than 1500 users. The strategy remained the same as last year, 'Prevent, Detect & Recover', focussing resilience on prevention and detection and mitigating risks associated with cyber security incidents. The report summarised progress on specific cyber security activities from the last 12 months, as well as detailing those planned for 2020, however, for security

reasons, included no specifics, though more details would be available to members on request. A key risk in 2020 would be shadow ICT through the use of unauthorised cloud based software and whilst this was actually an Information Security risk rather than a Cyber Security risk, it would be viewed as a cyber incident/breach. The next 12 to 24 months would see a continuation of the 'Zero Trust' approach to the security architecture and this would be achieved by building trust into the user's identity, their devices and the services they access, rather than the networks they connect to. He reported that the service had successfully achieved the Cyber Essentials Plus Accreditation, which had in turn helped with the PSN assessment and subsequent certificate and that all staff had completed the Cyber & Data Protection Awareness training. Work in 2020 would include a review of the ICT Policies Framework, mitigation in terms of the ten remaining Windows 2008 servers and a disaster recovery desktop exercise. A successful bid to the LGA Cyber Security Fund would co-finance 'phishing simulation' exercises across the partner councils and a new learning management system would be used to roll-out Cyber Awareness training to all staff and monitor compliance.

The Audit and Compliance Manager / Data Protection Officer and Executive Director of People & Change gave the following responses to member questions:

- All but ten servers had migrated from Windows 8, leaving only the committee management system, and an extended support contract would mitigate the issues, which represented spend of approximately £600 plus VAT. Similarly, Windows 7 effected devices and with extended support, would be upgraded when the move to a new package was made.
- There were no reported instances of systems reverting to the year 19xx on the rollover from 2019 to 2020. There was potential for the Y238 bug to happen in 2038, but at present there were no contracts which extended beyond 5 years and therefore this would be looked at in greater detail, nearer the time. It was likely that suppliers would be asked about their mitigations.
- Cyber security was taken very seriously and awareness training was mandatory for all staff, as well as members and this would form part of the induction for any new members in May 2020. A meeting of the Members' ICT Working Group had been convened which would look at member provision as well as training issues. A private security briefing for members had been held last year and it would be possible to repeat this in 2020.
- Only 14 members had transferred to Blackberry Work, but some members had been prevented from making the transfer because their iPads were of an age that they were no able to support it. As mentioned, the Members' ICT Working Group were scheduled to meet to consider member's ICT provision going forward.
- The network was a whole, but it was possible to segment it between the four partner councils should the need arise.
- If the Members' ICT Working Group were to recommend the roll-out of laptops to all members, there would undoubtedly be complex security issues that would need to be explored further.

- Egress provided a secure means by which to share sensitive information/data, which only very few people used at CBC as alternative encryption tools were used instead. The message to members was that they should always seek advice from IT should they receive anything by email which they are unsure of.
- Officers acknowledged that there were Citrix could be unreliable, but stressed that this was an outdated resource which was no longer used by any officers and would be phased out upon roll-out of the new members' ICT solution. If like Officers, members were given laptops, they could be assured of more reliable, almost uninterrupted, access.
- In view of flexible working, out of hours support would be reviewed, but there were no plans to make this 24/7 support, nor did members expect this.

The Executive Director of People & Change reiterated that John Chorlton would have attended if he could have and committed to having him provide more information to members on the issues that had been raised; the plans in terms of Windows 7, confirmation that segregation of the server, to safeguard the other partners if one was affected by an issue and provide more information on when the use of Airwatch would cease. The Executive Director of People & Change invited members to email any further cyber security or IT related queries to him or the Audit and Compliance Manager / Data Protection Officer, directly.

Members were confident that all officers would comply and undertake mandatory cyber security training but were not wholly confident that members across the four partner councils would and acknowledged the risk that this posed.

It was unanimously

**RESOLVED that the report be noted.**

The Chairman thanked the Executive Director of People & Change and the Audit and Compliance Manager / Data Protection Officer for their attendance.

### **6. AUDIT PROGRESS REPORT**

Barrie Morris of Grant Thornton (GT), introduced his colleague Aditi Chandramouli, who would be replacing Sophie Morgan-Bower as the Engagement Manager. Sophie explained that the Progress Report paper provided the committee with a brief summary of progress of the audit to date; reminding members that GT had issued their opinion on CBCs 2018/19 Statement of Accounts on the 30 July 2019. She explained that GT would start planning for the 2019/20 audit and issue a detailed audit plan which would set out the way in which the audit of the council's 2019/20 financial statements would be approached. She noted that GT had previously brought a separate report on the certification of grants, but that this was no longer required and had therefore included their findings in this report. The certification of the pooling of housing capital receipts claim would be finalised by the 7 February 2020 deadline. A letter relating to audit fees had been circulated with the agenda and Barrie would present this in due course. In terms of certification of the Housing Benefits claim, the thresholds were set by the DWP and given the sums involved, any error exceeding 2p per week had to be reported and

extrapolated. A number of errors were identified and extrapolated resulting in a Qualification Letter, though she stressed that these were not significant errors and the majority of these were less than £5 per year. GT thanked the Housing Benefits Team for their support on this issue. The paper highlighted a number of reports which could be of interest to members and she picked out the GT Sustainable Growth Index, a tool which sought to define and measure the components that create successful places and help frame future discussions, stimulate action and drive change.

The following responses were given to member questions:

- The process and rules for the audit of the Housing Benefit claim were set by the DWP and were complex but made it possible to identify incorrect calculations. The errors that had been identified were just that, errors, rather than fraudulent. GT did share best practice, but each client was different and the opportunities for improvement had been discussed with the relevant officers.

Barrie referred members to the letter which had been circulated with the agenda. He firstly apologised for the fact that it had been dated incorrectly. Members would recall the audit fee letter that had come to committee last year and reminded members that the scale fee was set by the PSAA. Things had moved on since and the letter set out the increased regulatory focus and an ever stricter quality environment. Whilst there was no suggestion that materiality would change, the level of work having to be done was increasing and this had an impact on GT's audit work and in turn, their fees. There had been an effort to limit this increase to 20% in local authorities, which was still lower than a few years previous.

A member noted that he felt the cost was in proportion to the assets held by the council, which equated to almost half a billion.

Members felt that GT provided an excellent service, which represented good value for money and were therefore comfortable with the proposed increase to fees.

The Chairman thanked Sophie Morgan-Bower for always being well briefed and for the work she had done, and wished her well for the future and welcomed Aditi.

No decision was required.

### **7. INTERNAL AUDIT MONITORING REPORT**

Lucy Cater, the Assistant Director for the South West Audit Partnership (SWAP) introduced the monitoring report as circulated with the agenda. The report gave members the opportunity to comment on progress throughout the year. Progress was summarised at Appendix B and since the last meeting 8 audits had been finalised, 6 were awarded 'substantial' control assurance and 2 'partial'. On the two that were awarded partial assurances; Procurement, the follow-up was already underway and Property (use of contractors), would be included in the Plan for next year. On 'Integrity of Data' the report had now been finalised and would be presented at the next meeting. She also confirmed

that work had commenced on the 2020/21 work plan and she invited members to contact her directly with any comments, or topics of interest.

The Assistant Director for the SWAP gave the following responses to member questions:

The Executive Director of Finance & Assets highlighted the negative press that Marketing Gloucester had received following the dismissal of their Chief Executive and the subsequent claims that Marketing Cheltenham had been structured in the same way. He assured members that unlike Marketing Gloucester, which was a separate entity from Gloucester City Council, Marketing Cheltenham was in fact part of CBC. He had however, asked that Internal Audit undertake an audit of Marketing Cheltenham to ensure that the governance arrangements were as they should be. Members thanked the Executive Director for this pro-active approach.

A member suggested that there should be a review of HR policies to ensure that CBC were promoting diversity and that as an organisation, it reflected the town it represented.

Another member queried how and when climate change would feature in the work plan, given the commitment made by this council. The Assistant Director for SWAP suggested that this would feature in the next plan, and may focus on the investment portfolio. The Chairman suggested that particular business areas could be reviewed.

It was unanimously

**RESOLVED that the report be noted.**

The Chairman thanked the Assistant Director for SWAP and the Executive Director of Finance & Assets, for their attendance.

### **8. REVISED RIPA (SURVEILLANCE AND CHIS) POLICY AND IPA (COMMUNICATIONS DATA) POLICY**

Emma Cathcart, the Counter Fraud Manager, introduced the two draft policies. She explained that new legislation had made it necessary to refresh the RIPA policy and rewrite the policy relating to communications data but this had also provided an opportunity to align the policies across the five CFU partner Councils. The CFU would also be ensuring a training programme was undertaken across the same. The refreshed RIPA policy introduced a mandatory requirement for staff to complete a Non-RIPA application form where surveillance was being undertaken but the offence did not meet the serious crime criteria to ensure best practice and minimise risk. She noted that there would be a third policy on the use of social media and how to use it for intelligence gathering would be introduced at a later Committee following some managerial decisions regarding procedures.

Members welcomed the revisions, commenting that the policies were well written comprehensive and straightforward.

It was resolved unanimously

**RESOLVED** that having considered the Regulation of Investigatory Powers Act 2000 Surveillance and Covert Human Intelligence Source Policy and the Investigatory Powers Act 2016 Acquisition of Communications Data Policy, the comments of the Audit, Compliance and Governance Committee be forwarded to Cabinet.

The Chairman thanked the Counter Fraud Manager for her attendance.

**9. WORK PROGRAMME**

The work plan had been circulated with the agenda.

Grant Thornton asked that the certification of grants and returns be removed from the list of annual items, as this certification no longer existed.

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

There were no urgent items requiring a decision.

**11. DATE OF NEXT MEETING**

The next meeting was scheduled for the 24 March 2020.

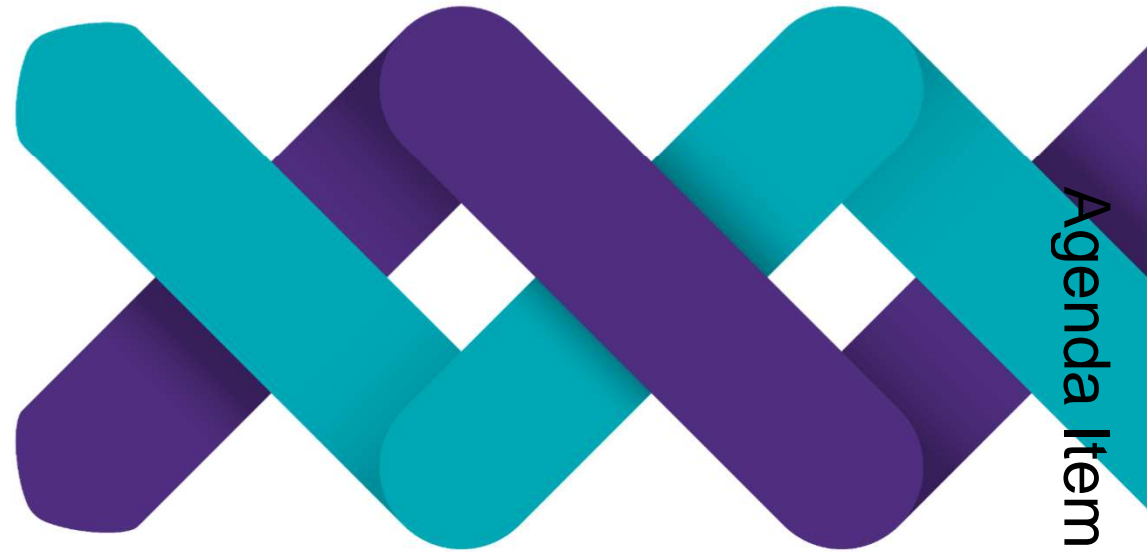
Steve Harvey  
**Chairman**



# Audit Progress Report and Sector Update

Cheltenham Borough Council  
Year ending 31 March 2020

13 March 2020



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# Introduction



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This paper provides the Audit, Compliance and Governance 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, Compliance and Governance 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](http://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.

# Progress at March 2020

## Financial Statements Audit

We began our planning for the 2019/20 audit in January, and we began our interim audit in March 2020. 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

We will provide a verbal update to the Committee on the interim audit work completed

We have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements, which is included within this agenda

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by July 2020

## 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 will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by July 2020

The NAO has consulted on a new Code of Audit Practice and published a draft version. Subject to Parliamentary approval the new Code will come into force no later than 1 April 2020 and includes significant changes to the auditor's Value for Money work. Please see page 10 for more details.

# Progress at March 2020 (Cont.)

## Other areas

### Certification of claims and returns

We also certify the Council's annual Pooling of Housing Capital Receipts return in accordance with procedures agreed with the Ministry of Housing, Communities & Local Government. (MHCLG). The certification work for the 2018/19 return was completed on 6 February 2020, in advance of the 7 February 2020 deadline.

### 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.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which will help 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 Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

# Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2018/19.	April 2019	Complete
<b>Audit Plan</b> We are required to issue a detailed audit plan to the Audit Compliance and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.	March 2020	Complete, and on this agenda
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	April 2020	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit Compliance and Governance Committee.	July 2020	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2020	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2020	Not yet due

# Sector Update

Councils continue to try 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 local government sector 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

# Brydon Review – the quality & effectiveness of audit

The Brydon review is an independent review, led by Sir Donald Brydon, which has looked at the quality and effectiveness of audit, seeking to make proposals that will improve the UK audit ‘product’. The review has examined the nature and scope of audit from a user perspective and seeks to clarify and potentially close the ‘expectation gap’ (ie what stakeholders and society expect from audit compared to what it delivers today).

