

## Audit Committee

Wednesday, 15th June, 2016  
6.00 – 8.05pm

Attendees	
<b>Councillors:</b>	Colin Hay (Chair), Steve Harvey (Vice-Chair), Matt Babbage, Paul McCloskey, John Payne, Dennis Parsons and David Willingham
<b>Also in attendance:</b>	Emma Cathcart (Counter Fraud Unit), Lucy Cater (Head of Internal Audit – Operations), Sarah Didcote (Deputy Section 151 Officer), Paul Jones (Section 151 Officer), Jackson Murray (Grant Thornton) and Bryan Parsons (Corporate Governance, Risk and Compliance Officer)

## Minutes

### 1. APOLOGIES

Apologies had been received from Peter Barber (Grant Thornton).

### 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.

The Chairman suggested that the word 'distinction' under Agenda Item 2 of the minutes of the last meeting (Declarations of Interest), should instead read 'jurisdiction'. The minutes of the last meeting would be amended accordingly.

Upon a vote it was

**RESOLVED that the minutes of the meeting held on the 23 March 2016, as amended, be agreed and signed as an accurate record.**

### 4. PUBLIC QUESTIONS

No public questions had been received.

### 5. AUDIT COMMITTEE UPDATE

Jackson Murray of Grant Thornton, introduced the Audit Committee Progress and Update Report as circulated with the agenda. For the benefit of new members he explained that a paper such as this was tabled at each meeting of the committee and was presented in two parts. Section one outlined Grant Thornton's progress in delivery of their responsibilities and section two included reports which may be of interest to the committee and updates on national issues. He reported that work on the Value for Money (VfM) conclusion had commenced and that the results of the VfM audit work and any key messages arising from it would be reported to the next meeting of the committee, with the

final accounts audit scheduled for the July/August. Grant Thornton had also arranged a free demonstration of their CFO (Chief Finance Officer) Insights tool for members of the management at the Council and its GO Partners. The Council subscribed to Maiden from Gloucestershire County Council, which provided data, but the CFO Insight tool was able to produce interrelated data. Section two of this report included a summary of the Grant Thornton report 'Better Together: Building a successful joint venture company' and focussed on the key areas to consider when deciding to set up a joint venture. The Council had various arrangements already in place but the report could prove useful to Officers when considering different options and members when formulating challenging questions in response to future proposals. The second report in this section was a CIPFA publication 'Fighting Fraud and Corruption Locally'.

In response to a member question, Jackson Murray explained that only one of the criteria for the assessment associated with the VfM conclusion was 'Informed decision making' and that rather than looking at all decisions they used a risk assessment to identify significant risks to the VfM conclusion against this and the other 2 criteria of 'Sustainable resource deployment' and 'Working with partners and other third parties'. As reported in the Audit Plan presented in March 2016, the 2 significant risks identified in 2015/16 related to the MTFs and 2020. In respect of 'informed decision making', rather than delving into each decision in minutia detail, they would simply consider if the council had proper arrangements in place to ensure that it took properly informed decisions.

#### **6. ANNUAL AUDIT FEE LETTER (2016/17)**

Jackson Murray referred members to the fee letter which had been sent to the Section 151 Officer in April. The letter set out the proposed work programme and associated fees for the ensuing year (2016/17) of £49,406. The scale fees were set nationally by the Public Sector Audit Appointments Limited (PSAA) and had been set at the same level as the scale fees for 2015/16. The Council's grant certification fee had been also been set by the PSAA at £9,015 and this fee covered the cost of certifying the housing benefit subsidy claim only and was based on the final 2014/15 certification fees.

The following responses were given to member questions;

- The PSAA did not prescribe the level of resource required to undertake the audit work and nor had the Audit Commission in the past.
- Section 151 of the Local Government Act 1972 required every local authority to make arrangements for the proper administration of their financial affairs and for one officer to be nominated to take responsibility for the administration of those affairs, the Section 151 Officer. The roles and responsibilities for the Section 151 Officer were set out in the constitution.

There were no resolutions arising from this report.

