

## Audit Committee

Wednesday, 24th July, 2019  
6.00 - 7.10 pm

Attendees	
<b>Councillors:</b>	Steve Harvey (Chair), David Willingham (Vice-Chair), Victoria Atherstone, Matt Babbage, Jonny Brownstein and Tony Oliver
<b>Also in attendance:</b>	Philip Alway (Finance), Paul Jones (Executive Director Finance and Assets), Darren Knight (Executive Director of People and Change), Jaina Mistry (SWAP), Sophie Morgan-Bower (Grant Thornton), Barrie Morris (Grant Thornton), Jon Whitlock (Finance) and Ann Wolstencroft (Governance Manager)

## Minutes

### 1. APOLOGIES

Councillor Stafford had given her apologies and the Chairman had advised that he would be late. Councillor Willingham, as Vice-Chair, took the chair for the duration of the meeting.

### 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 the 24 April 2019 be agreed and signed as an accurate record.**

### 4. PUBLIC QUESTIONS

There were none.

### 5. ANNUAL INTERNAL AUDIT OPINION

Jaina Mistry, Principal Auditor of SWAP Internal Audit Services, introduced the Annual Internal Audit Opinion report as circulated with the agenda. She explained that the opinion was based on the work that had been undertaken throughout the year and that a 'Reasonable' assurance opinion was offered for the Councils' internal control framework. It was highlighted that the draft reports, though not finalised, raised no issues of concern and that details of these would be included in the progress report which would be tabled at the September meeting. These final reports would then help to form next year's annual opinion.

In response to a member question, the Principal Auditor advised that the operational audit of Planning had been deferred because at the time the service was undergoing a redesign and it was clear that a review of current procedures would be of little value if procedures were going to be changed. A position statement had been issued which provided a summary of the current status and that this area would be revisited. The audit was scheduled to commence in January 2020.

Upon a vote it was unanimously

**RESOLVED that the report be noted.**

**6. ANNUAL AUDIT FEE LETTER 2019/20**

Sophie Morgan-Bower, Audit Manager for Grant Thornton referred members to the fee letter which had been sent to the Chief Executive of Cheltenham Borough Council in April and a copy of which had been circulated with the agenda. She acknowledged the time that had lapsed since the letter was drafted and highlighted that there had been no meeting of the committee prior to this.

The letter set out the proposed work programme and associated fees for the ensuing year (2019/20). She advised that the Public Sector Audit Appointments Ltd (PSAA) had published the 2019/20 scale fees for opted-in bodies in March 2019 and individual scale fees had remained the same as in 2018/19. Also included was an outline audit timetable.

There were no Members questions arising from the fee letter.

There were no resolutions arising from this report.

**7. AUDIT HIGHLIGHTS MEMORANDUM ISA260**

Barrie Morris of Grant Thornton (GT), introduced the report as circulated with the agenda, which summarised the key findings from the statutory audit of CBC and the preparation of the group and council's financial statements. He noted that:

- The expectation was that the accounts for Cheltenham Borough Homes would be agreed the same evening
- GT anticipated being able to issue an unmodified and unqualified audit report on the financial statements.
- They also anticipated issuing an unqualified value for money conclusion.
- There had been no objections from any member of the public.
- GT applied the concept of materiality and overall materiality had been determined to be £1,569,400 (2% of gross expenditure), which was the highest level which is permissible for the auditor to set.
- Triviality had been set at £80k, except Senior Officers' remuneration which required a lower materiality due to the sensitive nature of these balances and therefore stood at £20k.
- There were two significant risks that related to all organisations: improper revenue recognition and management override of controls and no issues had been identified in respect of these issues at CBC.
- In terms of the 'Valuation of plant, property and equipment' risk, GT had performed a robust challenge of the assumptions made by the valuer

working on behalf of the council and used parameters to compare them against. One issue had been identified in relation to the value of council dwellings and depreciation and this had required a significant adjustment of £15m, though he stressed that this had not impacted the bottom line as it was simply an adjustment to how the information was presented. The council had made the adjustment.

- The council had invested in a number of investment properties and GT had tested whether these were considered appropriate, with no issues identified.
- GT highlighted the additional work that had been undertaken in regard to the valuation of pension fund net liability in light of the McCloud judgement. It had been ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. This would impact all public sector schemes, and could mean a possible increase in liability to the council of £0.4m. No other issues were identified and no adjustments were required.

Sophie Morgan-Bower of GT highlighted the following points:

- The group audit included CBH and Gloucestershire Airport, but not Ubico or Publica.
- Despite having been recommended in the previous year, a formal lease was still not in place between Ubico and CBC for arrangements to lease recycling and refuse vehicles from the council to Ubico. A member asked that an update on this issue be provided to the committee.
- GT were happy with the appropriateness of management's use of the going concern assumption.
- In terms of the Value for Money (VFM) work, GT had raised two risks. The Medium Term Financial Strategy (MTFS) was a common risk. GT had recommended that the Budget Strategy (Support) reserve be replenished by 2020/21.
- One minor additional disclosure point was noted, which was not noted in the AFR due to the timing of the report release, in relation to a corrected lease disclosure. This was a minor point.
- The other related to the governance of Publica. GT recommended that the council continue to develop clarity on respective roles and responsibilities and continue to strengthen the communications process with Publica officers. The management response was included in the final version.
- Housing Capital Receipts were audit related by their very nature.
- CFO insights posed a self-interest threat and had therefore been included for transparency.
- Appendix B provided follow-up on recommendations from the previous year.
- Appendix C reported all non-trivial misstatements and the audit adjustments and this included the unadjusted difference relating to the McCloud judgement.
- Fees and the additional audit fees were summarised at Appendix D and it was noted that the final fee had reduced from £49,500 last year, to £42,500 this year.