A full list of Sir Donald’s recommendations can be found online, and a brief summary is provided below:

- Redefinition of audit and its purpose
- Creation of a corporate auditing profession, governed by principles
- Introduction of suspicion into the qualities of auditing
- Extension of the concept of auditing to areas beyond financial statements
- Mechanisms to encourage greater engagement of shareholders with audit and auditors
- Change in language of the opinion given by auditors
- Introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
- Greater clarity around the roles of the audit committee
- A package of measures around fraud detection and prevention
- Improved auditor communication and transparency
- Obligations to acknowledge external signals of concern
- Extension of audit to new areas including Alternative Performance Measures
- Increased use of technology

On the auditor’s responsibility to detect fraud, Jonathan Riley, Grant Thornton Head of Quality and Reputation, said: “We are pleased to note that Sir Donald Brydon makes it clear that not only is there an expectation gap in relation to the purpose of audit and the detection of fraud but that the current ISAs need revision, and training of corporate auditors need to be enhanced, in order to allow auditors to better detect fraud. This is further reinforced by the new ability to make it easier for users of accounts, not just management, to inform the auditor of concerns relating to financial statements.”

“Notwithstanding these proposals, it is neither possible or desirable for an auditor to test in detail every transaction of the company and so materiality will still exist. In addition, a fraud involving collusion and sophistication may still prove extremely hard to detect.”

Grant Thornton welcomes the consideration given by Sir Donald on the quality and effectiveness of audit. These recommendations should bring far greater clarity and transparency to the profession and ultimately result in an audit regime that allows auditors to better assess, assure and inform all users of financial accounts.

Crucially, the Government must now consider these recommendations not just in context of earlier inquiries into the profession, but also against the backdrop of global trade and Britain’s future role as a pillar of global commerce. The report places new obligations not only on auditors, but also on company directors. Together with other regulations such as the revised Ethical Standard and wider corporate governance requirements, the proposed changes need to strike the right balance and not dent our place on the world’s financial stage. Careful explanation particularly of what this means to those fast growing mid-sized public entities seeking capital will be necessary.

The public perception of audit remains weak and failures continue to happen, so we agree that now is the right time to explore what needs to change to ensure that audit is fit for modern day business and meets the public interest. The report should contribute heavily towards this outcome.

Link to the full report and full list of recommendations:

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>



# Redmond Review – Review of local authority financial reporting and external audit

The independent review led by Sir Tony Redmond sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019.

Grant Thornton provided a comprehensive submission. We believe that local authority financial reporting and audit is at a crossroads. Recent years have seen major changes. More complex accounting, earlier financial close and lower fees have placed pressure on authorities and auditors alike. The target sign-off date for audited financial statements of 31 July has created a significant peak of workload for auditors. It has made it impossible to retain specialist teams throughout the year. It has also impacted on individual auditors' well-being, making certain roles difficult to recruit to, especially in remote parts of the country.

Meanwhile, the focus on Value for Money, in its true sense, and on protecting the interests of citizens as taxpayers and users of services are in danger of falling by the wayside. The use of a black and white 'conclusion' has encouraged a mechanistic and tick box approach, with auditors more focused on avoiding criticism from the regulator than on producing Value for Money reports that are of value to local people.

In this environment, persuading talented people to remain in the local audit market is difficult. Many of our promising newly qualified staff and Audit Managers have left the firm to pursue careers elsewhere, often outside the public sector, and almost never to pursue public audit at other firms. Grant Thornton is now the only firm which supports qualification through CIPFA. It is no longer clear where the next generation of local auditors will come from.

We believe that now is the time to reframe both local authority financial reporting and local audit. Specifically, we believe that there is a need for:

- More clearly established system leadership for local audit;
- Simplified local authority financial reporting, particularly in the areas of capital accounting and pensions;

- Investing in improving the quality of financial reporting by local bodies;
- A realistic timescale for audit reporting, with opinion sign off by September each year, rather than July;
- An increase in audit fees to appropriate levels that reflect current levels of complexity and regulatory focus;
- A more tailored and proportional approach to local audit regulation, implementing the Kingman recommendations in full;
- Ensuring that Value for Money audit work has a more impactful scope, as part of the current NAO Code of Audit Practice refresh;
- Introducing urgent reforms which help ensure future audit arrangements are sustainable and attractive to future generations of local audit professionals.

We note that Sir Donald Brydon, in his review published this week, has recommended that *“the Audit, Reporting and Governance Authority (ARGA) (the proposed new regulatory body) should facilitate the establishment of a corporate auditing profession based on a core set of principles. (This should include but not be limited to) the statutory audit of financial statements.”* Recognising the unique nature of public audit, and the special importance of stewardship of public money, we also recommend that a similar profession be established for local audit. This should be overseen by a new public sector regulator.

As the reviews by John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

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# National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. ‘Relevant authorities’ are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

## Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO consulted on potential changes to the Code in two stages:

**Stage 1** involved engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO stated that they considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this informed the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

**Stage 2** of the consultation involved consulting on the draft text of the new Code. To support stage 2, the NAO published a consultation document, which highlighted the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. The draft Code includes three specific criteria that auditors must consider:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

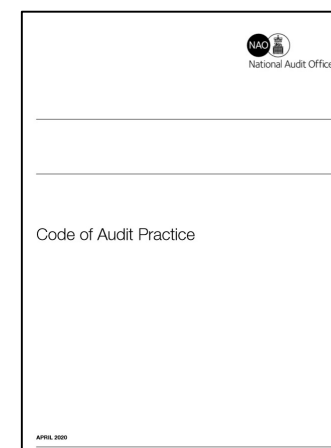
The auditor will be required to provide a commentary on the arrangements in place to secure value for money. Where significant weaknesses are identified the auditor should make recommendations setting out

- Their judgement on the nature of the weakness identified
- The evidence on which their view is based
- The impact on the local body
- The action the body needs to take to address the weakness

The consultation document and a copy of the new Code can be found on the NAO website. The new Code will apply from audits of local bodies’ 2020-21 financial statements onwards.

Link to NAO webpage for the new Code:

[https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code\\_of\\_audit\\_practice\\_2020.pdf](https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf)



# Financial Reporting Council – aid to Audit Committees in evaluating audit quality

On 19 December the Financial Reporting Council (FRC) issued an update of its Practice Aid to assist audit committees in evaluating audit quality in their assessment of the effectiveness of the external audit process.

The FRC notes that, “The update takes account of developments since the first edition was issued in 2015, including revisions of the UK Corporate Governance Code, the requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors after at least 20 years, and increasing focus generally on audit quality and the role of the audit committee. It also takes account of commentary from audit committees suggesting how the Practice Aid could be more practical in focus and more clearly presented.

The framework set out in the Practice Aid focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgments made throughout the audit and how these might be supported by evidence of critical auditor competencies. New sections have been added addressing the audit tender process, stressing that high-audit quality should be the primary selection criterion, and matters to cover in audit committee reporting.

As well as illustrating a framework for the audit committee's evaluation, the Practice Aid sets out practical suggestions on how audit committees might tailor their evaluation in the context of the company's business model and strategy; the business risks it faces; and the perception of the reasonable expectations of the company's investors and other stakeholders. These include examples of matters for the audit committee to consider in relation to key areas of audit judgment, and illustrative audit committee considerations in evaluating the auditor's competencies.

The FRC encourages audit committees to use the Practice Aid to help develop their own approach to their evaluation of audit quality, tailored to the circumstances of their company. Audit committees are encouraged to see their evaluation as integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the auditor's judgments made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.”



The Practice Aid can be obtained from the FRC website:

<https://www.frc.org.uk/getattachment/68637e7a-8e28-484a-aec2-720544a172ba/Audit-Quality-Practice-Aid-for-Audit-Committees-2019.pdf>

# Implementation of International Financial Reporting Standard 16 *Leases*

IFRS 16 *Leases*, as interpreted and adapted for the public sector, will be effective from 1 April 2020.

## Background

IFRS 16 *Leases* was issued by the International Accounting Standards Board (IASB) in January 2016 and is being applied by HM Treasury in the Government Financial Reporting Manual from 1 April 2020. Implementation of the Standard will be included in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) for 2020/21.

The new Standard replaces the current leasing standard IAS 17 and related interpretation documents IFRIC 4, SIC 15 and SIC 27 and it sets out the principles for the recognition, measurement, presentation and disclosure of leases. The IASB published IFRS 16 because it was aware that the previous lease accounting model was criticised for failing to provide a faithful representation of leasing transactions.

## Impact on 2019/20 financial statements

Whilst the new Standard is effective from 1 April 2020, authorities are required by the Code to 'disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted'. This requirement of the Code (3.3.4.3) reflects the requirements of paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In the 2019/20 financial statements we would therefore expect to see authorities make disclosures including:

- the title of the Standard
- the date of implementation
- the fact that the modified retrospective basis of transition is to be applied, with transition adjustments reflected through opening reserves
- known or reasonably estimable information relevant to assessing the possible impact that application will have on the entity's financial statements, including the impact on assets, liabilities, reserves, classification of expenditure and cashflows
- the basis for measuring right of use assets on transition
- the anticipated use of recognition exemptions and practical expedients recognising that what is sufficient disclosure for one body may not be sufficient for another

## Information needed for 2019/20 financial statements

In order to make disclosures in 2019/20, a significant amount of data will be needed, most significantly:

- a complete list of leases previously identified under IAS 17 and IFRIC 4
- details of non-cancellable lease terms, purchase options, extension and termination options
- details of lease arrangements at peppercorn or NIL rental
- anticipated future cash flows and implicit interest rates or incremental borrowing rates to enable calculation of lease liabilities

## Audit work on IFRS 16 transition

At this stage, we would expect you to have:

- determined whether the impact of IFRS 16 will be material for your authority
- raised awareness of the new Standard across the authority, potentially including procurement, estates, legal and IT departments
- assessed the completeness and accuracy of your lease register and taken action if necessary
- formalised and signed existing lease documentation
- identified leases of low value assets and leases with short terms
- considered whether liaison with valuation experts is necessary
- started to draft your 2019/20 disclosure note
- started to embed processes to capture the data necessary to manage the ongoing accounting implications of IFRS 16

and that you are monitoring progress against an approved IFRS 16 implementation plan. Your local engagement team will be in touch to discuss your progress with IFRS 16 implementation and audit working paper requirements.

# Implementation of International Financial Reporting Standard 16 *Leases*

## Further information and guidance

CIPFA published their 2020/21 Code consultation on 12 July 2019, including an Appendix concerned with IFRS 16 implementation, further details can be found at:

<https://www.cipfa.org/policy-and-guidance/consultations-archive/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202021?crdm=0>

HM Treasury published IFRS 16 Application Guidance in December 2019 which can be found at:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/853238/IFRS\\_16\\_Application\\_Guidance\\_December\\_2019.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853238/IFRS_16_Application_Guidance_December_2019.pdf)

CIPFA's IFRS 16 'Early guide for local authority practitioners' is available at:

<https://www.cipfa.org/policy-and-guidance/publications/i/ifrs-16-leases-an-early-guide-for-local-authority-practitioners>

IFRS 16 has been adopted a year earlier in the commercial sector. The Financial Reporting Council has published an IFRS 16 Thematic Review '*Review of Interim Disclosures in the First Year of Application*', containing key findings from their review and providing helpful insights into important disclosure requirements. The FRC's publication is available at:

<https://www.frc.org.uk/getattachment/a0e7c6e7-67d0-40fe-b869-e5cc589afe79/IFRS-16-thematic-review-2019-optomised.pdf>

## Financial Reporting



### Challenge question:

Does your authority have a project plan in place in relation to IFRS 16 *Leases* implementation?

Is your authority's progress against the project plan on track?

# CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "The index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement. The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."

At the launch of the index in December, CIPFA commented "the index analyses council finances using a suite of nine measures including level of reserves, rate of depletion of reserves, external debt, Ofsted judgements and auditor value for money assessments."

CIPFA found that against these indicators the majority of councils are not showing signs of stress. But around 10% show "some signs of potential risk to their financial stability."



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index/>

## Financial Resilience

### Challenge question:

Has your Authority used the CIPFA index and fed back the key messages?



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# External Audit Plan

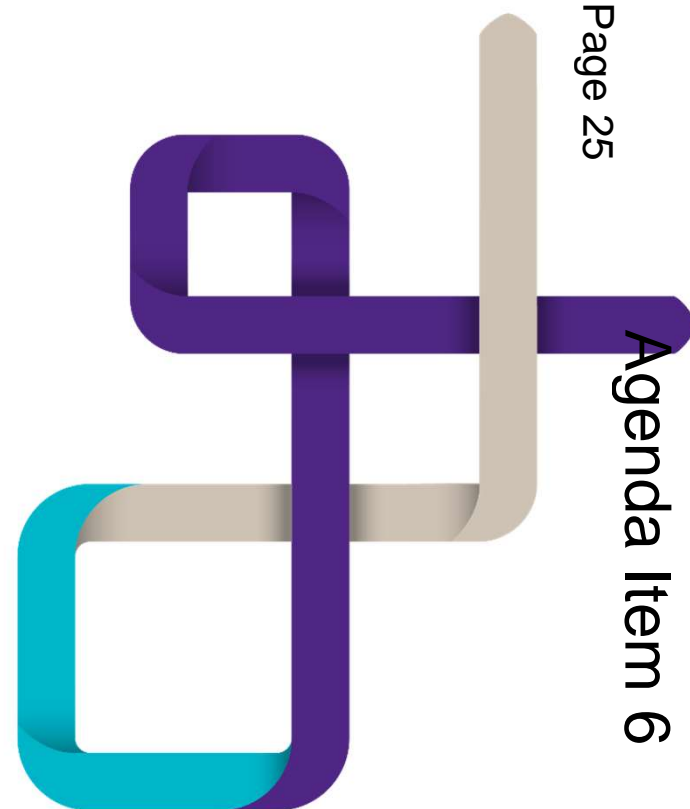
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Cheltenham Borough Council

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## Appendix

### A. Audit quality – national context

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# 1. Introduction & headlines

## Purpose

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

## Respective responsibilities

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

## Scope of our audit

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

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

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

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

<b>Group Accounts</b>	The Authority is required to prepare group financial statements that consolidate the financial information of its subsidiary undertakings
<b>Significant risks</b>	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none"> <li>• Management override of controls</li> <li>• Valuation of land and buildings, including investment properties</li> <li>• Valuation of net pension fund liability</li> </ul> <p>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.</p>
<b>Materiality</b>	We have determined planning materiality to be £1.595m (PY £1.60m) for the group and £1.573m (PY £1.569m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.079m (PY £0.078m).
<b>Value for Money arrangements</b>	Our risk assessment regarding your arrangements to secure value for money has identified Medium Term Financial Planning as a significant risks and, as in previous years, we will review the arrangements you have in place to mitigate this.
<b>Audit logistics</b>	<p>Our interim visit will take place in March and our final visit will take place in June and July 2020. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.</p> <p>Our fee for the audit will be £45,543 (PY: £42,543) for the Authority, subject to the Authority meeting our requirements set out on page 14.</p>
<b>Independence</b>	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. There is one ethical issue that we are liaising with the s151 Officer on relating to the employment of a former Grant Thornton audit manager into Publica Ltd.

