

## Audit, Compliance and Governance Committee

Wednesday, 27th January, 2021  
6.00 - 7.45 pm

Attendees	
<b>Councillors:</b>	David Willingham (Vice-Chair), Matt Babbage, Jonny Brownsteen, Flo Clucas, Tony Oliver, Jo Stafford and Paul McCloskey (Reserve)
<b>Also in attendance:</b>	Gemma Bell (Deputy Section 151 Officer), Lucy Cater (SWAP), Aditi Chandramouli (Grant Thornton), John Chorlton (Publica), Paul Jones (Executive Director Finance & Assets), Darren Knight (Executive Director People & Change), Barrie Morris (Grant Thornton) and Tony Oladejo (Publica)

### Minutes

#### 1. APOLOGIES

Councillor Harvey, the Chair, had given his apologies. Councillor Willingham, as Vice-Chair, would chair the meeting and Councillor McCloskey would substitute.

Councillor Clucas had been marked as apologies on the agenda, but had subsequently been able to attend.

#### 2. DECLARATIONS OF INTEREST

The Chairman acknowledged that this meeting clashed with Holocaust Memorial Day and said a few words about the importance of remembering those who had been murdered and the need to stand against prejudice.

Councillor McCloskey declared a non-pecuniary interest as a non-executive Director of Publica.

Councillor Brownsteen declared a pecuniary interest in Gloucestershire Airport, as he worked for a firm that undertook consultancy work for them and should the topic arise through the course of the meeting, he would not participate. There was no need for him to do this.

#### 3. MINUTES OF THE LAST MEETING

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

The Vice-chair pointed out that Councillor Atherstones name has been misspelled. This would be amended.

Upon a vote it was unanimously

**RESOLVED that the minutes of the meeting held on the 11 November 2020, as amended, be agreed and signed as an accurate record.**

**4. PUBLIC AND MEMBER QUESTIONS**

There were none.

**5. ANNUAL GOVERNANCE STATEMENT - SIGNIFICANT ISSUES ACTION PLAN**

Darren Knight, the Executive Director People & Change explained that when preparing the 2019/20 statement, a number of areas had been identified as requiring improved arrangements and these formed part of an action plan for the financial year. The paper set out progress against the actions which had been identified and acknowledged that some were still outstanding as a consequence of the pandemic. He did however note that the Local Government Association had undertaken a review in November 2020 and had highlighted the excellent recovery efforts being made by this council. He felt that this was a positive endorsement and hoped it provided members, and this committee, with assurances about how the pandemic was being managed.

There were no member questions, but the Vice-Chair did suggest that everyone could accept that progress had been impacted and the reasons why. He also commended officers and members for their hard work in terms of the progress being made on recovery.

The report was noted.

**6. THE AUDIT FINDINGS FOR CHELTENHAM BOROUGH COUNCIL (FINAL)**

Barrie Morris of Grant Thornton reminded the committee that the audit findings had been presented to them back in November, at which stage they were still awaiting some information, which meant that they were not quite complete. Barrie was pleased to report that this information had since been received and Grant Thornton had been able to sign-off on this work ahead of the statutory deadline of 30<sup>th</sup> November 2020. He stressed that this was simply an update which included the audit opinion and contained nothing that the committee had not already seen. He took the opportunity to emphasise that at the end of November, only 48% of council's had seen their statement of accounts signed-off and he felt this was a great testament to the teams at CBC and Grant Thornton. He also highlighted that because Grant Thornton were still working on some 19/20 audits, there had been a delay to them being able to present the 20/21 audit plan, which would normally come to this meeting, but they were working hard to get it to the next meeting.

In response to a member question, Barrie explained that because the balance sheet stated the position as at the 31 March 2020, some two weeks after the pandemic hit, all valuations carried a material valuation uncertainty, because the impact was not known at that time. He emphasised that this may be removed at the end of the 2020-21 financial year, because the world had moved on, with stock markets having recovered and trading in investment assets having recommenced. Therefore there could be valuation movements that the valuers could put some reliance on and though he was not sure what they would say, he suggested that some valuations may decrease in certain areas.