#### **7. AUDITING STANDARDS (COMMUNICATING WITH THE AUDIT COMMITTEE)**

In accordance with the International Auditing Standards, Grant Thornton were required to obtain an annual understanding of how those charged with

governance had exercised oversight of management's processes for identifying and responding to risks of fraud and the internal control that management had established to mitigate these risks. At Cheltenham, the Audit Committee were 'those charged with governance' and as such a letter had been sent to the Chairman (Councillor Hay) with a set of questions designed to cover the requirements of the auditing standards. It was good practice for the Audit Committee to review and agree the responses made by the Chair on their behalf, though admittedly, the majority of members were new to the committee following the recent elections.

The following responses were given to member questions;

- The answer to the question about instances of actual, suspected or alleged fraud within the council or other entities within the Group, the answer should in fact have been listed as yes, as Cheltenham Borough Homes were included. This would be amended.
- Potential litigation in relation to the Joint Core Strategy would be noted in the AGS for this year, rather than the AGS for 15/16, which was being considered by the committee at this time.
- The Leckhampton planning appeal was identified as a risk but for commercially sensitive reasons this was deemed confidential. The risk was managed on an ongoing basis, so whilst it was assessed as having a high impact, it was considered that here was a low likelihood.
- The figure of £82k is the "clearly trivial" level, below which errors or omissions would not be reported to members. Any issues above £82k would be referred to within the Audit Findings Report that will be presented in September.

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The response would be amended to include any details of fraud relating to Cheltenham Borough Homes.

Upon a vote it was unanimously

**RESOLVED that the response, as amended, be approved and signed by the Chairman.**

#### **8. INTERNAL AUDIT OPINION (2015/16)**

Lucy Cater, Head of Internal Audit (Operational), introduced the Internal Audit Annual Opinion. The Annual Opinion, set out at Appendix A, was based on the assessed adequacy of control; based on risk-based audits which had been undertaken during the year and other advice work on control systems, as well as the results of any external inspections. Overall, the opinion was that a 'satisfactory assurance' level could be given for the controls in place, within the audit areas where audit activity had taken place. Where operational control issues had been identified, the risks associated with those issues had been raised in the audit reports and were being actively managed. Executive summaries for those audits that had been concluded since the last committee meeting had been included at Appendix B, rather than submitting a quarterly monitoring report which is usually tabled at each meeting.

The following responses were given to member questions;

- There were four levels of assurance that could be given under the Annual Audit Opinion; High, Satisfactory, Limited and No.
- A new audit management system has been procured and has the functionality (which needs to be explored) to report in colour the status and opinions of audits.
- Audit activity in relation to Business Continuity Management had been deferred at the request of the Director Resources, given the level of work currently being undertaken by the ICT Shared Service. The Safeguarding Adults and Children had been deferred due to resourcing issues but it was important to note that work on both was ongoing, the table referred only to audit work in relation to those areas, rather than the areas themselves.
- The audit activities were not listed in order of importance, but were instead based on the audit plan and grouped under 'core' and 'risk', etc.

The Chairman was pleased with the assurance level (Satisfactory) which had been achieved.

Upon a vote it was unanimously

**RESOLVED that the report be noted.**

## **9. ANNUAL GOVERNANCE STATEMENT**

The Corporate Governance, Risk and Compliance Officer introduced the Annual Governance Statement (AGS) to be approved as part of the annual statement of accounts. The AGS, which the council had a statutory duty to prepare, covered the period for 1 April 2015 and 31 March 2016. The committee needed to satisfy itself that the AGS fairly reflected the arrangements within the Council, and that the suggested action plan would address the significant governance issues identified by the review. In March, assurance tables and evidence tables were issued to the Directors for completion, with the evidence tables acting as an internal control checklist which confirms and reviews the existence and adequacy of governance and control arrangements and identifies any significant absence of, or weaknesses in, the control. If any of the issues identified are considered to be significant, they are added to Significant Issues Action Plan and three issues had been included this year; Delivery and effective testing of the new ICT disaster recovery plan, business continuity plans and the Purchase Order management system. The statement had already been reviewed by the Senior Leadership Team, Corporate Governance group, Internal Audit, the Leader of the Council and the Head of Paid Service. The committee were being asked to approve the AGS and recommend that the Leader and Head of Paid Service sign the AGS so that it could be included within the statement of accounts.