## 2. Key matters impacting our audit

Factors		
<p><b>The wider economy and political uncertainty</b></p> <p>Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Cheltenham Borough Council, the latest medium term financial plan reflects a funding gap for the period 2021/22 to 2023/24 of £2.616m.</p> <p>In January 2020 the UK government and the EU ratified the Withdrawal Agreement and the UK's membership of the EU formally ceased on 31 January. The existence of a 'transition period' to 31 December 2020 means that there will be little practical change for the Council until at least 2021. However, the nature of the future relationship between the UK and the EU is still to be determined and considerable uncertainty persists. The Authority will need to ensure that it is prepared for all outcomes, including those with any impact on contracts, on service delivery and on its support for local people and businesses.</p>	<p><b>Financial reporting and audit – raising the bar</b></p> <p>The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.</p> <p>Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.</p>	<p><b>Implementation of IFRS 16 – Leases</b></p> <p>The Council is required to respond effectively to new accounting standards, and we must ensure our audit work in these new areas is robust. IFRS 16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a right of use asset with a corresponding liability from 1 April 2020. There is a requirement, under IAS8 to disclose the expected impact of this change in accounting treatment in the 2019-20 financial statements</p>
Our response		
<p>We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.</p> <p>We will consider the actions that the Authority are taking in order to evaluate the impact of matters arising due to Brexit</p>	<p>As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audi Plan, has been agreed with the Director of Finance and is subject to PSAA agreement.</p>	<p>We will assess the adequacy of your disclosure about the financial impact of implementing IFRS 16 – Leases from 1 April 2020.</p>

### 3. Group audit scope and risk assessment

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

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

### 3. Group audit scope and risk assessment

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

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Publica Group (Support) Limited	No	Analytical procedures at group level	None	Analytical review performed by Grant Thornton UK LLP.
UBICO	No	Analytical procedures at group level	None	Analytical review performed by Grant Thornton UK LLP.

#### Audit scope

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

## 4. Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The revenue cycle includes fraudulent transactions (rebutted)</b>	<b>Group and Authority</b>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Cheltenham Borough Council, mean that all forms of fraud are seen as unacceptable</li> </ul>	Therefore we do not consider this to be a significant risk for Cheltenham Borough Council or the group
<b>Management over-ride of controls</b>	<b>Group and Authority</b>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. .</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions</li> </ul>

# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of land and buildings</b>	<b>Group and Authority</b>	<p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£363 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. The Authority also has investment properties which must be valued annually at 31 March.</p> <p>We therefore identified valuation of land and buildings, including investment properties and surplus assets, as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• write to the valuer to confirm the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Authority's valuer's report and the assumptions that underpin the valuation.</li> <li>• test revaluations made during the year to see if they had been input correctly into the group's asset register</li> <li>• evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul>
<b>Valuation of the pension fund net liability</b>	<b>Group and Authority</b>	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£58 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtain assurances from the auditor of Gloucestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>



## 5. Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)</b>	<b>Group and Authority</b>	<p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p> <p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements.</li> <li>Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC <a href="#">Local Authority Leasing Briefings</a>.</li> </ul>

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

## 6. Other matters

### Other work

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
  - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

### Other material balances and transactions

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

### Going concern

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

# 7. Materiality

## The concept of materiality

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

## Materiality for planning purposes

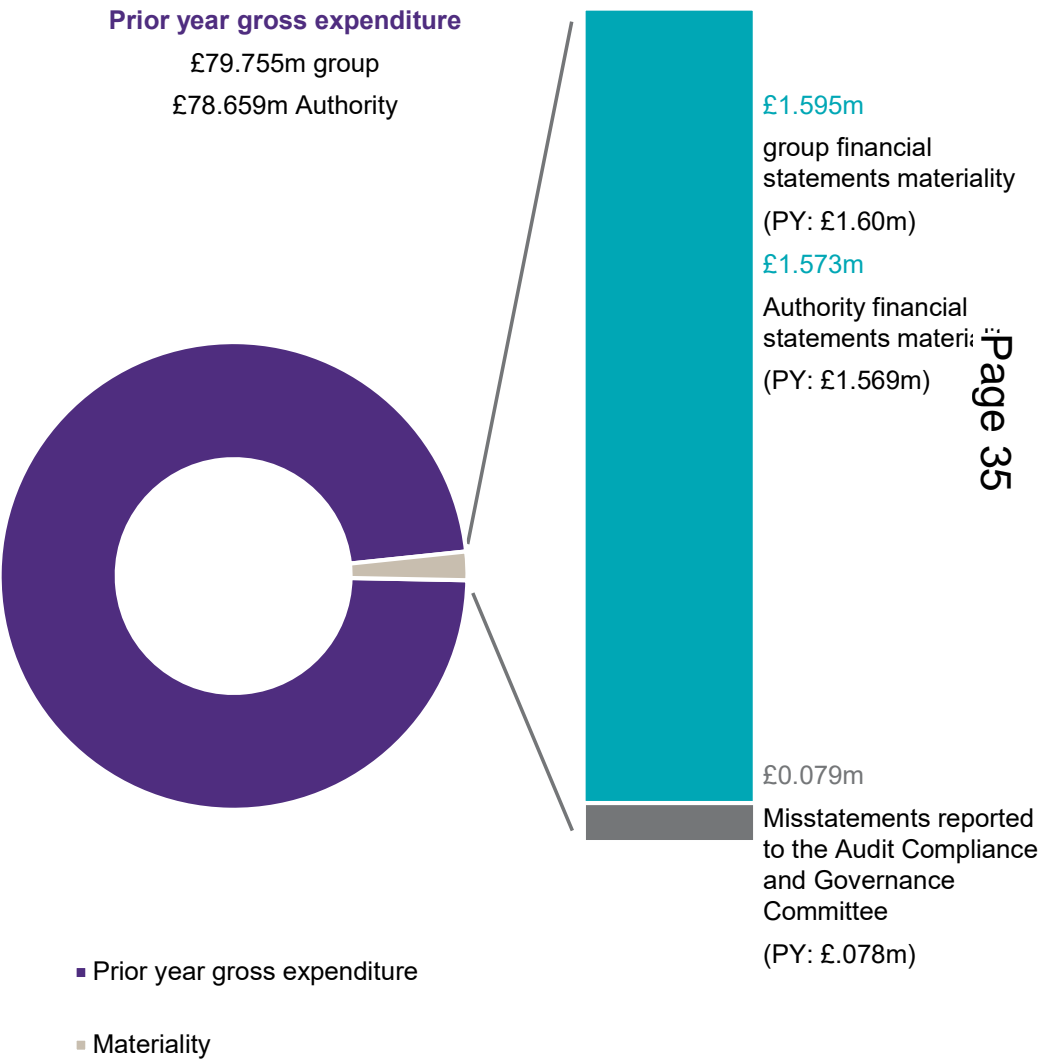
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.595m (PY £1.60m) for the group and £1.573m (PY £1.569m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £12k for senior officer remuneration.

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

## Matters we will report to the Audit Compliance and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.079m (PY £0.078m).

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



# 8. Value for Money arrangements

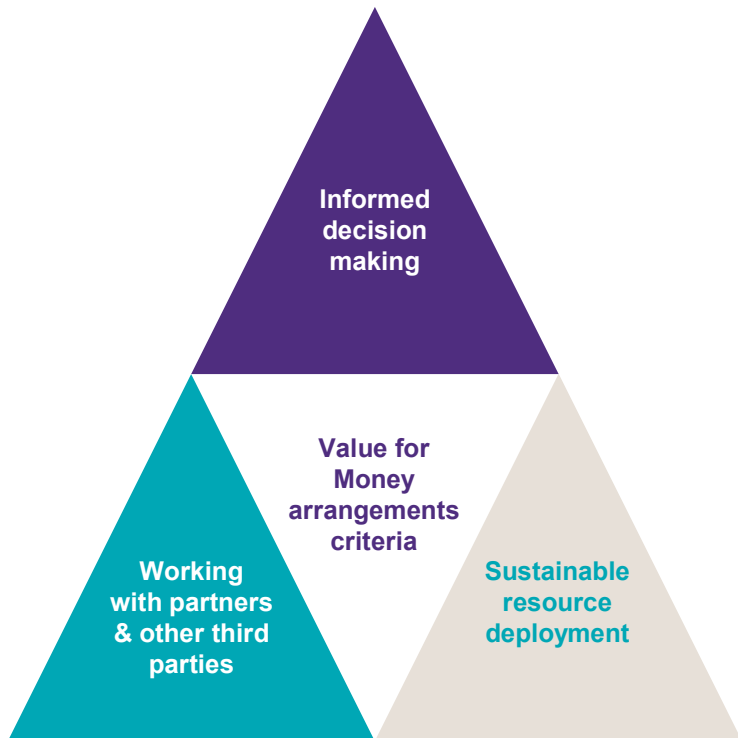
## Background to our VFM approach

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

The guidance identifies one single criterion for auditors to evaluate:

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

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



## Significant VFM risks

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



### Medium Term Financial Strategy

The Council have been required to deliver substantial savings since 2010/11, and forecast continued significant savings requirements going forward. The current MTFS indicates that the Council reflect a funding gap for the period 2021/22 to 2023/24 of £2.616m. It also indicates that the Council proposes to fund a gap of £1.084m with £0.826m of savings plans and additional income, with the residual gap to be funded from the Budget Strategy (Support) Reserve during 2020/21, and also includes a number of unidentified savings over the period to 2023/24.

We will review the latest version of the Authority's medium term financial strategy, We will review the assumptions that underpin the MTFP including proposed savings, to ensure that these are appropriate.

The Authority have also implemented a capital investment strategy designed to deliver income to support medium term finances. We will review the monitoring arrangements of commercial investments to ensure that these are in line with the business plan.

## 9. Audit logistics & team



### Barrie Morris, Key Audit Partner

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

### Aditi Chandramouli, Audit Manager

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

### Jade Brockett, Audit Incharge

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

### Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds the agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

### Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

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

# 10. Audit fees

## Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Director of Finance and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
<b>Council Audit</b>	£49,406	£42,543	£45,543
<b>Total audit fees (excluding VAT)</b>	<b>£49,406</b>	<b>£42,543</b>	<b>£45,543</b>

### Assumptions:

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

### Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

# Audit fee variations – Further analysis

## Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	38,043	
Raising the bar	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	1,750	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	1,750	We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
New standards/developments	£1,500	We will undertake additional work in relation to new standards arising in 2019/20, which relates to IFRS 16 – Leases.
<b>Revised scale fee (to be approved by PSAA)</b>	<b>45,543</b>	

# 11. Independence & non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified

Service	£	Threats	Safeguards
<b>Audit related:</b>			
Agreed upon procedures on the Authority's Housing Benefits claim	19,906	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £19,906 in comparison to the total fee for the audit of £45,543 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Agreed upon procedures on the Authority's pooling of housing capital receipts return	To be agreed	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence due to the fee for this work in comparison to the total fee for the audit of £45,543 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Compliance and Governance Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>



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# Appendices

**A.    Audit Quality – national context**

# Appendix A: Audit Quality – national context

## What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

## Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets Authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

## What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

## What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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### Cheltenham Borough Council

#### Audit, Compliance and Governance Committee – 24 March 2020

#### Internal Audit Monitoring Report

<b>Accountable member</b>	Cabinet Member Corporate Services, Councillor Alex Hegenbarth
<b>Accountable officer</b>	Paul Jones, Executive Director – Finance and Assets
<b>Ward(s) affected</b>	All
<b>Key/Significant Decision</b>	No
<b>Executive summary</b>	<p>The Council must ensure that it has sound systems of internal control that facilitate the effective management of all the Council's functions. The work delivered by SWAP Internal Audit Services (SWAP), the Council's internal audit service, is one of the control assurance sources available to the Audit, Compliance and Governance 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 the Audit, Compliance and Governance 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, Compliance and Governance Committee the opportunity to comment on the work completed by the partnership and provide 'through the year' comment and assurances on the control environment.</p>
<b>Recommendations</b>	<b>The Audit, Compliance and Governance Committee considers the monitoring report and makes comment on its content as necessary</b>
<b>Financial implications</b>	<p>There are no financial implications arising from the report</p> <p><b>Contact officers: Paul Jones, Executive Director – Finance and Assets</b>  <a href="mailto:Paul.Jones@cheltenham.gov.uk">Paul.Jones@cheltenham.gov.uk</a>, 01242 264365</p>
<b>Legal implications</b>	<p>None specific arising from the report recommendation</p> <p><b>Contact officer: Sarah Farooqi, Head of Law, One Legal</b>  <a href="mailto:Sarah.farooqi@teWKesbury.gov.uk">Sarah.farooqi@teWKesbury.gov.uk</a>, 01684 272012</p>
<b>HR implications (including learning and organisational development)</b>	<p>There are no specific HR implications arising from the content of the report. The HR Team continue to work closely with CBC and SWAP to ensure that any HR related recommendations from audits are actioned.</p> <p><b>Contact officer: Julie McCarthy, HR Manager – Operations</b>  <a href="mailto:Julie.McCarthy@publicagroup.uk">Julie.McCarthy@publicagroup.uk</a>, 01242 264355</p>
<b>Key risks</b>	That weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives, if recommendations are not implemented.

