

Audit Committee

Wednesday, 19th June, 2013
18:00 to 19:25

Attendees	
Councillors:	Paul Massey (Chair), Colin Hay, David Prince, Tim Harman and Pat Thornton
Also in attendance:	Peter Smith, Peter Barber, Robert Milford, Mark Sheldon, Bryan Parsons and Councillor Jon Walklett

Minutes

1. APOLOGIES

Apologies were received for Councillor Rowena Hay.

2. DECLARATIONS OF INTEREST

No interests were declared.

3. ELECT A VICE-CHAIR OF THE COMMITTEE

As Councillor Wall has stepped down from the committee, the Chair invited nominations for the Vice-Chair. Councillor Harman nominated Councillor Chard and this was seconded by the Chair.

On a vote it was unanimously,

RESOLVED that Councillor Chard be appointed Vice Chair of the committee.

4. 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 20 March 2013 be agreed and signed as an accurate record. This is subject to a minor amendment that the forename of the Councillor Hay who was speaking at any one time is included in the minutes to avoid confusion.

5. PUBLIC QUESTIONS

No public questions had been received.

6. AUDIT UPDATE REPORT

The item was introduced by Peter Smith from Grant Thornton. This paper provides the Audit Committee with a report on progress in delivering Grant Thornton's responsibilities as the council's external auditors. The paper includes a summary of emerging national issues and developments that may be relevant to Cheltenham Borough Council and it also includes a number of challenge

questions in respect of these emerging issues which the committee may wish to consider. The auditors explained that Grant Thornton were currently at the planning stage and were carrying out interim work leading up to the audit of the council's accounts. At this stage there were no issues arising out of this work which he needed to bring to the committee's attention.

The Chair asked why the audit timetable from the Audit fee letter 2013-14 had not been included in the Audit update report. The auditors said that it had not been included in the update report as a separate piece of work, but the outcomes of the work would be itemised separately in subsequent updates.

7. AUDIT FEE LETTER 2013-14

Peter Barber from Grant Thornton introduced the item. The Audit Commission has set its proposed work programme and scales of fees for 2013/14. This letter sets out details of the audit fee for the council along with the scope and timing of Grant Thornton's work and details of their team.

The scale fee is set at £69,974. The Audit Commission defines the scale audit fee as 'the fee required by the auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice'. The auditors explained that the proposed fee was the same as last year's - representing value for money. The outputs of the audit for 2013/14 would be the same as the output for 2012/13. Grant Thornton reminded members that for 2012/13 the Council received a rebate from the Audit Commission at 8% and therefore the 2013/14 fee the Council is likely to be charged will be a lot less. The Director of Resources was aware of the rebate last year, but was not aware that it was likely to be repeated.

The Chair said that last year there had been an extra fee of £8,500 for additional work. He asked how far into the process the auditors had to go before they knew whether additional work and fees would be necessary. The auditors responded that they were hoping to see the draft accounts next week and then they would have a more detailed understanding. They would advise Mark Sheldon, Director of Resources, on this. The auditors informed members that they would report back in September to the committee.

8. AUDITING STANDARDS - COMMUNICATION WITH THE AUDITING COMMITTEE

Peter Smith from Grant Thornton introduced the item. The purpose of this report was to ensure there is effective two-way communication between the Council's Audit Committee and the external auditor and was required by Auditing Standards. These Auditing Standards cover the following areas, fraud, law and regulation, going concern, related parties and accounting for estimates. Grant Thornton had questioned the management in detail about these areas and their response was set out in the report. The auditors were now seeking the approval of the committee that the responses provided by management are accurate and to give an opportunity for the committee to ask any questions.

The Chair referred to question 4 on page 30 of the agenda which asks whether the council has enough staff, particularly at senior level, to ensure the delivery of the Council's objectives. The Chair remarked that he was surprised there was no mention of the extra capacity and resilience that had been made available through shared services such as ICT, GO or Audit Cotswolds.

The Chair referred to question 2 on page 32 of the agenda. This asks 'what are the controls in place to identify, account for, and disclose, related party transactions and relationships?'. The response from management states 'If there are any [related parties] that could lead to risk, the council would not order from or deal with the party concerned'. He asked if there was a policy which stated that the council could not conduct business with these companies or if there was a due process which would be followed if this were to happen.

Council Officers responded that they thought it was the latter. Bryan Parsons, Corporate Governance and Compliance Officer, said that there were codes of conduct and procurement rules but said that he could check and review this. The auditors said that if this were the case then they would still be happy.

After consideration and a vote the committee,

RESOLVED that it was satisfied with the responses from management and the arrangements in place.

9. INTERNAL AUDIT MONITORING REPORT

The Head of Audit Cotswolds, Robert Milford, introduced the report. The report is designed to give the Audit Committee the opportunity to comment on the work completed by the Audit Cotswolds partnership and provide 'through the year' comment and assurances on the control environment.

