

Audit Committee

Wednesday, 15th January, 2014
6.00 - 8.00 pm

Attendees	
Councillors:	Paul Massey (Chair), Andrew Chard (Vice-Chair), Rowena Hay, David Prince, Tim Harman and Pat Thornton
Also in attendance:	Peter Smith, Peter Barber, Mark Sheldon, Robert Milford and Bryan Parsons

Minutes

1. APOLOGIES

Apologies had been received from Councillor Colin Hay.

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 25 September 2013 be agreed and signed as an accurate record

4. PUBLIC QUESTIONS

No public questions had been received.

5. AUDIT UPDATE REPORT

Peter Smith, Audit Manager, Grant Thornton introduced the report which included a summary of emerging national issues and developments. He explained that they were just commencing the 2013-14 progress work so there were no outcomes to report as yet but officers would report back to members at the next Audit Committee meeting in March.

In terms of emerging issues and developments he highlighted the following :

- Charging funded 22.4 % of Cheltenham's overall service expenditure which was nothing extraordinary when compared with other district councils.
- The voluntary code of practice on the HRA was being applied and business rate collection was average in Cheltenham.
- Spending on business rates was in the lowest third of district councils.
- Preparing for the Health and Social care Integration Transformation Fund was largely for the purposes of social services but district councils

were required to fund the disabled facilities grant to the amount of £300-400 k in Cheltenham.

- No issues had been identified with the potential for procurement fraud.
- It had been identified that Cheltenham had longer financial statements than other districts but it was recognised that Cheltenham was a complex council due to group accounts, Icelandic loans and HRA but Grant Thornton would discuss with officers whether there were any further opportunities for streamlining. A consultation had taken place on the local authority accounting code of practice 2014/15 and Cipfa had planned workshops.
- In terms of property plant and equipment revaluations this was to ensure that the Council fairly stated the value of its assets over a five year cycle. It was noted that CBC was intending to value all its assets this year.
- The Local Audit and Accountability Bill was currently going through Parliament.

In response to a question on the accounting of the plant and equipment of Ubico the Director Resources clarified that the plant and equipment were still listed as assets in CBCs accounts and loaned to Ubico for VAT purposes.

RESOLVED that the Audit Update report be noted

6. ANNUAL AUDIT LETTER 2012-13

The Engagement Leader for Grant Thornton introduced the Annual Audit Letter 2012-13 for Cheltenham Borough Council which summarised the key findings arising from work they carried out at the Council for the year ending 31 March 2013.

The audit conclusions were highlighted as follows :

- An unqualified opinion had been issued on the accounts although there was scope for more improvement but it was recognised that this was the first year of GOSS and Grant Thornton
- An unqualified conclusion had been issued in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money)
- An unqualified opinion had been issued on the council's Whole of Government Accounts submission
- Certification of two grant claims and returns had been undertaken with no significant issues being identified; Grant Thornton were currently processing housing benefit claims

Members welcomed the good news in terms of the value for money conclusion but recognised the uncertainty in future settlements for the MTFs and that it would be necessary to plan ahead based on different scenarios.

The Chairman noted that the Council would shortly be considering whether to increase the percentage of its revenue budget funded from the New Homes Bonus (a non guaranteed, one-off source of funding). Would this be a consideration in future financial resilience reports? In response the

Engagement Lead, Grant Thornton, confirmed that they would monitor this, but that Cheltenham Borough Council's plans were currently in line with other similar councils.

RESOLVED that the Annual Audit Letter 2012-13 be noted and approved

7. CERTIFICATION OF GRANTS AND RETURNS (FOR PREVIOUS YEAR)

The Audit Manager for Grant Thornton, introduced the Certification report for 2012/13. He explained that certification typically took place six to nine months after the claim period and represented a final and important part of the process to confirm the Council's entitlement to funding. Three claims and returns had been certified for the financial year 2012/13 relating to expenditure of £92.9 million (£40 million housing benefit and £51 million NNDR). He explained that the number of claims had reduced and may reduce further.

The Audit Manager explained that submission and certification had received a green RAG rating. The accuracy of claim forms submitted to the auditor had received an amber rating. This was due to a small amendment to the housing benefit claim by £943 and an £18 750 amendment to the Pooling of Housing Capital receipts claim. The supporting working papers were good. Recommendations had been made which were outlined in Appendix B and he highlighted the recommendation to investigate the reason why the CIVICA system understated subsidy by not correctly offsetting under and overpayments. A question was raised as to the timescale for the work needed to address this. In response the Director Resources said work was ongoing but he would report back to Audit Committee in due course.