<b>Corporate and community plan Implications</b>	<p>“Internal Auditing is 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).</p> <p>Therefore, the internal audit activity impacts on corporate and community plans.</p>
<b>Environmental and climate change implications</b>	<p>Relevant to particular audit assignments and will be identified within individual reports.</p>
<b>Property/Asset Implications</b>	<p>There are no specific Property/Asset Implications arising from the content of the report</p> <p><b>Contact officers: Paul Jones, Executive Director – Finance and Assets</b></p> <p><a href="mailto:Paul.Jones@cheltenham.gov.uk">Paul.Jones@cheltenham.gov.uk</a>, 01242 264365</p>

## 1. Background

- 1.1 The Annual Internal Audit Plan 2019/20 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.

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

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# Cheltenham Borough Council

## Report of Internal Audit Activity

Plan Progress 2019/2020

March 2020

# Contents

The contacts at SWAP in connection with this report are:

**David Hill**

Chief Executive

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Assistant Director

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## Internal Audit Plan Progress 2019/2020

### 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 Internal Audit Plan. This is approved by the Section 151 Officer (Executive Director – Finance and Assets), following consultation with the Council's Management Team. The 2019/20 Audit Plan was reported to, and approved by, Audit Committee at its meeting in April 2019.

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

## Internal Audit Plan Progress 2019/2020

### 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 Annual Internal Audit Plan 2019/20. 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, are 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 (priority 1s and 2s) that have been identified during our audit reviews. These will be updated when the follow-up audit has been completed.

**Appendix E** summarises all recommendations made and the progress that has been made against these.

## Internal Audit Plan Progress 2019/2020

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 2019/20 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 (Executive Director – Finance and Assets).

The following changes have been made to the plan:

The planned audit of Management and Monitoring of Contracts has been deferred, due to the delay in the finalising of the procurement audits. The audit, as originally planned, will be included in the 2020/21 audit plan.

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

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

#### Audit Framework Definitions

#### Control Assurance Definitions

<b>No Assurance</b>	The areas reviewed were found to be inadequately controlled. Risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Partial</b>	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Reasonable</b>	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Substantial</b>	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

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



Recommendations are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

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

## Audit Framework Definitions

### Categorisation of Recommendations

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

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

### Definitions of Risk

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

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
						2018/19 Audits in Draft / In Progress at Annual Opinion			
Operational	Procurement and Contract Management		Final Report	Reasonable	1		1		Reported at January Meeting
Key Financial Control	Systems Admin		Final Report	Reasonable	7		2	5	Reported at September Meeting
Key Financial Control	Human Resources		Final Report	Reasonable	2		1	1	Reported at January Meeting
Key Financial Control	Procurement		Final Report	Partial	10		7	3	Reported at January Meeting
ICT	Cyber Security		Draft Report						
Operational	Integrity of Data		Final Report	Reasonable	5		4	1	See Appendices C & E
Advice and Consultancy	Benefits Realisation		Position Statement						



# Internal Audit Work Plan Progress 2019/2020

## APPENDIX B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
2019/20 Audit Plan									
Governance	Annual Governance Statement	1	Final Report	Substantial	2			2	Reported at January Meeting
Operational	Management and Monitoring of Contracts	1	Deferred						
Operational	Asset Management	1	In Progress						
Operational	Commercial Property / Investment Property	1	In Progress						
Operational	Safer Recruitment	1	Draft Report						
Operational	Remote Workers	1	Final Report	Substantial	2			2	Reported at January Meeting
Operational	Commissioning (2018/19)	1	Audit Removed						
ICT	Software as a Service – Cloud Provision	1	ToE Issued						
ICT	Software as a Service – Dataset Management	1	ToE Issued						
Follow-Up	Ubico Financials	1	Final Report	Substantial	1			1	Reported at September Meeting
Follow-Up	Business Continuity Management	1	In Progress						
Operational	(NEW) Property (Use of Contractors)	1	Final Report	Partial	5		5		Reported at January Meeting

# Internal Audit Work Plan Progress 2019/2020

## APPENDIX B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
Operational	Affordable Housing	2	Final Report	Substantial	0				See Appendix C
Operational	Business Rates Reset	2	Deferred						
Operational	Apprenticeship Scheme	2	Final Report	Substantial	1		1		Reported at January Meeting
ICT	Cyber Security – Incident Management	2	In Progress						
ICT	Cyber Security – High Risk Area (defined from 2018/19 audit)	2							
Grant Certification	Disabled Facilities Grant Certification	2	Complete						
Operational	(NEW) Planning Process and Complaints Procedure	2	Draft Report						
Key Financial Control	Revenues and Benefits	3							
	• National Non-Domestic Rates		Final Report	Substantial	1			1	Reported at January Meeting
	• Council Tax								
	• Council Tax Benefit		Final Report	Substantial	0				Reported at January Meeting
Key Financial Control	Core Financials	3							
	• Accounts Payable		Final Report	Substantial	0				Reported at January Meeting

# Internal Audit Work Plan Progress 2019/2020

## APPENDIX B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
	• Accounts Receivable		In Progress						
	• Main Accounting								
	• Payroll		In Progress						
	• Treasury Management and Bank Reconciliation		In Progress						
Key Financial Control	Systems Administration	3	Final Report	N/A					See Appendix C
Key Financial Control	Human Resources – Use of Volunteers	3	Final Report	Reasonable	7		3	4	Reported at January Meeting
Key Financial Control	Other Support Service provided by Publica • Health and Safety	3	In Progress						
ICT	Management of Service Provision	3							
ICT	ICT Business Continuity	3	In Progress						
Grant Certification	Disabled Facilities Grant Certification – Additional Grant	3	Complete						
Governance	Risk Management	4							
Governance	Performance Management	4							
Operational	Planning Applications	4							

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
Operational	Publica Transformation Benefits Realisation	4							
Operational	Corporate Culture	4							
Follow- Up	Procurement Audit	4	In Progress						
Follow-Up	Procurement and Contract Management	4	In Progress						
Follow-Up	Follow-Up of Recommendations made in Substantial and Reasonable Audits	1 – 4	On Going						
Follow-Up	Follow-Up of Control Weaknesses identified by the Counter Fraud Unit	3 – 4	On Going						
Advice and Consultancy	Workforce Strategy	1 – 4							
Advice and Consultancy	Support to the Publica Transformation Programme	1 – 4	On Going						
Advice and Consultancy	Assurance to the Partner Councils in respect of the Publica Transformation Programme	1 – 4							

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
Advice and Consultancy	Support for any emerging groups / programmes / projects • Town Centre Team Project Board	1 – 4	On Going						
Advice and Consultancy	Support to the service responsible for Recyclates	1 – 4	On Going						
Other Audit Involvement	Working with the Counter Fraud Unit	1 – 4	On Going						
Other Audit Involvement	Management of the IA Function and Client Support	1 – 4	On Going						
Other Audit Involvement	Contingency – Provision for New Work based on emerging risks								

**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.

**2019/20 – Affordable Housing – Substantial Assurance**

**Background**

Cheltenham Borough Council submitted its Local Plan 2011-2031 for examination in October 2018. A six-week public consultation period closed on the 16th December 2019 during which people were asked to consider modifications to a previous draft plan. In the interim the Council's strategy is driven by the Joint Core Strategy (JCS) 2011-2031 (adopted in December 2017). The Joint Core Strategy was developed in collaboration with Gloucester City Council and Tewkesbury Borough Council. Affordable housing obligations are covered within Policy SD12, which states:

The JCS authorities will seek, through negotiation, for new development to deliver new affordable housing on a sliding scale approach as set out below:

- i. Within the Strategic Allocation sites a minimum of 35% affordable housing will be sought;
- ii. Outside of the Strategic Allocation sites, on sites of 11 dwellings or more, or sites with a maximum combined gross floor space of greater than 1000m<sup>2</sup>; a minimum of 20% affordable housing will be sought on developments within the Gloucester City administrative area and a minimum of 40% will be sought within the Cheltenham Borough and Tewkesbury Borough administrative areas;
- iii. On sites of 10 dwellings or less, which have a maximum combined floorspace of no more than 1,000m<sup>2</sup>, no contribution towards affordable housing will be sought;
- iv. Notwithstanding the above, affordable housing policy for sites of 10 dwellings or less may be applied under policies set out within District plans.

According to the latest Strategic Housing Market Assessment (2015) Cheltenham will require 3,696 additional affordable homes between 2015-2031. Cheltenham's potential supply of affordable homes (determined through planning commitments, district plans and strategic allocation assumptions) during this period is up to 2,654, resulting in a shortfall of at least 1,042. The Council therefore developed a Housing & Homelessness Strategy (2018-2023) which looks to address this shortfall by providing additional affordable outside of planning commitments or reduce housing need.

Below shows the actual and expected number of affordable houses delivered between 2014/15 and 2020/21:

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Affordable Housing delivered	24	32	35	106	86	67	106

### **Audit Conclusion / Findings**

We are pleased to offer substantial assurance over the management of affordable housing provision at Cheltenham Borough Council. All areas set out within the scope were reviewed and no control weaknesses were found that could impact on the Council. One suggestion has been made concerning the affordable housing supplementary planning guidance, currently available on the Council's website, which is significantly out of date and could lead to confusion and frustration for developers. Revising this document is already within the service's workplan. We have suggested the old document is removed, to be replaced when the new document is approved (following the adoption of the Council's Local plan).

### **2018/19 – Integrity of Data – Reasonable Assurance**

#### **Background**

Publica Group (Support) Ltd is a council owned company which delivers services, including HR and Payroll for Cheltenham (CBC) and Cotswold (CDC), Forest of Dean (FoDDC) and West Oxfordshire (WODC) District Councils. The HR and Payroll team based at the Municipal Offices are responsible for maintaining CBC HR data and providing management information to publish in accordance with the Equality Act 2010. Information on CBC's responsibility as a local authority within the Equality Act 2010 can be found on the CBC Website.

The Equality Act 2010 defines 9 protected characteristics and are; age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion and belief, sex and sexual orientation.

Publica HR complete an annual Gender Pay Gap Report on behalf of CBC. The annual publication of the gender pay gap is a requirement of the Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017 for local authorities with over 250 employees.

CBC's headcount at the end of the 2018/19 Quarter 4, was 232 employees. CBC publish the gender pay gap report on a voluntary basis for transparency.

Business World is the system used for managing HR and Payroll processing and stores the personal information of all employees across the Partner Councils. CDC, FoDDC and WODC use Business World Self-Service functionality for payroll related processes including sickness recording. However, processing for Cheltenham Borough Council requires manual input by Payroll personnel.

#### **Audit Conclusion / Findings**

Cheltenham Borough Council (CBC) have responsibility under the Public Sector Equality Duty under the Equality Act 2010 to be able to consider how best to publish information that could include but is not limited to; the makeup of the overall workforce, the gender pay gap and recruitment and retention rates for staff with different protected characteristics. Therefore, it is important that accurate and up to date employee information is maintained. We were advised that a project to collect and update employee personal information has been identified. We would suggest CBC clearly defines the scope of the data they require as part of the project.

At CBC, the reporting of sickness absence is a manual process and requires completion and return of sickness forms to Payroll which are then input into the payroll system so that employees' pay is adjusted accordingly. The Business World system offers the functionality, via Self-Service to enable managers and employees to enter sickness into the system directly, removing manual intervention which could result in input errors or processing delays. A recommendation is made for CBC to consider onboarding to the 'Self-Service' system.

New job applicants are not advised of personal data collection and processing responsibility under the Data Protection Act 2018, we noted there is no HR or Recruitment privacy notice on the CBC website. A recommendation is made to update the CBC website to ensure compliance with the requirements of the act.

Finally, an annual gender pay-gap report that CBC publish as part of the Equality Act, and quarterly management information reports are produced by the HR and Payroll service. Our testing found some inconsistencies and identified areas where improvements can be made; we recommend full work instructions are documented to enable future reports to be completed consistently should responsibility for their completion change.



Priority	Recommendation	Management Response	Due Date
2	<p>As stated by Publica HR, we recommend that a project be initiated to review and bring up to date CBC employee's personal data. HR Processes should also ensure that required data is captured and recorded accurately.</p> <p>CBC should work with the HR service to determine the information they require to be collected as part of the refresh project and ongoing collection.</p> <p>Availability of Self-Service functionality to empower employees to view and update their own personal information should be investigated.</p> <p>Personal data collection and use should be completed in line with the Data Protection legislation, including the deletion of records that are no longer necessary.</p>	<p>We will commence work to update the emergency contact data for CBC employees by end of Feb 2020.</p> <p>We have shared the data that we could collect with CBC and we are investigating with ICT how we can develop self-service so that employees can view and update their personal information – we will provide a plan on how this could be undertaken this by 31st March 2020</p>	31 <sup>st</sup> March 2020
2	<p>We recommend that precise work instructions to complete MI reports are documented so that personnel responsible for producing MI reports, are able to gather and report on the information in a consistent and accurate manner, especially as the process is only undertaken once every three months. We also recommend that, peer review is completed on management information to</p>	<p>Work has commenced to gather, store and utilise MI data centrally. The work is being overseen by the Contract Manager.</p>	31 <sup>st</sup> March 2020

	verify its accuracy.		
2	We recommend that CBC consider onboarding to the Business World Self-Service functionality for sickness reporting. This will enable line managers to enter sickness periods immediately, or as soon as practically possible, and also provides Payroll with up to date absence information. This would then reduce potential delays encountered due to manual forms being requested, delivered and sometimes chased by Payroll. It would also reduce any risk of mistakes being made with the additional manual input of sickness data.	This project has commenced and will be completed early next year.	30 <sup>th</sup> June 2020
2	We recommend that a data privacy statement for recruitment and employment is added to the CBC website, and new applicants advised of this at the application stage.	Agree – the recruitment team will complete by the end of December.	31 <sup>st</sup> December 2019

#### **2019/20 – Systems Admin – Follow Up of 2018/19 Audit Background**

Seven recommendations were made in the 2018/19 review of Systems Admin to put controls in place or strengthen existing controls. Due to the number of recommendations made, the 2019/20 audit has concentrated on following-up these recommendations and documenting progress made.