The Head of Audit Cotswolds explained that Audit Cotswolds have started finalising work on GO Shared Services. There are areas for improvement which management have agreed to. The Head of Audit Cotswolds said that officers were committed to supporting GO Shared Services and overall he explained that they are working well together. The governance documents which had been put in place to support the GO structure are being worked to and as a result service governance is working effectively. ICT issues caused a big problem for GO shared services and have also caused problems for housing and the council tax system.

The amount of change GO has been through increases the chance of error, but resources are being focused and they are tackling these problems. The Limited Assurance was good in these circumstances and overall GO is improving and moving forward in a positive direction. The Head of Audit Cotswolds informed members that the COG is working well. He asked if there were any questions.

In response to a question as to whether there had been unnecessary change at the council, the Head of Audit Cotswolds responded that this was not the case. He gave the analogy of a triangle where each of the three sides is represented by ICT software, staff that operate the system and the end user. All sides had been in a state of flux and the amount of change that two sides of the triangle had to deal with meant that the end user had also been impacted.

The Head of Audit Cotswolds, in response to the question as to whether GO would reach a satisfactory level within a year, said that it should do. There is a big action plan for GO to tackle, but if this is achieved then a satisfactory level will be reached.

The Chair informed members that he was not surprised by the report. He asked whether previously they had been premature in saying the payroll issues had been resolved. The Head of Audit Cotswolds responded that resilience and resource levels were better but they were still trying to catch up in other areas.

There was a reference in the report to updating the Terms of Reference for the JMLG and a member questioned whether these were strategic changes. The Head of Audit Cotswolds responded that the changes referred to were mainly changes to the documentation to reflect that the GO programme had now closed.

Mark Sheldon, Director of Resources, gave the committee an update on the ICT problems. He explained that the process was very difficult and that the benefit of shared services meant there was now a fresh pair of eyes on the problem as well as a new build of servers. As a result progress had already been made in resolving the response time issues for Revenues and Benefits.

On a vote the committee unanimously,

RESOLVED that the Internal Audit Monitoring Report be accepted.

10. INTERNAL AUDIT OPINION 2012-13

The Head of Audit Cotswolds introduced the report. This annual report gives the opinion as the Head of Internal Audit and therefore the officer responsible for the delivery of the internal audit function, which includes assessing the adequacy and effectiveness of internal control within Cheltenham Borough Council.

The report follows the same model as last year and it develops the auditing planning process. In terms of resourcing, there were some new entries to the auditing team. Overall there was a relatively stable skill base amongst staff.

The Head of Audit Cotswolds informed the committee that it had been a difficult year for audit because of the formation of UBICO came at the same time as the implementation of GO, creating a significant change. Both services were delivering what they were meant to deliver, despite a significant governance change. The Head of Audit Cotswolds commented that in his 15 years experience as an auditor he had never seen such a level of change in a single year. ICT has moved to the Forest of Dean meaning there is still significant change ongoing and issues with change continue to cause a problem. A report on the ICT virus was dealt with at the last committee and the Head of Audit Cotswolds explained that issues will be monitored and reported on at the meeting in September. This is a draft report and so may be subject to change.

The committee was asked if there were any questions.

A member referred to items 32/33 on page 63 of the agenda. This refers to Go Shared Services Debtors and Creditors and these are classed as 'limited'. The member asked why they were classed as such. The Head of Audit Cotswolds responded that they were still going through the finalising process and had to be passed by senior management. It is unlikely there will be any further questions by managers, but this is possible.

Grant Thornton asked how the ratings system worked. The Head of Audit Cotswolds responded that high assurances are top level and then it goes satisfactory, limited and low.

After some consideration and upon a vote the committee unanimously,

RESOLVED that the opinion of the Annual Internal Audit Opinion report be noted.

11. ANNUAL COUNTER FRAUD REPORT

The Head of Audit Cotswolds, introduced the report. The Chartered Institute of Public Finance and Accountancy (CIPFA) published a paper which recognises the key elements to an authority's governance framework, this includes 'ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained'. This report sets out the Counter Fraud work conducted through 2012/13.

This is the first time that the Head of Audit Cotswolds had delivered such a report. There was a Local Government Fraud Strategy and a Commissioning Strategy that was used to build a framework for the report. The Head of Audit Cotswolds informed the committee that the Audit Commission produced a survey every year. The survey identified 28 areas for comment. The committee was asked if there were any questions.

A member said she was interested to know about the overpayments of £139,000. She wanted to know whether that was recovered and if it was external fraud. The Head of Audit Cotswolds responded that it was benefit fraud and that there had been 97 sanctions for it. He explained that the committee should not expect the report to be full of fraud, but that a mechanism is required to find it. The committee was informed that tenancy fraud was linked to benefit fraud.

A member commented that with two members of staff, the money recovered was cost effective, but he said he wasn't sure about other costs. He asked if another member of staff was put in place, would more money be recovered. The Head of Audit Cotswolds responded that the council receives money to tackle fraud from a subsidy. On the question as to whether the council is getting back all it could, he said the authority now has more powers to act. The council had been working with the local police to bring back housing which is fraudulently let.

