

Audit Committee

Wednesday, 24th September, 2014
6.05 - 8.10 pm

Attendees	
Councillors:	Colin Hay (Chair), Chris Nelson (Vice-Chair), Matt Babbage, Flo Clucas, Dan Murch, David Prince and Pat Thornton
Also in attendance:	Paul Baker (Grant Thornton), Sarah Didcote (GO Shared Services), Sara Freckleton (Borough Solicitor), Paul Jones (GO Shared Services), Rob Milford (Head of Audit Cotswolds), Mark Sheldon (Director of Resources) and Peter Smith (Grant Thornton)

Minutes

1. APOLOGIES

No apologies were received.

2. DECLARATIONS OF INTEREST

Councillor C Hay declared an interest in agenda item 5 (Annual Statement of Accounts) as a Board Member of the Leisure and Culture Trust, should the discussion focus on any issues relating to the Trust specifically.

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 June 2014 be agreed and signed as an accurate record.

4. PUBLIC QUESTIONS

No public questions had been received.

5. ANNUAL STATEMENT OF ACCOUNTS 2013-14

The Director of Resources introduced Sarah Didcote from the GO Shared Services Finance Team, who made a short presentation highlighting key matters contained within the audited financial statements 2013/14 (attached at Appendix 1). She talked through the slides and made the following points;

Slide 3 - There had been no changes to the legal framework for some years.

Slide 4 – CIPFA was the main code followed (previously the SORP) and this slide set out the main changes to 'The Code' since last year. A member training session on local government finance had recently been held which outlined these changes to members.

Slide 5 – This slide offered some performance management background. It was highlighted that an effort had been made, this year, to de-clutter the accounts.

Slide 6 – The Audit Committee are responsible for signing off the accounts. The Annual Governance Statement had been approved by the Committee at the June meeting and the Auditors Opinion was set out in the ISA 260 (Agenda Item 6).

Slide 7 – The financial highlights had been listed under Directorate headings which members would be more familiar with.

Slide 8 – An under-spend of £489,998 had been reported in the July outturn report. Ear-marked reserves had reduced mainly because of the reduced reserves for the Art Gallery & Museum refurbishment.

Slide 12 –The surplus on management accounts was shown as £490k but this was reversed out in the movement of reserves statement. This had no impact on council tax.

The following responses were given to member questions;

- There was no impact on the Council's net worth as a result of the revaluation of assets because the increase was simply a paper increase. It was important to note that many organisations did not have anywhere near the number of assets as this Council and that the private sector could well communicate such increases as an increase in profits.
- The last valuation of the Council's assets had taken place during the dip in recession, with the recent revaluation having been undertaken during a period of recovery, which could account for the increase.
- UBICO produced a set of accounts which were considered by its Board and in turn audited by Grant Thornton (a different team to those that audit the Council's accounts). Members had never held a position of Director of Ubico. The question being raised at the moment related to the role of Observer. Andrew North was the Cheltenham Director and as a teckal company, the Leader was the Shareholder representative. The Leader had agreed to give further consideration to the Observer issue.
- Despite the formation of the Trust, CBC assets (Town Hall, etc) would remain CBC assets and any decisions relating to disposal would therefore, remain decisions of the council.
- The potential Municipal Mutual Insurance (MMI) liability was a longstanding one. The Council had a stake in MMI and when MMI had ceased, there had been a run off of assets. As a result of this there was a potential for exposure to liability and members were assured that the position was being closely monitored.
- The variation of figures from 2012/13 and 2013/14 for the taxation of non-specific grant income was due to a change to funding arrangements.

Upon a vote it was unanimously

RESOLVED that the audited statement of accounts for 2013-14 be approved and signed by the Chairman of the Audit Committee.

6. AUDIT HIGHLIGHTS MEMORANDUM - ISA 260

Peter Barber, of Grant Thornton, introduced the report, which had been circulated in advance of the meeting, but separately to the agenda.

The report highlighted key matters arising from the audit of the Council's financial statements for 2013/14. The committee were advised that the financial statements had been received within the deadline and Grant Thornton thanked the Finance team for their cooperation and support. He confirmed that Grant Thornton anticipated being able to provide an unqualified opinion on the financial statements as no material errors had been identified. One adjustment had been identified which related to the incorrect charging of £0.746 million of losses on revaluation to the revaluation reserve rather than the comprehensive Income and Expenditure Account. Because of this, the total cost of services had been understated by £0.746million, which therefore increased to £13.157million. Total Comprehensive Income and Expenditure net expenditure remained at £49.466million and full details were set out at part 2 of the report. A small number of adjustments had also been identified which improved the presentation of the financial statements.