The following responses were given to Members questions:

- This was the first time that the carry value depreciation had been identified and this had resulted in a technical adjustment (change in classification) with no effect on the bottom line.
- A similar recommendation to that made to CBC regarding the governance of Publica had been made to all partner organisations.
- There was a split in terms of the McCloud ruling and the GMP equalisation, equating to £0.4m in total (unadjusted in the accounts).
- There were people at CBC who would be affected by the McCloud judgement and therefore CBC was affected in terms of what it would have to pay over. This was a complex issue which was subject to lots of discussion within the sector and no clarity as yet on how this would be funded.

In response to a question from a member, the Executive Director Finance and Assets could recall a time when the external audit fee was in excess of £100k and accepted that as a consequence of the far reduced fee, there was less scope for additional work. In terms of the McCloud judgement, it had generated work for himself and the council and therefore he was comfortable with the additional fee from GT.

No decision was required.

## **8. STATEMENT OF ACCOUNTS 2018/19 (INC. LETTER OF REPRESENTATION)**

The Executive Director Finance and Assets introduced Philip Alway and Jon Whitlock from the finance team at Publica. The Director explained that Philip had taken over the role of Finance Manager following the retirement of Sarah Didcote. The officers introduced the Statement of Accounts 2018-19, explaining that the team had prepared the draft by the end of May, which had then been published on the council's website and passed to Grant Thornton for review. A brief summary of the key balances and figures was outlined to the Committee. A link to the draft accounts had been circulated with the agenda and the final version, following the audit by Grant Thornton, had been published as a supplement.

Members commended officers for their hard work in producing the statement of accounts, which they acknowledged represented a large amount of work and with the Statement of Accounts needing to be produced within ever shorter timescales. Councillor Harvey, as Chair, suggested to Officers for a press release acknowledging the positive outcome of the audit undertaken by Grant Thornton and for a report to go to Council later in the year. The Executive Director Finance and Assets confirmed that the item had been scheduled on the agenda for the October Council meeting and would discuss the issue of a media release with the relevant officers.

A member highlighted the statement made by the Labour Party that they would seek to largely end the outsourcing of council contracts to private firms if they entered government and queried what this would mean for Cheltenham given its arrangements with Publica, Ubico, etc. The Executive Director Finance and Assets stressed that this was nothing more than a statement at this stage and that it was therefore difficult to second guess what this would mean, but suggested that his definition of outsourcing would include truly 'private'

companies such as Biffa, rather than Local Authority Companies such as Ubico or Publica. He also struggled to understand how arrangements such as this could be easily reversed as in all cases a contract would have to be terminated.

Upon a vote it was unanimously

**RESOLVED that:**

- a. **The accounts for the year ended 31 March 2019 be approved.**
- b. **The Statement of Accounts and letter of representation be signed by the Chairman of the committee and the Section 151 Officer.**

**9. AUDITING STANDARDS COMM WITH 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. As such, letters had been sent to the Chairman (Councillor Harvey) and the Section 151 Officer (Paul Jones) with a set of questions designed to cover the requirements of the auditing standards.

The committee reviewed the responses given by the Chairman and senior management and upon a vote it was unanimously

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

**10. ANNUAL REVIEW OF RISK POLICY**

Ann Wolstencroft, the Governance Manager, introduced herself to the committee, noting that she had replaced Bryan Parsons in the role. She highlighted that at 3.4 of the report, 2017-18 had been referenced in error and that this should have stated 2019-20. The committee were advised that the only amendments to have been made to the policy were to reflect the new management structure, noting that a full review of the approach to risk management (and therefore the policy) would be undertaken in 2019, to coincide with the introduction of new risk management software.

The Governance Manager along with the Director of People & Change gave the following responses to member questions:

- Officers were given training on risk management in an effort to achieve a consistent approach but this effort would be helped greatly by the introduction of the new risk management software, which would also assist with risks that were reduced and escalated. It was noted that the Governance Manager had recently achieved a qualification in the Management of Risk (MOR).
- Environmental risks would factor more highly in the risk assessment given that a Climate Change Emergency was recently declared.
- Tracked changes would be included in amended policies in future, so that the committee could be clear on what revisions had been made.
- An explanation of the meaning of the percentages associated with 'Effect' of risks would be circulated outside of the meeting.

The Director of People & Change suggested that the committee might like to see a live demonstration of the new risk management system once it went online and that this would be scheduled in due course.

At the start of the meeting representatives from SWAP had circulated details of a free training session for members and the Director of Finance and Assets reassured members that the Executive Team took member training needs seriously and if the committee felt that there was a specific need, they would be happy to consider options.

Upon a vote it was unanimously

**RESOLVED that the Risk Management Policy 2019-20 be approved.**

**11. WORK PROGRAMME**

The Executive Director Finance and Assets noted that the agenda for the September meeting was reduced as a result of many of the reports now being tabled at this (July) meeting, because of revised timetables.

There were no urgent items requiring a decision but Councillor Willingham noted that the Executive Director Finance and Assets had instructed SWAP as the council's internal audit providers to undertake a full-review on the decision-making process surrounding an issue presented at the recent Council meeting. The findings would be reported to the Audit Committee once finalised.

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

**13. DATE OF NEXT MEETING**

The next meeting was scheduled for the 18 September 2019.

Steve Harvey  
**Chairman**