

Cheltenham Borough Council Audit, Compliance and Governance Committee Minutes

Meeting date: 23 November 2022

Meeting time: 6.00 pm - 6.50 pm

In attendance:

Councillors:

Councillor Paul McCloskey (Chair), Councillor Dr David Willingham (Vice-Chair), Councillor Matt Babbage, Councillor Tabi Joy and Councillor John Payne

Also in attendance:

Paul Jones (Executive Director of Finance, Assets and Regeneration) and Gemma Bell (Director of Finance and Assets and Deputy S151 Officer), Alex Walling (Grant Thornton)

1 Apologies

Apologies were received from Councillor Bamford.

2 Declarations of interest

There were none.

3 Minutes of the last meeting

The minutes of the meeting held on 27 September 2022 were approved and signed as a true record.

4 Public and Member Questions

There were none.

5 Audit Findings for Cheltenham Borough Council, year ended 31 March 2022

Alex Walling [AW] of Grant Thornton advised Members that this was an interim Audit Findings Report – work was undertaken remotely in August and September, to complete in late December/January, with the full report presented at the next meeting. She highlighted the following:

- the findings are summarised on Page 5-24, with a small number of adjustments to financial statements already identified - in particular a small adjustment of £334k to the council's income and expenditure account – but the work is substantially complete, and nothing to suggest the need to modify the audit opinion in any way;
- outstanding areas include sample testing in some areas; the pensions letter from the pensions auditor; completion of work on group accounts (still to be received); work on the council's land, buildings, investment property and council dwellings valuation; disclosure areas in the accounts, required under the code of audit practice;
- Grant Thornton is still waiting to learn what it happening around the statutory override and infrastructure assets, with training next week about the anticipated national messages, and further discussions with management in the new year about the implications of this. They are also waiting to receive management's letter of representation and review the final set out accounts;
- to date, the narrative report and annual governance report and statement have been concluded and published with the financial statement, and in accordance with what is expected.

AW then ran through the value-for-money work, which she summarised as follows:

- the work is not complete and Grant Thornton therefore not in a position to issue the Auditor's Annual Report - in accordance with National Audit Office expectations, which allows three months' leeway in view of the backlog in local government audit and the implications of Covid. However, no risks were identified during the planning stage, and there is no evidence of any emerging risks having occurred;
- GT does not intend to exercise any of the statutory duties open to it, and intends to certify the completion of the audit on completion of the work round value for money and government accounts. The certificate for last year is still open because of the infrastructure assets issue;
- other than delays in receiving group accounts, GT has not encountered any significant difficulties during the audit;
- regarding materiality levels, based on draft accounts these remain the same as in the audit plan presented in April. Materiality for group statements is £1.5m, and for the council – which has to be set at a lower level - £1.483m;
- regarding significant risks, as for all public and commercial entities, one is management override of controls – the ability of senior officers to potentially manipulate the accounts by overriding the controls that are in place. Work in that area is to look at journals, and no issues have been identified to date;
- a second significant risk is improper revenue recognition – putting income into accounts that shouldn't be there – but GT rebutted that risk at the planning stage and continue to do so. This is not a major risk to the council;
- the council undertook an extensive revaluation exercise of its land and buildings last year but valued quite a small number of assets this year. There is a risk that what the assets are materially worth is different from their value on the balance sheets. GT finance team has pulled together an assessment of that particular movement, to make sure the valuation is where it is expected to be. There are a small number queries awaiting a response from the valuer, but this is not considered to be unusual;
- GT is currently undertaking a lot of work around the valuation of council dwellings, which shows as large amounts on the balance sheet, and assessing the impact of a small number of queries;

- the final significant risk is around pension fund liability, deemed a significant risk because it is a huge estimate in local government accounts. GT is currently awaiting assurances from the pension fund auditor, but to date, there are no issues in that area;
- GT is awaiting information from the key component auditors – Bishop Fleming for CBH and Hazelwood's for Gloucestershire Airport;
- infrastructure assets show as a material amount in the accounts and GT is waiting to see what statutory override comes out with to assess what work will be needed on the back of that. This is common for many local authorities;
- in last year's Audit Findings Report, the potential issue round minimum revenue provision was raised, and it was suggested that the council revisit its calculation to see if it is in line with guidance. GT is looking at that to see whether they consider it to be correct or not in this year's accounts;
- there is nothing to report under independence and ethics but GT is required by auditing standards to bring this to the council's attention;
- the prior year recommendations are set out with a n assessment of whether these have been implemented or not – some are outstanding, to be followed up next year;
- under audit adjustments to date, many are narrative amendments at this stage, which don't actually affect the numbers, but are brought to the council's attention for information at this stage;
- finally, regarding audit fees, a lot are to be confirmed at present, and difficult to assess until the audit is concluded. These will be discussed with the finance team and brought back to the committee. They also have to be approved by Public Sector Audit Appointments Ltd.

One Member thanked AW for the interesting report - although it was a shame that some data was still required to complete the audit – and asked what was the risk of there being 17 journals without identification. AW explained that the risk of a journal without any explanation was that it could be hiding something untoward and pushed through the system without being looked at too closely. These used to be identified manually, but software is now used to call them out – they can then be looked at individually and discussed with officers, and are as much a fraud risk as a management override.