In terms of certification fees the Audit Manager explained that the indicative scale fee for 2012/13 was £12 750. A variation in respect of Housing Pooled Capital receipts of £692 had been approved by the Audit Commission and officers had agreed to pay the additional fee. The Housing Benefit claim work was now complete. It had taken Grant Thornton more time to audit the claim this year and therefore it was able to legitimately seek a £3000 variance in fee and having received agreement from the Director Resources approval was now awaited from the Audit Commission.

When asked on what basis further work was carried out, the Audit Manager explained that based on the results and where errors have been identified in the initial samples, additional sample testing was undertaken. He added that it would be unusual for no additional sampling to be required as housing benefit was a very complex system. CBC was therefore not the only authority subject to this and the level of error involved was relatively minor.

Members then raised questions regarding the underpayment of benefit due to an underclaim. In response the Audit Manager said that the issue is discussed with the claimant but there is no means to claim back.

Members were satisfied that the annual certification of claims report could provide them with a review of progress on the recommendations.

RESOLVED that the Certification of grants and returns 2012/13 report be noted

8. INTERNAL AUDIT MONITORING REPORT (INC PSN UPDATE)

Head of Audit Cotswolds, Rob Milford, introduced the report as circulated with the agenda. He explained that 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 Audit Cotswolds, the council's internal audit service, was one of the control assurance sources available to the Audit Committee, the Senior Leadership Team and supported the work of the external auditor.

The Head of Audit Cotswolds highlighted that the PSN review work and some ongoing ICT Audit consultancy had impacted substantially on the 2013-14 plan and as such the 2014-15 plan would include some deferred work from the current year's plan.

In terms of the detail of the four finalised areas he reported the following :

- Ubico contract monitoring was given a satisfactory assurance and it had been recognised that teething problems were inevitable. The issues identified within the action plan were not major and it was anticipated that by the end of the financial year the necessary actions would be put in place.
- Cash receipting had received a satisfactory assurance with the recommendation that internal audit work be undertaken on money laundering policy
- Car parking was given a limited assurance and this was in part due to the impact of the change with the transfer of on-street parking to APCOA and the retained off-street element moving to form part of the Public Protection service. There was now a dedicated project in place to address these issues.

A member noted the comment in the report that during testing Audit had found there was one user of the CIVICA system who was no longer employed by CBC or CBH. The Audit Manager said that this had not caused any issues. When asked what was in place to ensure this did not happen again the Audit Manager explained that as part of the ICT work there were now new mechanisms in place to monitor CBC leavers but he highlighted that where there were specific IT systems for particular services ICT would not know the specific access, this would be managed by system administrators. The Director Resources added that there was now a process in place to monitor access to systems.

When asked what work was envisaged on money laundering the Audit Manager said that there was an educational awareness package in the form of e-learning tools which would be rolled out.

In response to a question on how the action plan for car parking would be implemented the Audit Manager said that as this had been given limited assurance it would be subject to a follow up review and in any case would be highlighted in the monitoring report which would be submitted to the Audit Committee's June meeting.

RESOLVED that the report be noted

9. REVIEW OF RISK MANAGEMENT

Bryan Parsons, Corporate Governance, Risk and Compliance officer, introduced the report on the Risk Management Policy. The report advised Members that the current Risk Management Policy had been approved by the Audit Committee in March 2013 and would be due for a further review in April 2014. At the full Council meeting on the 7 October 2013 during the debate on the ICT PSN issue, there was a request that the Risk Management Policy and Risk scorecard should be reviewed. The ICT Scrutiny working group considered this request on 18 December and supported a wider approach to the 2014 review.

This committee was asked to comment on the approach to this review in terms of the list of questions laid down in the appendix and make any additional recommendations. The Corporate Governance, Risk and Compliance officer added that he would bring back the outcome of the review to the next Audit Committee meeting in March.

Members discussed how best to approach the review. It was agreed that all councillors should be given the opportunity to be involved in the process so a more streamlined questionnaire would be sent out to all members. Subsequent to receiving responses to this a workshop would be scheduled so that the rationale could be gone through in more detail with those interested in taking this forward, using the PSN issue raised at Council as a live example. It was agreed that the Corporate Governance, Risk and Compliance officer would discuss directly with the Chair on how to take these actions forward.

RESOLVED that

- 1. The wider approach to the review of the Risk Management Policy for 2014 be agreed**
- 2. The Corporate Governance, Risk and Compliance Officer take forward the necessary actions.**

10. ANNUAL GOVERNANCE STATEMENT

The Corporate Governance, Risk and Compliance officer introduced the report. He explained that the Audit Committee at their meeting in June 2013 had approved the Annual Governance Statement (AGS) for 2012/13 and had recommended to Council that it be adopted as part of the statement of accounts. The AGS contained a Significant Issues Action Plan and this report identified progress to improve upon these issues.