Three of the recommendations are complete and therefore can be closed. At the time of testing three of the recommendations have not been actioned by the implementation date, and therefore we have agreed to extend this date to ensure the recommendations can be fully actioned and one has not commenced as it will be incorporated into a larger piece of work (Data Audit).

A further Follow-Up will be planned to be undertaken once the revised target dates have been reached for the outstanding recommendations.

## High Priority Recommendation Follow-Up

## APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update March 2020
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	Follow up in progress
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	Follow up in progress
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	Follow up in progress
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.	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	As part of this year's AR audit subscription errors have been notified and addressed by the service.  Recommendation closed.

## High Priority Recommendation Follow-Up

## APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update March 2020
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	Work ongoing
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	The Programme Manager agrees to increase officer awareness through reminders on a quarterly basis and ensure periodic training is undertaken.	30/04/19	We were advised that this recommendation will be actioned via a new learning & development system that has been purchased. Agreed to extend implementation date to 30/06/20.

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## High Priority Recommendation Follow-Up

## APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update March 2020
2018/19 Systems Admin	2	<p>We recommend a principal Identity and Access Management process detailing requirements for 'Joiners, Movers and Leavers' is developed and documented and that complies with the requirements set out in the Information Security and Access Control Policy. The overarching process should apply to and embrace all systems that may not be included within the standard ICT team scope and should be available for all employees to view and follow.</p> <p>System administrators should then document or update local processes and procedures that should be in alignment with the overarching policy and process requirements. and documented on a quarterly basis as per the requirements of the Risk Management Policy</p>	Our team ICT Administrators are now updating and documenting our Access Management system process for joiners, Movers and Leavers. A change control process will be introduced that will document significant changes to the ICT infrastructure which will also align to our ICT User Policies and guidance.	31/03/20	<p>Flowcharts have been produced for the starters / leavers / variation processes.</p> <p>The ICT Audit and Compliance Manager will refresh the ICT Policies following the completion of the Cyber Security audit report. He is aiming to have drafted policies by March 2020 for circulation / consultation at CGG and JMT.</p> <p>Further follow-up has been included in the 2020/21 audit plan</p>

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## High Priority Recommendation Follow-Up

## APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update March 2020
2018/19 Systems Admin	2	We recommend that officers with systems administration responsibilities are requested to review the Security Policy and its requirements, perform a gap analysis on their current system settings and processes and devise a plan to implement those changes to ensure continued compliance with the Policy. Should it not be possible to make changes for any reason, they should be risk assessed and documented on the ICT risk register or policy exception register.	We agree with the password setting findings and risks with on systems Business World and Civica applications. However, at present these risks are mitigated by the Active Directory (AD) password settings. Both Business world and Civica systems users only access these systems via the AD. We also comply with the HMG National Cyber Security Centre (NCSC) password guidance on our network. However, we will seek to review all passwords policy setting on both applications. Our ICT Risk register will be updated to reflect these security risks and mitigations.	31/12/19	<p>Grant Thornton raised issues around weak passwords in their IT General Controls audit of 2017/18</p> <p>All passwords have been updated to comply, except Business World (BW), which has weak passwords, and these won't be changed by the supplier.</p> <p>Active Directory (AD) passwords are compliant and subsequently enhance BW passwords, as officers need to log-in via AD prior to logging in to BW.</p> <p>Recommendation closed.</p>
2018/19 Human Resources (Sickness Absence Reporting)	2	We recommend that the Publica Sickness and Absence Policy is finalised, approved and implemented without delay. The partner councils' Sickness and Absence Policies should also be reviewed and updated to ensure they meet the ongoing needs of the Councils and their retained staff.	The Policy is now complete and will be rolled out to managers after the summer break 2019. We will review the council policies. These will be brought in line with the new Publica policy if and when the partner Councils adopt the new Publica terms and conditions.	30/11/19	

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## High Priority Recommendation Follow-Up

## APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update March 2020
2018/19 Procurement and Contract Management	2	Assurance is sought from Publica that the Procurement and Contract Management Strategy is reviewed and updated to ensure it meets the needs of Publica and the partner Councils.	Agreed	30/06/20	
2018/19 Procurement		A copy of the approved contract must be held on In-Tend for all contracts over £5,000, as well as the quotes used during the tendering process, to demonstrate best value and ensure there is a complete central record.	Agreed, subject to a review of the contract value requirements.	31/12/19	Follow-Up in Progress
2018/19 Procurement		Budget Holders should regularly undertake monitoring of expected contract spend to actual contract spend as part of contract monitoring, to ensure contracts are managed in accordance with strategy, and inform Procurement of any changes to contract values to ensure the values recorded on the Contract Register are correct.	Agreed	31/12/19	Follow-Up in Progress
2018/19 Procurement		To ensure there is an audit trail to support all contract payments, the introduction of "No PO, no payment" policy should be considered to assist with the efficient monitoring of contract spend.	This will be considered	31/12/19	Follow-Up in Progress
2018/19 Procurement		To ensure there is a central record, when a waiver has been applied, this must be logged on the Waiver register once it has been implemented, for transparency purposes.	Agreed	31/12/19	Follow-Up in Progress

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## High Priority Recommendation Follow-Up

## APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update March 2020
2018/19 Procurement		All Officers should be informed during Procurement Process training of the following to ensure when applicable; <ul style="list-style-type: none"> <li>Procurement are consulted on all contracts over £5,000 so all approved contracts are entered onto the Contract Register, and waiver details can be accurately recorded when appropriate</li> </ul>	Agreed	31/12/19	Follow-Up in Progress
2018/19 Procurement		To ensure all transactions are raised and approved appropriately and in line with the current organisational structure, all requisitioning and approval permissions should be reviewed in BWO.	Following the recent organisation changes, the approvals permissions will be reviewed to ensure they are aligned with new roles and implemented accordingly on the ABW system.	31/12/19	Follow-Up in Progress
2018/19 Procurement		CBC must liaise with One Legal to ensure all waivers approved by Cabinet are also retained by the Council's Solicitor, in accordance with the Council's Contract Rules.	Waivers granted by Cabinet would form part of the committee report which are held by democratic services. In order to prevent multiple copies being held, the contract rules will be amended to reflect this action.	31/12/19	Follow-Up in Progress
2019/20 Property Use of Contractors	2	We recommend: i. that unless specialist skills are required to complete specific works, only approved framework contractors are used for general building works.  ii. that the progress of updating the contractor framework is pursued and if necessary escalated through Publica/One Legal Client Officers and Senior Management to ensure focus on this requirement is maintained.	Now using only framework contractors or obtaining waivers for non-specialist works.  Additional frameworks are being pursued through One Legal for use of the GCC framework and Publica Procurement for additional frameworks.	31/03/20	Follow-Up audit has been included in 2020/21 audit plan

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## High Priority Recommendation Follow-Up

## APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update March 2020
2019/20 Property Use of Contractors	2	<p>We recommend</p> <p>i. that process documents and associated procedures, aligned with CBC's Contract and Financial Rules, are documented and put in place so that a consistent approach to tasks can be followed and undertaken within the team as soon as possible.</p> <p>ii. A review of the service design should be undertaken to ensure that appropriate and effective processes and structures are in place.</p>	<p>Develop flow charts and sub processes to be agreed and signed off by section 151 officer.</p> <p>Started and talked already with Director and Publica Procurement to produce report on options going forward for strategic procurement of building related needs.</p>	31/03/20	Follow-Up audit has been included in 2020/21 audit plan
2019/20 Property Use of Contractors	2	<p>We recommend</p> <p>i. that the frequency of budget monitoring and reconciliation between the Council's financial system and the Uniform system is undertaken in accordance with the Financial Rules so that any issues related to budgets and expenditure are identified at an early stage. Regular management information reporting should be implemented to ensure transparency of the situation.</p> <p>ii. Consideration should be given to investigating whether the Uniform and Business World systems can be linked to aid budget monitoring processes.</p>	<p>Publica Finance has now appointed an accountant to liaise with and we will reconcile the Uniform and Agresso figures quarterly. Reviews are set up to feed into the financial reporting cycle.</p> <p>A brainstorming session has been set up to review the way Uniform and Agresso are used and explore what functionality and data can to be shared across systems. Once this is determined, we will liaise with Publica IT to progress further.</p>	31/03/20	Follow-Up audit has been included in 2020/21 audit plan

## High Priority Recommendation Follow-Up

## APPENDIX D

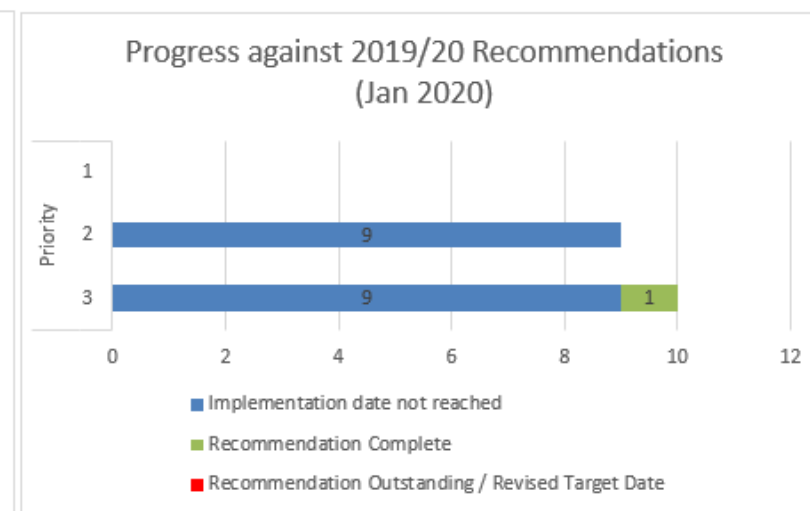
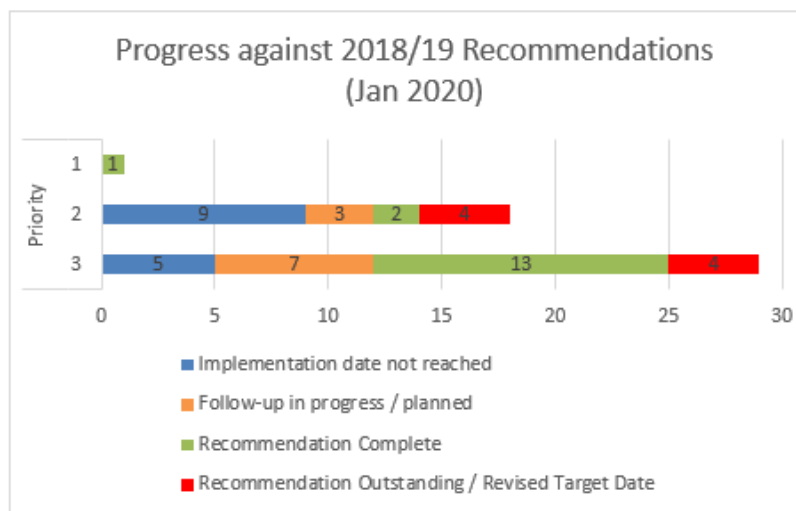
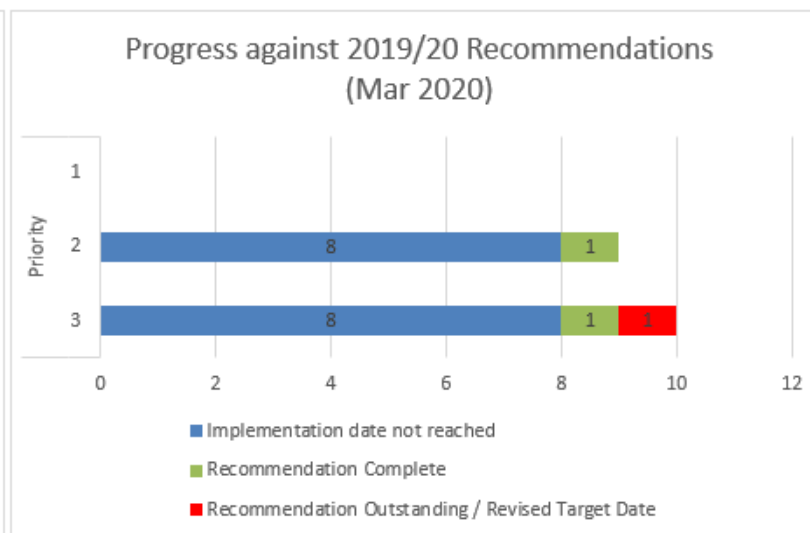
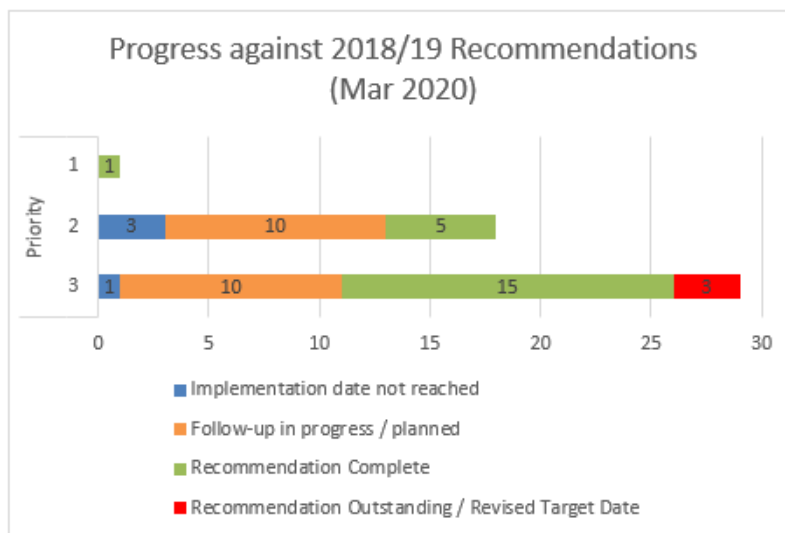
Audit Name	Priority	Recommendation	Management Response	Due Date	Update March 2020
2019/20 Property Use of Contractors	2	We recommend that the Property Services team, return any invoice that does not contain detailed information on the works completed, including materials and labour costs and ensure only sufficiently detailed invoices are approved for payment.	We have contacted the contractors and requested that a breakdown of invoices are provided in all cases. All staff have been instructed to return invoice if they are not adequately broken down.	31/03/20	Follow-Up audit has been included in 2020/21 audit plan
2019/20 Apprenticeship Scheme		We recommend that a reconciliation process is implemented for Apprenticeship Levy payments.	<p>Reconciliation is now carried out monthly between the Finance spreadsheet, the General Ledger and the online apprenticeship levy portal. Support will be requested from Finance to ensure reconciliation is being done correctly in the initial stages.</p> <p>The internal apprentice recruitment form has also been amended to ensure that the recruiting manager consults with the Finance Department to ensure there is appropriate levy funding available in the online account before the post goes for approval at the Resource Managers Group.</p>	Implemented & ongoing (to be followed up Feb 2020)	
2019/20 Human Resources (Use of Volunteers)		We recommend that a copy of a constituted group's Safeguarding Policy is received and reviewed by CBC officers before the group is allowed to participate in voluntary work on behalf of the Council.	Participation and Engagement Team leaders to review Safeguarding policy process with CBC Partnership Team Leader to agree on appropriate approach.	31/03/20	