The Chair remarked that as a percentage of the benefits bill, £129,000 in reclaimed money was good. He said the distinction between internal and external fraud was key to how this report is presented. External fraud will be the biggest share. The controls for internal and external fraud show that there is a proactive approach to tackling it. External and internal fraud should be separated and this may give the best structure to compare the different types of fraud.

After consideration and upon a vote the committee unanimously,

RESOLVED that the Annual Counter Fraud Report be accepted.

12. EFFECTIVENESS REVIEW - INTERNAL AUDITING STANDARDS

The Head of Audit Cotswolds introduced the item. This report assesses how far Audit Cotswolds is compliant with the CIPFA 2006 code of practice for internal audit in local government.

The Head of Audit Cotswolds explained that there were a few key reasons why Audit Cotswolds had not been fully compliant with the CIPFA standards. The Head of Audit Cotswolds informed the committee that there was a change to 3.7 which states, 'The anti-fraud and corruption strategy and fraud response plan have been reviewed during the last 3 years'. This received only a Qualified or partial compliance rating for 2012/13. This is because 'all partner sites are in the process of updating and aligning anti-fraud policies'. The Head of Audit Cotswolds referred to point 8.1 which again received only a Qualified rating in 2012/13. 8.1 states 'The timing of internal audit assignments is normally arranged with the management concerned to minimise disruption'. This is because it has been an exceptionally busy year for the audit team which meant it could not always align to the timings of management. ICT issues have also caused difficulty for the auditing team. The Head of Audit Cotswolds explained that the ICT provision for the partnership has deteriorated and he was trying to get it fit for purpose. He said there was an issue with managing data. Information is not emailed to ensure its security – instead his team go to the site of the data to pick up that information.

The committee was asked if it had any questions.

The Chair asked if there were any resourcing blockages. The Head of Audit Cotswolds responded that once GO is stabilised the timing issues for the auditors will be resolved. The Chair also asked if there is a problem that some of the GO partners are not part of the Audit Cotswolds partnership. The Head of Audit Cotswolds advised that this was not a problem.

Upon a vote it was unanimously,

RESOLVED that the Effectiveness Review – Internal Auditing Standards be accepted.

13. WORK PROGRAMME

The Chairman referred members to the work plan.

The Head of Audit Cotswolds confirmed that the work programme would pick up the ICT monitoring report. He also confirmed that he would be in a position to bring a report to this committee in September on the proposed governance arrangements for the new Leisure and Culture trust.

Peter Barber from Grant Thornton also picked up some minor errors for correction on the work programme. These will be noted and the work programme adjusted.

The committee noted the changes to the work plan.

14. ANNUAL GOVERNANCE STATEMENT

Bryan Parsons, Corporate Governance, Risk and Compliance Officer, introduced the item. The Corporate Governance, Risk and Compliance Officer

said that the council had a statutory duty to assess its internal controls and create an Annual Governance Statement. The review includes strategic directors and directors who are asked to sign a charter to state whether they are compliant in certain areas. He said that he also takes into account what the Head of Audit Cotswolds has done in internal auditing, payroll etc. The Annual Governance Statement is short on purpose. The Corporate Governance, Risk and Compliance Officer explained that the statement made some comment on the airport as it was a significant investment for the council.

Grant Thornton recognises that the arrangements and guidance are new this year. The auditors explained that as part of Grant Thornton's plan to ensure good governance in local government, a governance statements comparison table, documenting all the councils that Grant Thornton deals with, will be produced before Christmas.

The Chair commented that the report was a good format.

The Corporate Governance, Risk and Compliance Officer said that if the report was approved then it would be included in the Statement of Accounts.

A member referred to section 75 of the report which questioned how the council engages through its councillors with the local community. The member considered that standing for election is part of that accountability and that the report should try to capture that.

The Corporate Governance, Risk and Compliance Officer explained that they were trying to demonstrate the strategic link between the work with agencies and local people. He informed members that they may be able to change how this is put in the report next year and that the work they do with partnerships is new.

Upon a vote the Committee unanimously

RESOLVED that

- 1. The AGS be approved for inclusion in the statement of accounts**
- 2. The report be recommend to the Leader and Chief Executive Officer and that they sign the AGS**
- 3. An update report be requested in January 2014 on progress against the Significant Issues Action Plan.**

15. APPROVAL OF THE CODE OF CORPORATE GOVERNANCE

The Corporate Governance, Risk and Compliance Officer, introduced the item. This document is based upon the SOLACE and CIPFA model and there is a requirement to review it on a regular basis to ensure that this is an important principle embedded in the organisation. This document also forms part of the Council's constitution.

The Committee considered the code and upon a vote,

RESOLVED that the revised Code of Corporate Governance be approved for use during 2013-14.

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

There were no urgent items for discussion.

17. DATE OF NEXT MEETING

The next meeting was scheduled for the 25 September 2013.

18. LOCAL GOVERNMENT ACT 1972 -EXEMPT INFORMATION

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)

19. EXEMPT MINUTES

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 the 20 March 2013 be agreed and signed as an accurate record.

Paul Massey
Chairman