The Corporate Governance, Risk and Compliance officer, explained that in terms of ICT business continuity testing there had been much progress over the last 12 months. Back up servers had been relocated to the Forest of Dean and testing of the elections business systems were planned for September 2014 with more planned tests involving revenues and benefits, council tax and cashier systems planned over the next 12 months. This testing would be fitted in alongside other work. Due to the progress which had been made this item would no longer feature on the Significant Issues Action plan.

Whilst recognising that progress on business continuity had been positive Members expressed their uneasiness about testing and therefore sought high assurance that if the systems went down major testing had been undertaken to ensure that they would be brought back online within an acceptable time period. It was recognised that testing brought its own risks but if this was not undertaken then this represented a larger risk. The issue with the overheating in the server room was also highlighted by Members.

In response the Corporate Governance, Risk and Compliance officer said that the servers which had been affected by air conditioning problems had now been relocated to the Forest of Dean. ICT Business Continuity was still on the corporate risk register which was monitored by the Senior Leadership Team. He then gave the example of assurance work which had taken place relating to power outages whereby the batteries had been replaced to ensure that there would be 2-3 hours of power available before systems were powered down. In terms of generators CBC was jointly looking with Forest of Dean to share one.

Members regretted that they had not been kept informed of the testing that had taken place as it was this testing that would provide them with the assurance that they needed in the systems the council was running. The Corporate Governance, Risk and Compliance officer was therefore requested to produce a report for the next meeting of the Audit Committee giving them the level of detail they required including the level of tiers and outcomes.

With regard to the issue of safeguarding children and vulnerable adults the Corporate Governance, Risk and Compliance officer reported that this would be completed by March 2014. The County Council was the lead authority in this respect.

In terms of Go Shared Services the Head of Audit Cotswolds was currently undertaking an audit and an opinion would be issued in March. With regard to ICT Services this would feature in next year's audit plan after the conclusion of the ICT review work.

RESOLVED

To note the progress that has been made against the actions and the deadlines set

That a report be brought back to Audit Committee in March 2014 on ICT Business Continuity

11. AUDIT COMMISSION REPORT - AUDITING THE ACCOUNTS 2012/13

The Corporate Governance, Risk and Compliance officer introduced the report. He explained that the Audit Committee had approved the Accounts on 25 September 2013 which had included the Annual Governance Statement (AGS) for the period 1st April 2012 to 31st March 2013. The AGS indicated how the Council was complying with its Code of Corporate Governance including the internal control arrangements and management of risk.

The report published by the Audit Commission – Auditing the Accounts 2012/3 – had been circulated to members. The report summarised the results of the

work of the External Auditors across the country and highlighted an issue with the Council's AGS.

The Audit Manager explained that the Audit Commission had asked in October 2013 whether there was a specific statement in the Annual Governance Statement that conformed to those set out in the CIPFA Statement on the role of the Chief Finance Officer. Grant Thornton's risk-based approach did not identify the absence of a specific statement and this was therefore not reported in its findings letter at the Committee on 25 September 2015. The Director Resources had since taken note of the comments from the auditors and the Audit Commission's report which named CBC in its national report of breaches to the CIPFA statement. A more explicit statement within the 2013/14 was now proposed.

Members discussed the issue. It was clarified that should a new Section 151 officer be appointed then the statement would be amended accordingly and the Annual Governance statement was reviewed on an annual basis. In response to concerns expressed regarding risk to the reputation of the council now that it had been reported in the Audit Commission's report, Grant Thornton assured Members that it was not an issue which was so significant that it impacted on the opinion issued.

RESOLVED that the comments on the work on the AGS 2012/13 as set out in the Audit Commission report be noted.

12. WORK PROGRAMME

The work programme had been circulated with the agenda. The Chair wished to add an item to the agenda for the Audit Committee meeting in June 2014 to discuss whether there should be some independent representation coopted onto the Audit Committee in the future. This idea was currently being consulted upon. Grant Thornton had responded to the consultation expressing its concern with regard to the practicalities of this.

13. LOCAL GOVERNMENT ACT 1972 -EXEMPT BUSINESS

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 3, Part (1) Schedule (12A) Local Government Act 1972, namely:

Paragraph 3; Information relating to the financial or business affairs of any particular person (including the authority holding that information)

14. EXEMPT MINUTES OF THE LAST MEETING

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

Upon a vote it was unanimously

RESOLVED that the exempt minutes of the meeting held on 25 September 2013 be agreed and signed as an accurate record.

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

There were no urgent items for discussion.

16. DATE OF NEXT MEETING

The next meeting was scheduled for 26 March 2014.

Paul Massey
Chairman