The following responses were offered to member questions;

- Quotation marks had been positioned around the words 'business case' at 9c of the AGS as the level of detail contained within a business case

depended on the complexity of the project. These would be removed to avoid any confusion.

- There had always been a standard PID template and this had been updated following the AG&M review. As agreed, following that review, the Overview and Scrutiny Committee were given the opportunity to consider PIDs and decide how and when they wanted to scrutinise a particular project.
- Client Officers at the Council were involved in monitoring shared services. Within each agreement (which were much like Service Level Agreements but not always necessary given this title), certain requirements are specified. Performance was monitored on a quarterly basis and it was at this stage that the continued relevance of any measured would be discussed. It was agreed that the paragraph 3b would be amended to read 'The client officers monitor contractual arrangements and key performance indicators within the contract and report findings to the Senior Leadership Team.'
- The CIPFA code stated what had to be included in the AGS but this did not preclude the Council from adding something in addition. Whilst there was not specific mention of it, the Equalities policy fell under the title of 'Human Resources policies'.
- It wasn't within the remit of the AGS to make specific mention of those that apposed something on ethical grounds but this was something that Emma Cathcart from the Counter Fraud Unit would look at, at this could well be an issue that her team would encounter as part of their work, from an internal or external standpoint.
- All Project Managers overseeing significant projects at the Council were PRINCE 2 qualified.

The Chairman was reluctant to agree any changes to the AGS given that it was a retrospective but he was happy for Officers to review the Whistle Blowing policy and add something about ethics.

Upon a vote it was unanimously

**RESOLVED that;**

- 1. The Annual Governance Statement be approved**
- 2. The Leader and Head of Paid Service be recommended to sign the Annual Governance Statement so that it can be included within the statement of accounts**

## **10. REVIEW OF DRAFT ACCOUNTING POLICIES**

The Deputy Section 151 Officer introduced the draft accounting policies to be included in the 2015/16 draft Statement of Accounts, ahead of the approval of the final audited 2015/16 Statement of Accounts in September 2016. GO Shared Services had completed a thorough review of the accounting policies to ensure that they were up to date and relevant to the statements and the main change from the 2014/15 statements related to the adoption of the FRS13 definition of 'fair value', which was used as a valuation basis for Surplus Assets

and properties held for Investment purposes. These assets now needed to be valued at their 'highest and best use', which could well differ from how the asset was historically used by the council. Gains and losses on revaluation were posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Such gains and losses however, were not permitted by statutory arrangements to have an impact on the General Fund Balance and as such, were reversed out in the Movement in Reserves Statement and credited to the Capital Adjustment Account and (for any sale proceeds greater than £10k) the Capital Receipts Reserve. The accounting policies were required to include those adopted in relation to the council's group accounts. In 2014/15 the council jointly owned Ubico with Cotswold District Council, resulting in the company being included in the group accounts as a Joint Venture. However, Ubico now had 6 shareholders, each with a share of 16.66% in the company. This change in ownership meant that Cheltenham no longer needed to include the company in its group accounts, since it no longer has a 'significant influence' over the company.

The following responses were given to member questions;

- The best use evaluation was based on the best market use of an asset at a point in time without benefiting from any investment. The Council was not required to state what the best use would be, simply the value.
- The capital assets in relation to Ubico were held by the Council. The land was held by Council, as were the vehicles, which were leased to Ubico for use.

Upon a vote it was unanimously

**RESOLVED that the content of the draft accounting policies be noted.**

**11. WORK PROGRAMME**

The work programme had been circulated with the agenda.

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

The Chairman referred members to the briefing notes which had been circulated with the agenda. He explained that whilst briefing notes were not usually discussed, he felt that, given the subjects matter, the committee should talk through them at the very least.

**Evaluation of Internal Audit provision**

Lucy Cater, Head of Internal Audit (Operational), declared an interest in this item and left the meeting.