## High Priority Recommendation Follow-Up

## APPENDIX D

Audit Name	Priority	Recommendation	Management Response	Due Date	Update March 2020
2019/20 Human Resources (Use of Volunteers)		We recommend that a link is included within the Volunteer Privacy Statement to the 'Your Data' page on the Cheltenham Borough Council website to ensure that volunteers have access to all information on their personal data required by the EU General Data Protection Regulations	To include a link within the Volunteer Privacy Statement to the 'Your Data' page on the CBC website.	31/12/19	
2019/20 Human Resources (Use of Volunteers)		We recommend that all volunteers that have signed historic version of the application form are asked to sign their consent to the current data protection arrangements and retention period. The current Volunteer Privacy Statement should also be brought to the attention of all volunteers who have not previously been made aware of it.	To strive to ensure that volunteers with historic consent forms are signed up to the 5-year data protection arrangements and retention period.	31/03/20	

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## Cheltenham Borough Council

### Audit, Compliance and Governance Committee – 24 March 2020

#### Proposed 2020/21 Internal Audit Plan

#### Internal Audit Charter

<b>Accountable member</b>	Cabinet Member Corporate Services, Councillor Alex Hegenbarth
<b>Accountable officer</b>	Paul Jones, Executive Director – Finance and Assets
<b>Ward(s) affected</b>	All
<b>Key/Significant Decision</b>	No
<b>Executive summary</b>	<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, Compliance and Governance 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>
<b>Recommendations</b>	<p><b>The Audit, Compliance and Governance Committee approves the Proposed 2020/21 Internal Audit Plan</b></p> <p><b>The Audit, Compliance and Governance Committee approves the Internal Audit Charter</b></p>
<b>Financial implications</b>	<p>There are no financial implications arising from the report</p> <p><b>Contact officers: Paul Jones, Executive Director – Finance and Assets</b>  <a href="mailto:Paul.Jones@cheltenham.gov.uk">Paul.Jones@cheltenham.gov.uk</a>, 01242 264365</p>
<b>Legal implications</b>	<p>None specific arising from the report recommendation</p> <p><b>Contact officer: Sarah Farooqi, Head of Law, One Legal</b>  <a href="mailto:Sarah.farooqi@tewkesbury.gov.uk">Sarah.farooqi@tewkesbury.gov.uk</a>, 01684 272012</p>

<b>HR implications (including learning and organisational development)</b>	<p>The HR implications are 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><b>Contact officer: Julie McCarthy, HR Manager – Operations</b>  <a href="mailto:Julie.McCarthy@publicagroup.uk">Julie.McCarthy@publicagroup.uk</a>, 01242 264355</p>
<b>Key risks</b>	<p>The audit plan has been derived from consultation with Corporate Management Team, Executive Leadership Team, Audit, Compliance and Governance 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. 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, Executive Director – Assets and Finance (Section 151 Officer)</p> <p>Furthermore, Audit, Compliance and Governance Committee will continue to receive quarterly reports through 2020/21 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"> <li>• The support of management and the Council</li> <li>• Direct access and freedom to support senior management including the Chief Executive and the Audit, Compliance and Governance Committee</li> <li>• Access to any records, personnel or physical property of the Council for audit work</li> </ul>
<b>Corporate and community plan Implications</b>	<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>
<b>Environmental and climate change implications</b>	<p>Relevant to particular audit assignments and will be identified within individual reports.</p>



<b>Property/Asset Implications</b>	<div> <div>Page 81</div> <div> There are no specific Asset Implications arising from the content of the report </div> </div> <div> <b>Contact officers: Paul Jones, Executive Director – Finance and Assets</b>  <a href="mailto:Paul.Jones@cheltenham.gov.uk">Paul.Jones@cheltenham.gov.uk</a>, 01242 264365 </div>
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## 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. 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, Compliance and Governance 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 2020/21 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 2020. 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, Compliance and Governance Committee.

## 4. Performance management – monitoring and review

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

## 5. Internal Audit Charter

- 5.1** The Audit Charter (Appendix 2) 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

<b>Report author</b>	<b>Lucy Cater, Assistant Director, SWAP Internal Audit Services</b> <b>lucy.cater@swapaudit.co.uk</b> <b>01285 623340</b>
<b>Appendices</b>	1. SWAP Internal Audit Plan 2020/21 2. Internal Audit Charter

# Cheltenham Borough Council

## Proposed 2020/21 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 2020/21 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, Compliance and Governance 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, Compliance and Governance Committee?
- Is sufficient assurance being received within our annual plan to monitor the organisation's risk profile effectively?

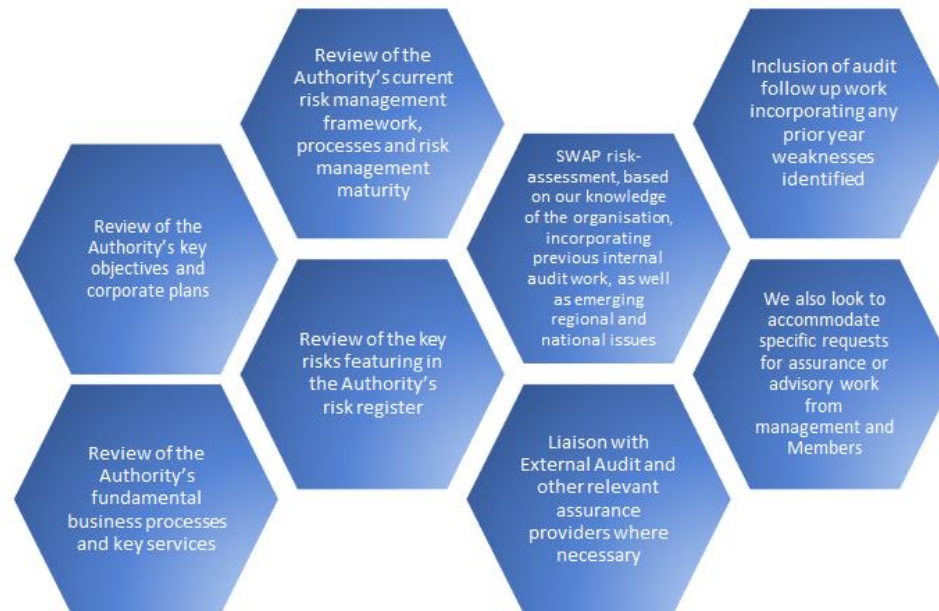
## The Internal Audit Plan: Approach

To develop an appropriate risk-based audit plan, SWAP have consulted with senior management, and Members of the Audit, Compliance and Governance 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 2020/21

The factors considered in putting together the 2020/21 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, Compliance and Governance 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.

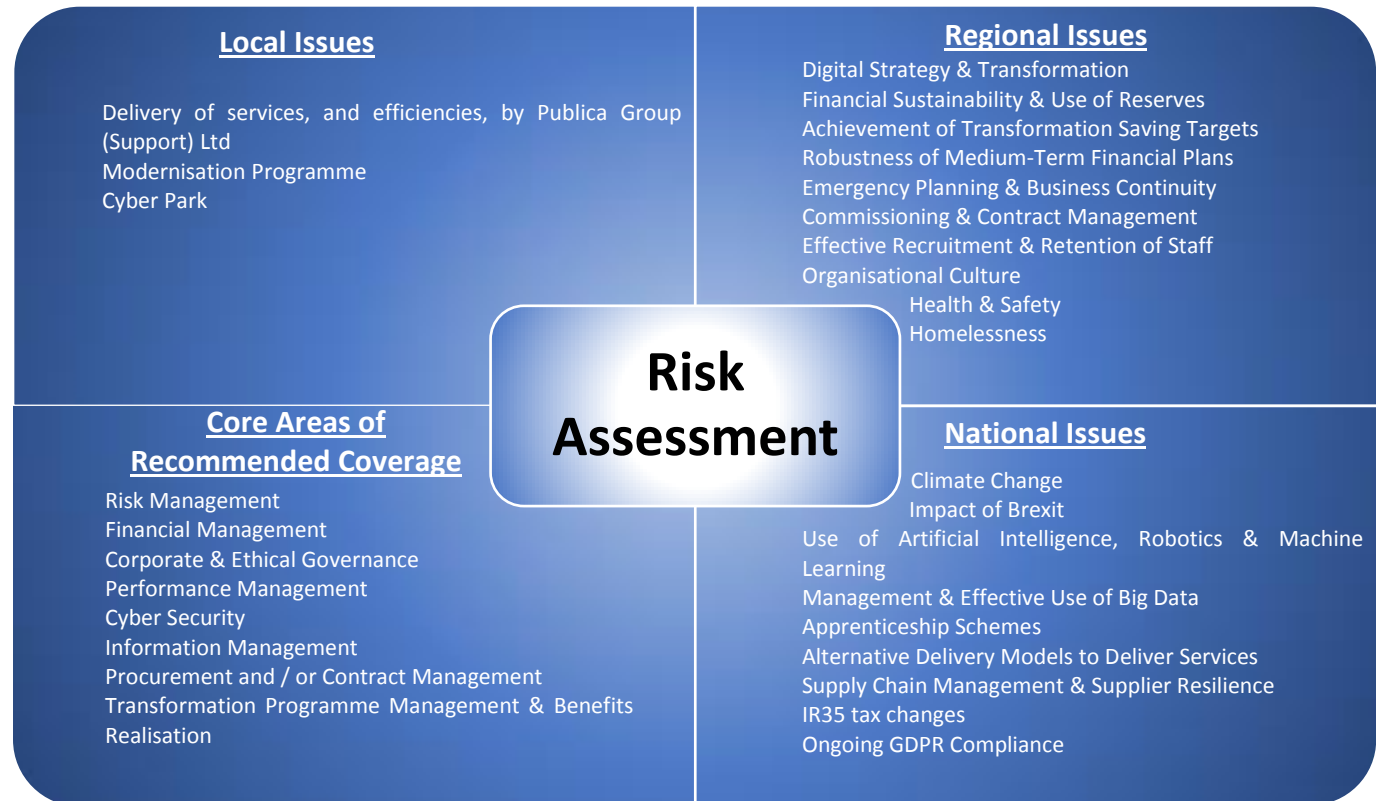
As above, it is the responsibility of the Authority's Executive Leadership and Corporate Management Teams, and the Audit, Compliance and Governance Committee to ensure that, following our risk assessment, the proposed plan contains sufficient and appropriate coverage.



### Internal Audit Annual Risk Assessment

Our 2020/21 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 2020/21 plan presented in Appendix 1 provides coverage of our core areas of recommended coverage.

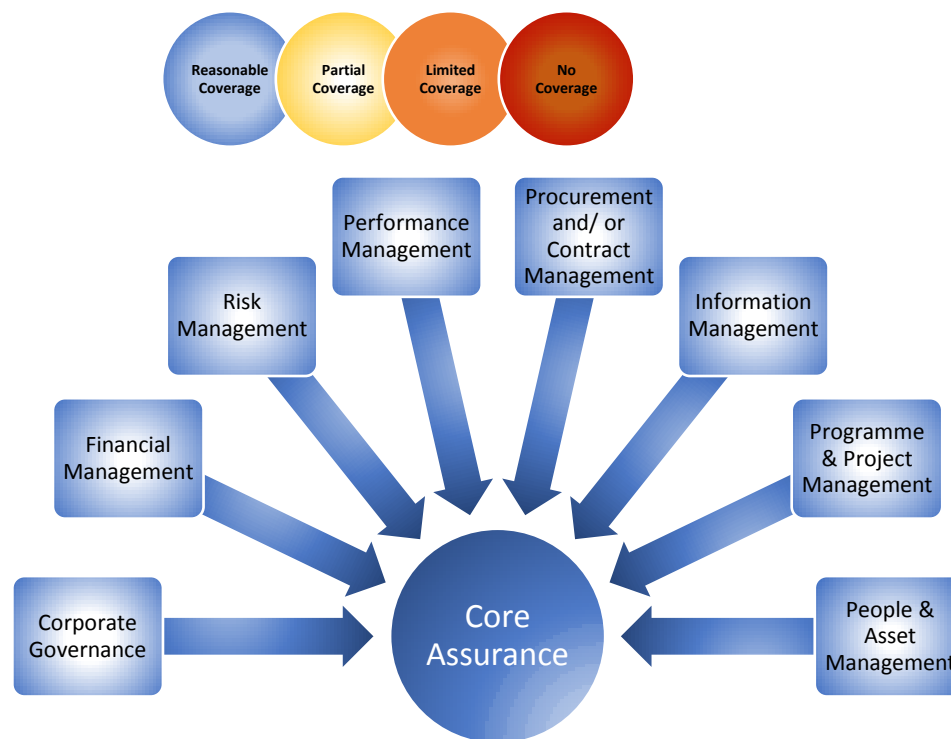
Going forwards, we will look to align our audit programme of work with the Authority's Corporate objectives, as well as our core areas of recommended coverage.