Grant Thornton had found that the Council clearly demonstrated good value for money, comparing well with other authorities and maintained good levels of reserves but one residual risk was identified and given a RAG rating of 'amber'. Grant Thornton were of the opinion that there was scope for more regular reporting to Cabinet of performance against objectives, which they felt would strengthen understanding of performance throughout the year.

Finally, members were referred to the 'fees' section of the report which set out actual fees against those that had been included in the audit plan in March 2014. There had been a reduction to the fee for Grant Certification to reflect the changes to the work required on the Housing Benefits subsidy claim and an increase of £940 in respect of work on the material business rates balances. The report also set out the fees associated with the review of the overspend on the Cheltenham Art Gallery and Museum refurbishment project.

Grant Thornton explained that it was for the council to decide if and how it wanted to take forward the suggestion that Cabinet members receive more regular performance updates. Members were aware that individual Cabinet Members discussed performance with officers on a regular basis, but accepted that this was informal and queried whether they would be in a position to evidence this exchange. The Committee agreed to refer the matter to Cabinet for them to decide how they wanted to take the suggestion forward.

The second draft of the report into the overspend at the AG&M had been submitted to the Chief Executive and Director of Resources earlier in the day and once a management response to the report had been finalised, a special meeting of the Audit Committee would be arranged for mid to late October.

There were no recommendations for the committee to consider.

7. REVIEW OF IMPLICATIONS OF COUNCIL ACTION PLAN (KPMG)

The Borough Solicitor introduced the report as circulated with the agenda and explained that the matter had arisen from a question to Council regarding the recommendations made in the KPMG Public Interest Report (PIR) and whether they had been implemented and given the time that had elapsed, review the current situation.

Members were advised that the PIR from 2010 summarised the conclusion of an investigation by KPMG into the decision making process arising from a review of the Council's decision for the High Court litigation against its former Managing Director. The PIR contained 26 recommendations. The Council established a Working Group to consider the recommendations, review the Council's employment processes and respond accordingly. The Working Group devised 39 actions in total, 26 in response to the KPMG recommendations and 13 of their own and all were approved by Council in March 2010. These 39 actions were set out in Appendix 2. Each action identified a Lead Officer and the Audit Committee were delegated responsibility to monitor implementation. The action plan was considered at each meeting of the Audit Committee until September 2011 when the committee concluded that it was satisfied that all actions had been implemented. This did not include recommendation 9 of the Working Group relating to ongoing access to medical records of employees, which following advice from the Council's Occupational Health provider, was discounted as it was contrary to medical practitioner guidance and data protection legislation. The Lead Officers had revisited each of the actions and highlighted the current position and where applicable, had taken account of structural changes and named the appropriate Lead Officer. Broadly the concerns related to three different areas; the decision making process, risk and recruitment/internal dispute resolution processes / procedures.

In response to a question, the Borough Solicitor confirmed that the numbers of votes for, against and abstaining were recorded in the minutes where decisions were not taken unanimously, but stressed that whilst there are processes in place, it was not always possible, at council meetings, to confirm what time people exited, if before the conclusion of the meeting.

Upon a vote it was unanimously

RESOLVED that, having considered parts A and B of the Action Plan, no further action is currently required in respect of any of the recommendations.

8. APPOINTMENT OF CO-OPTED MEMBERS TO THE AUDIT COMMITTEE

The Director of Resources introduced the report as circulated with the agenda and invited Grant Thornton to make a short statement.

Peter Barber, of Grant Thornton, wished to clarify the role of Grant Thornton. Despite the Council resolutions as outlined in the executive summary of the covering report and the fact that Grant Thornton were fully supportive of the proposal to appoint co-opted members, they had been unable to have any input into the draft documentation which was being considered by the committee. Part of their role could call for them to comment on the arrangements, which they would be unable to do had they had any involvement in the process.

The Director of Resources reminded members of the long discussion at the last meeting pertaining to criteria and restrictions and the committee's decision to refer the matter to Council. Council had supported the proposal to appoint co-opted independent members but had delegated selection criteria back to the Audit Committee, in consultation with the Borough Solicitor and External Auditors. Officers had drafted documents based on those used by Cheltenham Borough Council in the past and those used by other authorities for the

recruitment of independent members of the Audit Committee. He reminded members that there was no legislation relating to the criteria and referred members to the suggested minimum, as set out at 2.4 of the report. As with other co-opted members of the authority, no allowance would be paid, though travel expenses could be claimed.