The Vice-Chair reminded members that no decision was required, but also felt that it was important to highlight the significant findings outlined on pages 26 and 27 and the Value for Money conclusion, on page 34. Both demonstrated to the public how the council were managing the assets of which they were stewards for the people of Cheltenham and the proper arrangements it had in place to secure economy, efficiency and effectiveness, stressing that this report was a report from an independent auditor.

## **7. ANNUAL AUDIT LETTER**

Barrie Morris from Grant Thornton, introduced the annual audit letter, which summarised all of the work that had been done for the year ended 31 March 2020 and highlighted key issues and findings. He referred members to page 67 and where he had previously said that the final audit fees were yet to be agreed, this provided an update which showed that there had been a significant increase from the £38k scale fee, to almost £61k and Grant Thornton had tried to be as transparent as possible about where and how these additional fees had been incurred and a detailed breakdown had been provided appendix A of the report. In short, £7.5k had been incurred because of the increased regulation and complexity of the financial statements and with the FRC pushing for improved quality, these costs were likely to continue to grow. In addition to this, the fees had been set before Covid and the need to work remotely had resulted in the need for increase scepticism on financial statements. It was also fair to say that CBC had struggled with the changes, which had led to delays, where the process had previously been smoother and resulted in working papers that were not of the standard that Grant Thornton had received in the past. However, that being said, the council had taken steps to address this and appointed a new Deputy Section 151 Officer, which only evidenced the investment and importance that the council took in addressing this issue. The National Audit Office had introduced a new code of practice from 2020-21 which would increase the amount of work involved in the VfM, with more focus on things that were important to tax payers; looking at financial resilience, budget arrangements, financial planning and savings plans. Another focus was around decision making and whether members were being given sufficient reports to be able to make informed decisions and were they comfortable with the financial plans that were in place. Finally, Grant Thornton would be looking at the overall delivery of economy, efficiency and effectiveness; how were the council benchmarking to make sure best bang for money put in. Also it needed to be said that CBC was not a benign council, not shying away from different and innovative ways in which to deliver services and invest money and that inevitably increased the complexity of some of the arrangements that Grant Thornton were having to look at, which took additional audit time, increasing the amount of audit work required and the fees that they needed to charge. That being said, Grant Thornton were very fortunate to have a good relationship with the Section 151 Officer, meaning that Grant Thornton were given plenty of notice before the council embarked on something, giving them ample time to consider in advance, which enabled Grant Thornton to be efficient and robust at the same time.

The following responses were given to member questions:

- The audit plan would set out the scope of scale of the audit work to be undertaken following regulatory changes. The Redmond Review pointed out the complexity and length of financial statements and

proposed that they be simplified to enable the public to understand the financial information, giving them greater assurance that the finances of the authority are sound. CIPFA would review if and how this could be achieved.

- A large proportion of the additional costs had been as a direct result of the pandemic and it was noted that the Government had recognised this at a national level, with the Government committing an additional £15m; though whether this would go to local authorities or directly to external auditors was as yet unknown.
- The Executive Director Finance & Assets reminded members that Audit training was included as part of the post-election induction programme, which was currently being organised. As part of this key partners did provide dedicated sessions and this would be open to all members, not just those that had been newly elected.
- CBC recognised that there had been shortfalls in the quality of the working papers this year and as a means of addressing this had appointed Gemma Bell to the position of Deputy Section 151 Officer. Gemma is a 100% CBC dedicated resource.
- A key part of the VfM work would be consideration of the financial planning arrangements and what assumptions and sensitivity analysis had been applied, as well as what reserves and mitigations were in place. However, there was a risk that the emergency funding would mask issues in the short term, so Grant Thornton would be looking at medium to long term arrangements. Members were assured that from Grant Thornton's perspective, CBC had a good proven track record in terms of developing and delivering saving plans.

The Executive Director Finance & Assets took the opportunity to remind members that CBC had a diverse portfolio and therefore did not have significant exposure to any particular market. The biggest hit had and would continue to be retail and CBCs exposure was predominantly secondary retail, supermarkets and shop parades, which had performed well throughout the pandemic. He urged members to keep in mind the reasons that CBC ventured into the office market. Cheltenham was losing significant office space to retirement flats under permitted development rights, which was driving up the price per square ft. to those seen just outside of London and in his opinion, people would return to offices once we were through the worst of the pandemic. His main concern was car parking income, which had taken a significant hit from the pandemic, though he admitted that the reduction in use would go a way towards helping us achieve our carbon neutral target.