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 the Audit, Compliance and Governance 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*

## 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

*fraud.*

### Your Internal Audit Service

#### Audit Resources

The 2020/21 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](mailto:lucy.cater@swapaudit.co.uk), 07720 312470

Jaina Mistry, Principal Auditor – [jaina.mistry@swapaudit.co.uk](mailto:jaina.mistry@swapaudit.co.uk), 01285 623337

Shelley Coleman, Senior Auditor – [shelley.coleman@swapaudit.co.uk](mailto:shelley.coleman@swapaudit.co.uk), 01285 623343

#### External Quality Assurance

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors (IPPF).

Every three years, SWAP is subject to an External Quality Assessment of Internal Audit Activity. The last of these was carried out in February 2020 which confirmed general conformance with the IPPF.

#### 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. Any findings, which could be constituted as fraud, will be reported to the Council's Counter Fraud Unit for investigation.



## 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**

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, Compliance and Governance 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, Compliance and Governance 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, Compliance and Governance 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
<b><u>Delivery of Annual Internal Audit Plan</u></b> Completed at year end	>90%
<b><u>Quality of Audit Work</u></b> 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%
<b><u>Outcomes from Audit Work</u></b> 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
<b>Corporate Governance</b> <i>Corporate Governance refers to the strategic management practices and values and beliefs by which the Council operates.</i>	<b>Governance Arrangements for Cyber Cheltenham</b> <i>Assessment of the Governance Arrangements in respect of Cyber Cheltenham.</i> <b>Marketing Cheltenham</b> <i>Review to ensure the governance and accountability of Marketing Cheltenham are appropriate and transparent.</i> <b>CBC Lending Council</b> <i>Review of the Council's involvement in the Folk2Folk scheme, to include agreements, repayment plans, interest calculations.</i>	TBC  TBC  TBC
<b>Risk Management</b> <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>	<b>Risk Management</b> <i>To review a specific element of the Council's Risk Management process – Suggested area to review is risk identification and description.</i>	4
<b>Performance Management</b> <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>	<b>Performance Management</b> <i>A review of an element of Performance Management – Suggested area to review is the Appraisal Process.</i> <b>Building Control</b> <i>Review of the Building Control process offering suggestions for improvement where appropriate.</i> <b>Reporting of Statutory Planning Application Data</b> <i>Review to assess the statutory data published in respect of planning applications.</i>	4  TBC  TBC

Link to Key Priorities / Corporate Risk Register or Healthy Organisation Theme	Areas of Coverage and Brief Rationale	Proposed Quarter
<p><b>Financial Management</b></p> <p><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></p>	<p><b>Core Financials – Publica Controls and Transactional Testing</b></p> <p><i>A review of the controls operating within Publica in respect of the Core Financial systems:</i></p> <ul style="list-style-type: none"> <li>• Payroll</li> <li>• Accounts Payable (Creditors)</li> <li>• Accounts Receivable (Debtors)</li> <li>• Treasury Management and Bank Reconciliations</li> <li>• Main Accounting, Capital Accounting and Budgetary Control</li> </ul> <p><i>Transactional testing will be undertaken for the Council where appropriate to ensure compliance with Council Policies and Procedures.</i></p> <p><i>Depending on previous years audit assurances a high-level review may be deemed appropriate.</i></p> <p><b>Off Payroll Working (IR35)</b></p> <p><i>Review to ensure compliance with HMRC's IR35 legislation, ensuring any changes made to legislation by HMRC have been actioned.</i></p> <p><b>Human Resources</b></p> <p><i>A review of an element of the Human Resources (HR) service – Suggested area to be reviewed is the Recruitment Process.</i></p> <p><b>Other Publica Area</b></p> <p><i>Review to be undertaken of either Procurement / Health and Safety / Insurance. Suggested area for review for 2020/21 is the Safety of Staff undertaking site visits (not planning officers). Review to include Personal Protective Equipment (PPE), Training and Treatment of Hazardous Waste.</i></p> <p><b>Revenues and Benefits</b></p> <p><i>A review of the controls operating in respect of:</i></p> <ul style="list-style-type: none"> <li>• Council Tax</li> <li>• National Non-Domestic Rates</li> <li>• Housing Benefit and Council Tax Support</li> </ul> <p><i>The programme of activity ensures full coverage of the services over a 3-year cycle</i></p> <p><b>CBC Lottery</b></p> <p><i>Review to ensure monies / grants are awarded in accordance with policy / procedure, to include an assessment of applications.</i></p>	<p><b>3</b></p> <p><b>TBC</b></p>

Link to Key Priorities / Corporate Risk Register or Healthy Organisation Theme	Areas of Coverage and Brief Rationale	Proposed Quarter
<b>People and Asset Management</b> <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>	<b>Leisure and Culture Facilities</b> <i>Review to determine how the Council ensures the leisure service provider(s) are adhering to statutory Health and Safety regulations. Review to test requested confirmations for tests such as fixed wire testing, fire alarm systems and emergency lighting tests.</i>	TBC
	<b>Property Related Health and Safety</b> <i>Review to assess the Health and Safety arrangements at the Council's properties including confirmation of testing of Fixed Wire, Emergency Lighting and PAT testing.</i>	TBC
	<b>Use of Third-Party Workers</b> <i>Review of the recruitment and on-going personnel management of agency / contractor / temporary / third-party workers who work at / on behalf of the Council. Are HR related considerations, processes and controls robust enough within individual service areas?</i>	TBC
	<b>Climate Change</b> <i>Review to assess what business areas are doing to support the Council's commitment to the Climate Emergency.</i>	TBC
	<b>Inclusivity and Diversity</b> <i>Review to assess the Council's efforts to be externally (stakeholders / customers) inclusive and diverse.</i>	TBC
Link to Key Priorities / Corporate Risk Register or Healthy Organisation	Areas of Coverage and Brief Rationale	Proposed Quarter

Theme		
<b>Information Management</b> <i>Effective Information Management will facilitate and support effective working, better decision-making, improved customer service and business transformation.</i>	<b>ICT Audits</b> <i>Four audits to be conducted during the year.</i> <i>Scope to be defined and agreed following the results of the Cyber Security audit.</i>	1 – 4
<b>Procurement and / or Contract Management</b> <i>Assessing Procurement &amp; 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>	<b>Management and Monitoring of Contracts (audit deferred from 2019/20)</b> <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> <b>Publica Transformation Benefits Realisation (audit deferred from 2019/20)</b> <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> <b>The Delivery of Services by Publica</b> <i>Review to assess how the Council is getting assurance that Publica is delivering as per contracts / service level agreements. To include an assessment of metrics.</i>	1   1   TBC
<b>Programme and Project Management</b> <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>	<b>Emerging Groups / Programmes / Projects</b> <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> <b>Governance of Programmes and Projects</b> <i>Review of the programme and project framework.</i>	1 – 4   TBC

Link to Key Priorities / Corporate Risk Register or Healthy Organisation Theme	Areas of Coverage and Brief Rationale	Proposed Quarter
Other	<b>Management</b> <i>Preparation of IA Monitoring Reports and preparation and attendance at Audit, Compliance and Governance Committee. Annual Audit Planning. Attendance at Governance and Risk Groups. High level programme monitoring. Liaison meetings with CFOs and Management Teams.</i>	1 – 4
	<b>Follow-Up Audits</b> <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 Property Use of Contractors (2019/20).</i>	
	<i>Follow-Up of Systems Admin – ensuring outstanding recommendations have been actioned.</i>	
	<b>Grant Certification</b> <i>Review (income and expenditure) and certification of Disabled Facilities Grants and Additional Funding, ensuring finding requirements have been met.</i>	2 and 3
	<b>Working with the Counter Fraud Unit</b> <i>Provision to ensure collaborative working with the CFU and to ensure control weaknesses, identified during CFU activity, are being actioned. Regular liaison meetings.</i>	1 – 4
	<b>Contingency</b> <i>Provision for new work based on emerging risks and Investigations.</i>	1 – 4
<b>Reserve Audits</b> <i>These audits will be used to substitute any work that cannot be progressed during the year for any reason.</i>	<b>Income Streams</b>	

## 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 24<sup>th</sup> April 2019 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 SWAP Internal Audit Services (SWAP). SWAP is a Local Authority controlled company. This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

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

#### **Management<sup>1</sup>**

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:

<sup>1</sup> 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, Compliance and Governance 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.

### ***Audit, Compliance and Governance Committee<sup>2</sup>***

The Audit, Compliance and Governance Committee is responsible for approving the scope of internal audit work, receiving communications from the SWAP Assistant Director on the progress of work undertaken, reviewing the independence, objectivity, performance, professionalism and effectiveness of the Internal Audit function, and obtaining reassurance from the SWAP Assistant Director as to whether there are any limitations on scope or resources.

### ***Internal Audit***

The SWAP Assistant Director, as Head of Internal Audit, is responsible for determining the scope, except where specified by statute, of internal audit work and for recommending the action to be taken on the outcome of, or findings from, their work.

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 and the Assistant Director also report to the Chief Financial Officer (S151 Officer), and reports to the Audit, Compliance and Governance Committee as set out below.

<sup>2</sup> In this instance Audit, Compliance and Governance Committee relates to "The Board" referred to in the PSIAS.



The Assistant Director will be the first and primary point of contact for Cheltenham Borough Council for all matters relating to the Audit, Compliance and Governance 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.

### 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, with performance and accountabilities established;
- 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, Compliance and Governance 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, Compliance and Governance 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, Compliance and Governance Committee providing an overall opinion of the status of risk and internal control within the Council, based on the internal audit work conducted during the previous year.

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

***Revised, February 2020***

## A Move to Agile Auditing

When delivering the 2020/21 Internal Audit Programme of work, as presented, we will be looking to embrace the concept of Agile Auditing.

### What is Agile Auditing?

Agile Auditing breaks a typical audit engagement down into several shorter stages, with us reporting any findings as we go. It involves increased communication and collaboration with stakeholders throughout the audit process, with greater speed but also transparency. It is likely to involve a team of audit staff instead of one individual.

### Why the move to it?

- We recognise that the speed of change (and subsequent risk) is increasing within our Partners. As auditors we therefore need to adapt in order to be able to react and respond quicker.
- We constantly seek ways in which we can add value to our Partners, in order to help them succeed. Increased communication and collaboration through Agile Auditing will support this.
- We also want to move towards shorter and more impactful audit reports; Agile Auditing will facilitate this.



### What will it involve?

As above, an Agile audit engagement is likely to involve a small team of audit staff as opposed to one individual. This will ensure that the audit proceeds and concludes with greater pace.

Although we are likely to require more frequent interaction with staff in the area we are auditing, the interaction will be quicker and more focussed. We are confident that the overall time required from staff will actually be less than through a traditional audit approach.

We will look to discuss any audit findings with staff throughout the stages of the audit. This will ensure that by the time we come to report, we already have agreement to any proposed actions required, and even provide the opportunity for any findings to be actioned prior to the completion of our audit.