Members were comfortable with minimum criteria which had been suggested by Officers at 2.4 of the report.

The committee talked through each of the further criteria set out at 2.5 of the report.

v) Members chose not to accept this, deciding that it would prove difficult to exclude members of a political party when an individual could well have very strong political views, whilst not being a member of a political party.

vi) Whilst members agreed that it would not be appropriate for serving officers and members of the County Council, partner authorities, shared services or Parish Councils within Cheltenham, to hold the position of co-optee on the committee, they did not feel that members of all other authorities should be excluded.

vii) The Committee felt that it would be inappropriate for a previously serving officer or member of the Executive (ex-Cabinet Member) to be appointed until after such a time as the accounts for that period in which they were serving had been signed off, it was considered that a long stop period of 18 months from cessation of membership/employment should be sufficient. It was not felt necessary for non-executive members to be subject any such time restriction.

viii) This was accepted.

The committee agreed that appointment would be for 3 years rather than the 4 suggested in the report and members felt it would be prudent for the committee to review any such appointments as required.

The committee also agreed that the Chairman and Vice-Chair would be given the opportunity to review any applications before Officers convened the Interviewing Panel.

The Director of Resources would suggest suitable wording to reflect the criteria which had been agreed by the committee and circulate it for approval by the Chairman and Vice-Chair.

Upon a vote it was unanimously

RESOLVED that;

- 1. The opportunity to apply for the position of independent member of the Audit Committee be advertised on the Council's website.**
- 2. The advert, job description, person specification and application form, as amended, for approval by the Chairman and Vice-Chair, be used as part of the recruitment process.**
- 3. An Interview Panel comprising the Director of Resources and Democratic Services Manager (or their nominated representatives) nominate up to three Co-optees and make recommendations to the**

Audit Committee for their appointment, the Chairman and Vice-Chair having been given the opportunity to review all applications prior to interview.

9. INTERNAL AUDIT MONITORING REPORT

The Head of Audit Cotswolds introduced the Internal Audit monitoring report, as circulated with the agenda and talked through some of the key points. He explained that there were no significant issues identified and was pleased to highlight the assurance levels in respect of the Core Financial systems and the GO Shared Service. Members were referred to Appendix B which set out the rationale for the assurance and priority levels. Appendix C outlined current progress in relation to the work of Internal Audit and identified that work was behind schedule. He advised the Committee that delays had been due to his own period of absence and a restructure of the team itself, which aimed to future proof the service, but had caused delays. He assured members that all core work was in progress and that plans were in place to enable the service to make up ground that had been lost. No significant issues had been identified during the work that had been undertaken.

In response to a member question, the Head of Audit Cotswolds advised that the Town Hall was currently being reviewed as part of the Trust process and Internal Audit had looked at an issue relating to refunds at the Town Hall some two years ago. He assured members that this committee would continue to be informed of any issues regarding the Town Hall which related to CBC; but stressed that as of the 1 October 2014 the Trust would have their own internal audit arrangements in place and therefore responsibility for audit activity in this area would lie with them.

10. COUNTER FRAUD UNIT UPDATE

The Head of Audit Cotswolds explained that this item had been deferred after the potential partners concluded, at a meeting earlier in the day, that there was more work to do on the business case. This was in no small part due to the changes at the Department for Work and Pensions regarding residual fraud responsibilities and requirements for councils. Essentially more time was required to fully consider the implications associated with various options. The formation of the proposed Fraud Unit would mean that Officers with particular skills and knowledge could be retained locally. The DCLG had suggested that authorities might want to set up local arrangements and had made funding available, for which a bid was being submitted, but this had been put on hold given the number of unknowns at this time. An update would be provided as soon as possible.

11. WORK PROGRAMME

Members reviewed the work plan that had been circulated with the agenda.

The Director of Resources advised members that a special meeting of the committee would be arranged in order that it could consider the Art Gallery and Museum refurbishment project review by Grant Thornton. Members had been advised that there had been a delay in completion of this review which had in turn delayed the preparation and completion of the management response.

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

There were no urgent items for discussion.

13. DATE OF NEXT MEETING

The next meeting was scheduled for the 14 January 2015.

A special meeting would be arranged as soon as possible in order that the committee could consider the Art Gallery and Museum refurbishment project review by Grant Thornton. The Democracy Officer would be in touch with members regarding possible dates for this meeting in due course.

Colin Hay
Chairman