A member thanked the Executive Director Finance & Assets and his team for their continued hard work and felt it was a tribute to this that colleagues across Europe were looking at Cheltenham to try and learn from us.

The Vice-Chair reiterated his thanks to Officers and reminded members of the importance of the external auditors and the independent assurances they gave, commenting that in his opinion, it was money well spent.

No decision was required.

## **8. AUDIT PROGRESS REPORT AND SECTOR UPDATE**

Aditi Chandramouli of Grant Thornton, introduced the audit progress report and sector update. Certification of 2019/20 claims and returns was ongoing, as was planning for the 20/21 financial statements audit. She explained that the deadline for certification of the Housing Benefits claim was the end of January 2021, but the DWP had been asked for an extension, which had been granted and Grant Thornton were working to conclude this work in the next couple of weeks. Grant Thornton had encountered a problem in being able to use the council software remotely, and with stretched resources themselves and the councils Revenue and Benefits team being so busy discharging grants, it had taken longer to resolve than if they had been on site. As a consequence of these delays, planning for the 20/21 work was also behind schedule. However, she highlighted that Grant Thornton were in regular contact with the Executive Director Finance & Assets and were due to meet the newly appointed Deputy Section 151 Officer, Gemma Bell, to discuss lessons from the previous year. She noted that the National Audit Office had introduced a new Code of Audit Practice and included a new set of key criteria: more extensive reporting with a requirement on the auditor to produce a commentary on arrangements across all of key criteria, rather than the current 'reporting by exception' approach and replacement of the binary (qualified/unqualified) approach to VfM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses identified during the audit.

The following responses were given to member questions:

The qualified/unqualified opinion would be replaced with recommendations, of which there would be three kinds; statutory, key and improvement. The kind of recommendation would demonstrate the seriousness of the recommendation and each recommendation would be tracked.

The Vice-Chair thanked Grant Thornton for their hard work and wished them well in achieving the revised deadline for certification of the Housing Benefit claim.

## **9. INTERNAL AUDIT MONITORING REPORT**

Lucy Cater, the Assistant Director for SWAP Internal Audit Services, introduced the audit progress report, a quarterly update on the work of Internal Audit. She highlighted the change to way in which this was now being presented, explaining that they had introduced a one page reports for audits and these will be presented to Committee, rather than the previous executive summaries. She also noted that the work plan for the coming year was currently out for consultation and if any members had anything they would like to be considered, they should email her or her colleague, Jaina Mistry, directly.

There were no member questions arising from this report.

The Vice-Chair thanked Lucy for her attendance and for what was a very useful and informative report.

## **10. WORK PROGRAMME**

The Vice-Chair invited officers and members to raise any amendments or additions to the work plan.

The Vice-Chair himself suggested that it was important that the committee receive one page updates on certain areas. Topics could include the annual canvas process. He also considered it was important for the committee to look at FOI and EIR requests and how the council responds to them. Officers were happy to add this to the work plan and the Executive Director People & Change commented that these processes, along with corporate complaints handling, had benefitted from additional resource.

The Vice-Chair had also asked for something on grants but the Executive Director Finance & Assets explained that this was a highly regulated area that was scrutinised by Government. There were a number of grant regimes in operation at the moment and all of these were reported nationally with rankings. He did intend to bring table something at a future date in terms of congratulating the team for their tremendous efforts, which had seen them get money to businesses as quickly as possible.

In light of the ongoing situation, the Executive Director Finance & Assets flagged that there may be need for an additional meeting, but would discuss this with officers outside of the meeting and contact members as necessary.

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

There was no urgent business.

**12. LOCAL GOVERNMENT ACT 1972 - EXEMPT INFORMATION**

Upon a vote it was unanimously

**RESOLVED that in accordance with Section 100A(4) Local Government Act 1972 the public be excluded from the meeting for the remaining agenda items as it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public are present there will be disclosed to them exempt information as defined in paragraph 7, Part (1) Schedule (12A) Local Government Act 1972, namely:**

**Paragraph 7; Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.**

**13. CYBER SECURITY UPDATE**

The committee considered the cyber security update and commented as necessary.

**14. DATE OF NEXT MEETING**

The next meeting was scheduled for the 21 April 2021.

**Chairman**