### What will be the benefits?

- ☒ **Ability to provide faster assurance**
- ☒ **Enhanced ability to add value**
- ☒ **Audit observations resolved more quickly**
- ☒ **Shorter, more impactful audit reports**
- ☒ **Reduced negotiations at audit report start**

*We hope you support our move towards Agile Auditing.*

*If you would like to discuss the concept in more detail, please speak to your SWAP contact.*

Unrestricted

Unrestricted

## Cheltenham Borough Council

### Audit, Compliance and Governance Committee – 24 March 2020

#### Counter Fraud Unit Report

<b>Accountable Member</b>	Cabinet Member Corporate Services, Councillor Alex Hegenbarth
<b>Accountable Officer</b>	Paul Jones Executive Director Finance and Assets <a href="mailto:Paul.Jones@cheltenham.gov.uk">Paul.Jones@cheltenham.gov.uk</a>
<b>Report Author</b>	Emma Cathcart Counter Fraud Manager 01285 623356 <a href="mailto:Emma.Cathcart@cotswold.gov.uk">Emma.Cathcart@cotswold.gov.uk</a>
<b>Ward(s) affected</b>	All indirectly
<b>Key/Significant Decision</b>	No
<b>Executive summary</b>	<p>The purpose of the report is to provide the Audit, Compliance and Governance Committee with assurance over the counter fraud activities of the Council. The Counter Fraud Unit will continue to provide Audit, Compliance and Governance Committee with direct updates biannually.</p> <p>Work plans are presented to the Audit, Compliance and Governance 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, Compliance and Governance 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>
<b>Recommendations</b>	<p><b>That the Audit, Compliance and Governance Committee:</b></p> <p><b>a) Notes the report and makes comment as necessary.</b></p>
<b>Financial implications</b>	<p>The report details financial savings generated by the Counter Fraud Unit.</p> <p><b>Contact Officer: Paul Jones, Executive Director Finance and Assets</b>  <a href="mailto:Paul.Jones@cheltenham.gov.uk">Paul.Jones@cheltenham.gov.uk</a></p>

<b>Legal implications</b>	<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 conducting 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><b>Contact officer: Vikki Fennell, One Legal</b>  <a href="mailto:Vikki.Fennell@teWKesbury.gov.uk">Vikki.Fennell@teWKesbury.gov.uk</a></p>
<b>HR implications (including learning and organisational development)</b>	<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><b>Contact officer: Julie McCarthy, HR Operations Manager</b>  <a href="mailto:Julie.McCarthy@publicagroup.uk">Julie.McCarthy@publicagroup.uk</a> 01242 264355</p>
<b>Key risks</b>	<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>
<b>Corporate and community plan Implications</b>	<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>
<b>Environmental and climate change implications</b>	<p>N/A</p>
<b>Property/Asset Implications</b>	<p>There are no property implications associated with this report.</p> <p><b>Contact officer: Dominic Stead, Head of Property Services</b>  <a href="mailto:dominic.stead@cheltenham.gov.uk">dominic.stead@cheltenham.gov.uk</a></p>

**1. COUNTER FRAUD UNIT REPORT**

- 1.1.** The Counter Fraud Unit provides Audit, Compliance and Governance Committee with direct updates biannually. The Audit, Compliance and Governance 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.** Attached at Appendix 2 is a copy of the work plan for 2019/20 detailing the current position.
- 1.3.** In addition to Appendix 2, as a dedicated investigatory support service, the CFU undertakes a wide range of enforcement work according to the requirements of each Council. This includes criminal investigation and prosecution support for enforcement teams, investigations into staff/member fraud and corruption, or tenancy and housing fraud investigation work. Results for Quarter 1 to Quarter 3 are as follows:
- Single Point of Contact for Department for Work and Pensions (DWP) referrals. 94 Local Authority Information Exchange Forms have been received or referred to DWP for action. In addition we have received or referred 37 cases for joint working.
  - Undertaking the investigation of alleged fraud and abuse in relation to the Council Tax Reduction Scheme (Council Tax Support). 9 cases have been referred for investigation and 12 cases have been closed or rejected.  
This has resulted in 1 criminal sanction (penalty), 1 Civil Penalty and an amount exceeding £1,491 of recoverable Council Tax Support and fines being calculated. The work also resulted in a joint prosecution with the Department for Work and Pensions. The defendant pleaded guilty and received an 18 month suspended sentence, 200 hours community service and was ordered to pay costs of £340. The defendant had fraudulently claimed £4,140 in Council Tax Support which has since been paid in full. In addition overpayments of Housing Benefit exceeding £52,600 have been generated.
  - Review of the NNDR empty void premises – rolling review of premises rated as empty. Since 1 April 2019 221 visits have been completed – 24 were identified as potentially occupied and a further 45 had anomalies or account amendments referred to the team. 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.
  - Review of the empty residential properties not yet classified as long term (C1 Empties) or those classified as long term empty. 446 properties have been referred and visited. 41 properties have been referred as occupied / furnished with a request to review liability and a further 1701 anomalies have been referred to the team. The work supports the Council's Revenues Team to manage empty properties and maximise the tax base and new homes bonus.
  - National Fraud Initiative - Student Loan, Market Trader and Housing Benefit matches reviewed. To date no anomalies have been identified and there are only 12 matches outstanding.
  - A further 8 cases have been referred from Parking Services, Environmental Health, Community Protection and Revenues. The Revenues cases are complete and resulted in the removal of a single person discount and increased liability of £1,444.
  - Work with Cheltenham Borough Homes:
    - 242 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.

- Full review of the Housing List. Verification of applications within Emergency Band (61 applications), Gold Band (55 applications) and Silver Band (620 applications). The review has resulted in the removal of 3 applications from the Emergency List and 4 applications being removed from the Gold List. The results of the Silver List are still pending.  
Each cancelled application represents a property which can be reallocated to another eligible family. The National Fraud Initiative apply a figure of £3,240 for each application removed, for future losses prevented as a result of removing an applicant because there is no need for temporary accommodation to be utilised; this equates to a notional loss avoidance figure of £22,680 for this exercise so far. In addition the result of the band reprioritisation is that those families who are correctly banded have a greater chance of being housed and more speedily.
- Whilst undertaking the review, the CFU also processed the related National Fraud Initiative anomalies – this is ongoing.
- 39 referrals have been made relating to housing and tenancy fraud such as abandonment, illegal succession, subletting, false housing applications, right to buy fraud. This resulted in:
  - 3 cases resulting in the termination of tenancy and return of the property resulting in £279,000 loss avoidance. The NFI annual report estimated the figure to be £93,000 per property recovered based on average four year fraudulent tenancy – this includes temporary accommodation for genuine applicants, legal costs to recover the property, re-let costs and rent foregone during the void period between tenancies.
  - 2 Civil Hearings re illegal succession cases. Possession Order and Costs granted in both cases.
  - 1 successful prosecution re fraudulent Housing Application. £120 Fine and £316 Costs 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 were presented to Audit, Compliance and Governance Committee in January 2020; these were adopted by Cabinet in February 2020.
- 2.3.** The arrangements relating to officers involved in the authorisation of the RIPA process are as detailed in the January 2020 report. The Senior Responsible Officer is the Managing Director Place and Growth, Tim Atkins and the Authorising Officers are the Executive Director People and Change, Darren Knight 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 2019/2020. There has been one Non-RIPA application made during 2019/2020 which relates to overt activity.



## 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	
<b>Explanatory notes</b> <b>Impact</b> – 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) <b>Likelihood</b> – 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) <b>Control</b> - Either: Reduce / Accept / Transfer to 3rd party / Close											

Department / Contact	Task	Dates / Notes
Corporate / Strategy	Delivery of two reports for Audit (and Risk) Committee	April, September and March
Corporate / Strategy	RIPA Coordinator Role - Review of Policies / annual report to Members / advisory role for staff	Annual update provided April 3 Policies to be managed; Social Media Policy to Governance Group for consultation. Surveillance and Communications Data Policies approved and adopted.
Corporate / Strategy	Home Office Serious and Organised Crime Checklist and accompanying work plan	Draft issued to Governance Group; July and ELT; August. To be cascaded to Service Managers and Team Leaders. Associated work plan to be managed by CFU.
Corporate / Strategy	Home Office Bribery and Corruption Assessment Template and accompanying work plan	To be included within 20/21 work plan
Corporate / Strategy	Staff and Members Fraud Awareness Sessions	No Member provision required / Staff only
Corporate / Strategy	Development / Review of Fraud Response Plan	Q4 SOC consideration
Corporate / Strategy	Review Corporate Risk Register	SWAP recommendation Fighting Fraud & Corruption 1.1.1.a – To be included within 20/21 work plan with a focus on service specific risks
Corporate / Strategy	Development of Fraud awareness literature for staff and members	Draft complete to be issued to ELT for consideration and comment
Corporate / Strategy	Development of RTB / debt recovery process	To be included within 20/21 work plan
Corporate / Strategy	Enforcement Officer training	To be included with RIPA / IPA training sessions
Corporate / Strategy	Collation and Publication of Fraud Transparency Data	Complete; Published August
Procurement	Assist with review of Procurement and Contract Strategy	Q3: SOC consideration / SWAP recommendation Fighting Fraud & Corruption 1.1.2a Procurement Fraud training delivered to all staff with Procurement and One Legal

SOC = Serious and Organised Crime

Department / Contact	Task	Dates / Notes
Procurement	Supplier payment review	To be included within 20/21 work plan
SWAP	Policy and Procedure: Staff Declarations of Interest / Conflicts of Interest	Draft issued to Governance Group for consideration. SOC consideration / SWAP recommendation Members' and Officers' Gifts, Hospitality and Declarations 1.1
SWAP	Review of the Gifts and Hospitality Policy and Procedure	Draft approved by Governance Group. Roll out to staff to be actioned. SOC consideration
HR	Review of HR Recruitment and Vetting Policy and Procedures	Q4: SOC consideration
Policy	Drafting / consultation / adoption of Money Laundering Policy	To be included within 20/21 work plan
Revenues and Benefits	NNDR (Business Rates) empties on a rolling review	As at 31.12.2019 221 visited / 24 occupied / 45 anomalies
Revenues and Benefits	Council Tax Long Term Empties / Short Term Empties reviews	446 properties visited. 41 properties have been referred as occupied / furnished with a request to review liability / 170 anomalies
Revenues and Benefits	Holiday Let review	Q4
Revenues and Benefits	National Fraud Initiative Match Review – (2 matches only)	Commenced
CBH / CBC	Review of Housing List	Complete – 61 Emergency reviewed / 3 removed. 55 Gold reviewed / 4 removed. 620 Silver reviewed / results pending. 7 removed = £22,680 loss avoidance

SOC = Serious and Organised Crime

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**Cheltenham Borough Council**  
**Audit Committee – 24 March 2020**  
**Review of Draft Accounting Policies 2019/20**

<b>Accountable member</b>	<b>Councillor Rowena Hay, Cabinet Member for Finance</b>
<b>Accountable officer</b>	<b>Andrew Knott, Deputy Section 151 Officer</b>
<b>Ward(s) affected</b>	<b>All</b>
<b>Key Decision</b>	<b>Yes</b>
<b>Executive summary</b>	To update Members on the Council's draft accounting policies included in the 2019/20 draft Statement of Accounts, providing members with the opportunity to review these policies ahead of the approval of the final audited 2019/20 Statement of accounts in July 2020.
<b>Recommendations</b>	<b>That Audit Committee note the content of these draft accounting policies and make any comments as necessary.</b>

<b>Financial implications</b>	As detailed throughout this report.  <b>Contact officer: Andrew Knott, Andrew.knott@publicagroup.uk, 01242 264121</b>
<b>Legal implications</b>	<i>None specific directly arising from the recommendations.</i>  <b>Contact officer: Peter Lewis, Peter.Lewis@teWKesbury.gov.uk, 01684 272695</b>
<b>HR implications (including learning and organisational development)</b>	<i>None arising directly from this report.</i>  <b>Contact officer: Julie McCarthy, HR Manager, Publica Group Limited julie.mccarthy@cheltenham.gov.uk, 01242 264355</b>
<b>Key risks</b>	None
<b>Corporate and community plan Implications</b>	None
<b>Environmental and climate change implications</b>	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 31<sup>st</sup> May 2020. These draft accounting policies may be updated during the closedown process, although the final accounting policies will be reviewed as part of the final audited statement of accounts, to be presented to the Committee in July 2020.

## **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 Finance have completed a thorough review of the accounting policies for 2019/20 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 2019/20**

- 3.1 There are no material changes to the accounting policies in 2019/20.
- 3.2 The Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified. There is also the requirement for an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The following standards and amendments are introduced in the 2020/21 Code:
  - IFRS 16 Leases
- 3.3 IFRS 16 is not anticipated to have a material effect on the financial statements or balances of the council since the changes mainly affect the recognition of leases by lessees and the authority does not have any finance lease liabilities or material operating leases (see note 23 on the Council as Lessee).

## **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 2020.

<b>Report author</b>	<b>Contact officer: Andrew Knott</b> <b>Andrew.knott@publicagroup.uk, 01242 264121</b>
<b>Appendices</b>	Appendix A - Draft Accounting Policies 2019/20
<b>Background information</b>	Code of Practice on Local Authority Accounting in the UK 2019/20 Accounts  Accounts and Audit Regulations 2015

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## NOTES TO THE ACCOUNTS

### 1. ACCOUNTING POLICIES

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#### 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 2019/20 (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 and IFRS15 Revenue Contracts with Customers.

- 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 overheads (including telephones and printing costs) and 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 within the general fund. Overhead charges between the General fund and Housing Revenue services, however, continue to apply.

## **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 directly 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 1<sup>st</sup> 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 are 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 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 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.

## Financial assets at amortised cost

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**

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**

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, in the case of pooled investment funds reversed to the Pooled Investment Funds 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.

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## 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 31<sup>st</sup> March 2020 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.

Audit, Compliance and Governance Committee 2019-20 work plan

Item	Author
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24 March 2020 (Report deadline: 12 March 2020)	
Audit progress report and sector updates	Grant Thornton
External audit plan (for the current year)	Grant Thornton
Proposed 2020/21 Internal Audit Plan Internal Audit Charter	Internal Audit
Internal audit monitoring report	Internal Audit
Counter Fraud Unit report (inc. RIPA / IPA update)	Counter Fraud Unit
Review of Draft Accounting Policies	Andrew Knott
COVID-19 update	Grant Thornton
22 July 2020 (Report deadline: 10 July 2020)	
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
Auditing Standards – communicating with the Audit Committee	Paul Jones
Statement of Accounts (previous year) (inc. letter of representation and AGS)	Finance Team
Annual Review of Risk Management Policy	Ann Wolstencroft

ANNUAL ITEMS (standing items to be added to the work plan each year)	
January	
IT Security update	IT (REQUIRED) and Tony Oladejo
Audit committee update	Grant Thornton
Internal audit monitoring report	Internal Audit
Annual governance statement – significant issues action plan	Internal Audit
April	
Audit progress report and sector updates	Grant Thornton
External audit plan (for the current year)	Grant Thornton
Annual plan (for the upcoming year)	Internal Audit
Internal audit monitoring report	Internal Audit
Counter Fraud Unit report (inc. RIPA / IPA update)	Counter Fraud Unit

Audit, Compliance and Governance Committee 2019-20 work plan

Item	Author
Annual review of Code of Corporate Governance	Darren Knight
Annual Governance Statement	Darren Knight
Annual Review of Risk Management Policy	Ann Wolstencroft
<b>July</b>	
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
Auditing Standards – communicating with the Audit Committee	Paul Jones/Chair
Statement of Accounts (previous year) (inc. letter of representation)	Finance Team
<b>September</b>	
Internal audit monitoring report	Internal Audit
Counter Fraud update and future work provision	Counter Fraud Unit
Annual audit letter (for the previous year)	Grant Thornton