A Member asked whether it would be possible for the council's software to prevent people from uploading journals without explanations. GB said that it was possible in theory, but with many thousands of journals raised each year, the risk is currently managed by business partners across different cost centres checking them as part of the monthly informal monitoring with budget holders and quarterly reports to Cabinet. In response to a further question about rounding errors accumulating from floating points and ultimately masking much bigger errors, GB said that journals are usually raised through spreadsheet uploads and would be expected to balance - though the system sometimes compensates for a rounding error. GB has had conversations with Publica and other councils looking at the wider capability of the system, and can pick this up as part of the review.

Regarding the council's interpretation of MRP for capital receipts and how money coming in as capital appears to be being used to meet repayments, debt and borrowing, PJ said that the council and Grant Thornton spend a great deal of time and effort on the issue, and have numerous meetings with other interested parties, and concluded that CBC was one of hundreds of local authorities applying this. He believed that the government recognised the ambiguity in the guidance on regulation and what it was doing to clarify the situation, but noted that Grant Thornton made a clear recommendation for the council to review its policy – which he considered had done by making changes to what was put forward last year. He said in its simplest form, MRP is the method whereby the council repays its debts; guidance

talks about prudent provision and there are regulations surrounding that, but whether the council is circumventing rules by using capital receipts in lieu of MRP is debatable, with the council leaning towards one view and GT leaning towards the other. He said the government has gone out to consultation, and recognises widespread application of this – other local authorities are doing the same on a much grander scale – but the results of the consultation have still not been issued. He has received an email from the Director of Local Government Finances stating that the government response won't be published till later this year, and any regulatory finances won't be implemented on a mandatory basis before April 2024. This will give councils the certainty they need to set budgets for 2023-24. GT's report demonstrates that the team is still assessing this, with no conclusion one way or the other, but hopefully both parties will agree by the final accounts and findings report.

A Member asked whether the red dot next to salary growth projections for the pension plan suggests an issue between the 3.5% salary growth actuarial value increase and the PWC range listed as 0.25% above CPI. GB said there is a difference between values used by our actuary and the work PWC's actuary uses to assess the assumptions. This hasn't resulted in any material misstatement in financial statements this year, but the disclosure has been included which outlines what the range would be. It is something that needs to be considered in terms of the increase the CPI this year, and would be considered in the revaluation next year.

Returning to the MRP question for general context, a Member asked what the impact would be if the guidance was not interpreted in the way it currently is being interpreted. The headline figures talk about £334k adjustment to income and expenditure statements, with more details to come at the next meeting, but he wondered if there was any need to worry at this stage. PJ said that in terms of materiality – in the region of £800k – this dates back to the recovery budget agreed unanimously by full Council in November 2020, followed by significant informal consultation from June to October with a number of parties. As the council was coping with different circumstances then – no council income, car parking etc, and considerable additional cost from Covid impact, the recovery budget was put forward with the bet will and intent to be followed for three years as originally set out. There would be a material revenue impact if that decision were to be reversed. AW added that work so far had just identified £334k adjustment to the expenditure account, and GT was not envisaging any significant issues.

A Member assumed the valuation expert for the council's land and buildings would be external, and asked who appointed them. GB said the council would instruct an external valuer to value its properties and assets up for valuation as part of a five-year programme; the property and finance teams check the figures, uses the numbers to populate the financial statements, and GT's expert critiques what the council's experts have done as part of the audit work.

No vote was required on this agenda item.

6 Draft Statement of Accounts, 2021-22

Gemma Bell [GB], Head of Finance, Assets and Property and Deputy S151 Officer, presented the Draft Statement of Accounts as at 15 November, including all adjustments to make the £334k identified by Grant Thornton, and various changes and additions to disclosures and the narrative report. With regard to finalising the report, the finance team is still awaiting the final accounts from Gloucestershire Airport, and also the conclusion on the audit work around MRP.

It is recommended that the Committee approve the Draft Statement of Accounts, subject to review and any further questions, delegating authority to the Chair to sign the final version of the accounts and management representation letter once these are finalised. Any significant issues will be brought back to the Committee.

One Member thanked GB for the document, saying that he had learnt a lot about the council. The following responses were given to Members' questions:

- the optimum level of general balances of £3.256m includes various assumptions on achievement of savings, pay inflation, general inflation and so on, against all costs across the budget, plus a built-in contingency. The 14% contingency demonstrates how much of the general balance forecast would remain if the worst was to happen in the coming year;
- the order of the priorities as listed in the document is set out in the draft Corporate Plan which will be brought to Council in February. If Members feel this should be re-ordered – specifically that the current Priority 5 (delivering services to meet the needs of communities) should be higher – they should feed this back to officers;
- regarding how CIL and S106 payments from planning applications is collected, held and divided up: if no conditions were attached, the monies are transferred at the end of year to 'capital grants unapplied' which sits on the balance sheet; if conditions were attached, it sits in 'capital grants received in advance'. It was noted that the County Council is not happy with the way that CIL payments are potentially being allocated, and it is important that any time-bound S106 payments need to be captured with a warning that the money needs to be spent.

With no further questions, votes were taken on the two recommendations, where Members agreed unanimously to:

- 1. Approve in principle the draft Statement of Accounts dated 15 November 2022;**
- 2. Approve the delegation of authority to the Chair of the Committee to sign the final version of the accounts and management representation letter, subject to no significant issues being raised by audit.**

7 Work Programme

There were no comments or amendments from Members.

8 Any other item the chairman determines to be urgent and requires a decision

There were none.

9 Date of next meeting

The next meeting is scheduled for 24 January 2023.