Paul Jones, the Section 151 Officer explained that the Internal Audit was a service which had been delegated to the Joint Committee. Audit Cotswolds provided internal audit to Cheltenham, Cotswold and West Oxfordshire Council's, whilst Forest of Dean received its internal audit service from the South West Audit Partnership (SWAP). SWAP is a Teckal company, wholly owned and controlled by its Members. Since 2012, the GO shared services had been jointly audited by Audit Cotswolds and SWAP with a joint protocol in place which aimed to avoid the service areas being audited twice. However, in

practice, a number of GOSS services are audited twice, by internal audit and external audit and there were often third audits by either SWAP or Audit Cotswolds in order to gain assurances that 'local' processes were operating in accordance with the main system (e.g payroll) internal controls. With an increasing number of shared services, this is not considered an efficient arrangement and therefore the proposal is that an independent evaluation of the two internal audit service providers is undertaken to enable the Joint Committee to decide upon the Internal Audit service provider for the partner councils. Grant Thornton, external auditor for the partner councils will provide the Joint Committee with independent advice on the cost and quality offered by each internal audit provider. This will be undertaken by a separate team to those that fulfil the external audit function. The bids would be assessed against 40% cost and 60% quality and a proposal would be tabled with this committee in September. He assured members that this would be a fair and transparent process and also took the opportunity to assure them that SWAP were a proven provider, and that he was a Director of the Company in his capacity as a member of the SWAP Board, as Chief Finance Officer for the Forest of Dean.

In response to a member question, the Section 151 Officer said that in his opinion, Devolution would not influence the decision, as irrespective of whatever the devolution deal would be (unitary, elected Mayor, etc), the internal audit function would still be required.

#### **Purchase Order Monitoring**

The Deputy Section 151 Officer introduced this briefing which was the first formal update that had been produced for this committee. GO Shared Services (GOSS) were able to generate a report (Appendix A) to identify non-compliance and the report was reviewed on a monthly basis, with additional training and support offered to staff, with the aim of improving performance. Financial rules stated that the system should be being used and full compliance would enable Finance to be aware of all commitments.

The following responses were given to member questions;

- The percentages in the April 2016/17 table represented the percentage of all payments processed in April. Only 28.94% had been made using the PO system. Supplier payments had been broken down for the purposes of providing clarity, as some eligible payments had been made in respect of expenditure generated from the Property Services division (Uniform) and Cheltenham Borough Homes, who both used stand-alone work order systems which had no direct interface with Agresso. Investigations were made into the possibility of an interface between the Uniform and Agresso. The statistics showed that in April 2016, 32% of eligible payments were non-compliant.
- The briefing note did not include details of the values associated with the purchase orders as it was felt that this could skew the figures and it was noted that purchase orders were not required for sums below £100.
- There was a variance in the number of payments that were processed from month to month and whilst no analysis of this

had been undertaken, it was likely that this could be due to seasonality.

- It was likely that a cultural change was required to address the majority of those that were not complying with the policy. Some officers had given feedback to a survey, had cited the urgent need for supplies as the reason that a purchase order was not raised.
- Executive Board and the Senior Leadership Team had fully supported the implementation of the No Purchase Order, No Pay policy and service areas which were repeatedly non-compliant, would be reported to them in the first instance.
- All suppliers that were known to the Council had been advised in writing, of the requirement for a Purchase Order Number.
- The Senior Leadership Team would be asked if Purchase Order Compliance could be added to the appraisal form of relevant officers.

Some members felt that the Council needed to adhere to the policy and refuse to process eligible payments that did not have a purchase order; suggesting that this would make suppliers more aware that this policy was in place. This was something that councillors have been reluctant to enforce due to the cash flow implications of non-payment on local businesses.

The point was made that some staff worked across a number of authorities and therefore a number of policies and that Internal Audit might like to communicate with partners, the suggestion that this policy be adopted by all.

The committee were satisfied that there was a mechanism in place to monitor the compliance, but felt that given the current level of non-compliance, it would be appropriate for further update to be tabled with this committee in six months (January 2017). Officers also committed to presenting the information in graph format in addition to the table format shown.

### **13. DATE OF NEXT MEETING**

The next meeting was scheduled for the 21 September 2016.

Colin Hay  
**Chairman**