



CHELTENHAM

BOROUGH COUNCIL

Notice of a meeting of Audit Committee

Wednesday, 25 July 2018
6.00 pm
Pittville Room, Municipal Offices

Membership	
Councillors:	Steve Harvey (Chair), David Willingham (Vice-Chair), Victoria Atherstone, Matt Babbage, Jonny Brownsteen, Jo Stafford and Tony Oliver

The Council has a substitution process and any substitutions will be announced at the meeting

Agenda

1.	APOLOGIES	
2.	DECLARATIONS OF INTEREST	
3.	MINUTES OF THE LAST MEETING To approve the minutes of the last meeting held on 24 th April 2018.	(Pages 3 - 12)
4.	PUBLIC QUESTIONS These must be received no later than 12 noon on the fourth working day before the date of the meeting.	
5.	ANNUAL INTERNAL AUDIT OPINION 2017/18 South West Audit Partnership	(Pages 13 - 46)
6.	ANNUAL AUDIT FEE LETTER FOR 2018/19 Grant Thornton	(Pages 47 - 50)
7.	DRAFT AUDIT FINDINGS REPORT - ISA260 INCLUDING FINANCIAL RESILIENCE Grant Thornton (Final Report to Follow)	(Pages 51 - 92)
8.	STATEMENT OF ACCOUNTS (2017/18) (INC. LETTER OF REPRESENTATION) Finance Manager & Deputy Chief Finance Officer (Statement of Accounts to Follow)	(Pages 93 - 96)

9.		AUDITING STANDARDS - COMMUNICATING WITH THE AUDIT COMMITTEE Section 151 Officer	(Pages 97 - 114)
10.		WORK PROGRAMME	(Pages 115 - 118)
11.		ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION	
12.		DATE OF NEXT MEETING 19 th September 2018.	

Contact Officer: Sophie McGough, Democracy Officer, 01242 264130
Email: democratic.services@cheltenham.gov.uk

Audit Committee

**Wednesday, 18th April, 2018
6.00 - 8.00 pm**

Attendees	
Councillors:	Steve Harvey (Vice-Chair), Matt Babbage, Paul McCloskey, John Payne, Jon Walklett and David Willingham
Also in attendance:	Sophie Morgan-Bower (Grant Thornton), Lucy Cater (Assistant Director – SWAP), Emma Cathcart (Counter Fraud Manager), Sarah Didcote (Deputy Section 151 Officer), Barry Lewis (Grant Thornton), Bryan Parsons (Corporate Governance, Risk and Compliance Officer)

Minutes

1. APOLOGIES

Councillor Hay had given his apologies. Councillor Harvey, as Deputy Chair would take the chair in his place but was running a little late; so the committee nominated Councillor Payne to take the chair until he arrived. Councillor Harvey arrived at 6:15pm.

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 10 January 2018 be agreed and signed as an accurate record.

4. PUBLIC QUESTIONS

None had been received.

5. GENERAL DATA PROTECTION REGULATION POLICY

The Corporate Governance, Risk and Compliance Officer introduced the General Data Protection (GDPR) Policy, as circulated with the agenda. He explained that the existing data Protection Act 1998 would be replaced by new legislation on the 25 May 2018 and the committee were asked to recommend that Cabinet approve the new policy. It was also recommended that the Borough Solicitor be designated as the Data Protection Officer and the Shared Service arrangement between Cheltenham Borough Council, Gloucester City Council and One Legal (Tewkesbury Borough Council) be varied.

The Corporate Governance, Risk and Compliance Officer responded to member questions:

- Data sharing was not an issue assuming people were advised that their data would be shared and assuming a data sharing agreement was in place. Data audits had been undertaken across the council, of all data collected, with many sharing agreements already in place, and where they were not, discussions were ongoing to ensure that they were put in place.
- There were instances where residents could ask that their details not be shared and consideration was being given to how long details of objectors to planning applications, for example, were retained. Privacy notices would set out why data was being processed, who it would be shared with and how long the data would be retained.
- As part of the member training that had been provided it had been made evident that members needed to clear about in which role they were collecting data, as a ward, borough or party representative.
- Registration with the Information Commissioner was members' responsibility with the council having no power to force members to do this, though it was highlighted that they were putting themselves at risk by not doing so. Democratic Services were supporting members' with the process (and covering the fee) this year. All members had been invited to visit Democratic Services to complete the online registration and thus far only two had done so. Democratic Services would be arranging a drop-in session prior to and immediately after the next Council meeting.
- A project team had been set-up to deliver compliance and that project had a long list of risks, which included IT risks. The policy tabled with the committee was a different matter. Members were reminded that each project had a risk register which was managed by the project team, but should a risk score 16 or more, it was automatically added to the Corporate Risk Register and monitored and reviewed by the Senior Leadership Team and Cabinet members. IT had a Divisional Risk Register and PSN compliance formed part of this.
- Admittedly, PSN required an annual return to ensure compliance, which he assumed parts of the NHS had completed. He wouldn't comment on how it had therefore been possible for hackers to get into their systems.
- Members were reminded that as part of Publica a joint PSN return was made, rather than one for each of the partner councils.
- He was not able to confirm whether or not the company that undertook penetrative testing of the councils IT systems was accredited or not, but would refer this question to the IT Manager and circulate the response to members by email.
- When sharing data with entities such as Ubico, who delivered services on our behalf, CBC remained the Data Controller and were simply authorising them to process data on our behalf.
- Legal had provided clear advice as to the necessary audit trail regarding the source and ultimate destination for any data collected. Every team in every division had a retention schedule, data was only kept as long as there was a legitimate business need and this varied from data to data.
- All but two existing members had completed the GDPR training. The Democracy Officer advised that these two members had committed to attending the session that had been arranged for newly elected

members. It was also noted that all staff had now been trained to the appropriate level.

Members commented on how informative they had found the GDPR training and encouraged those members that had not yet attended, to do so.

Upon a vote it was unanimously

RESOLVED that:

- 1. The committee recommend that Cabinet approve the new Data Protection Policy;**
- 2. The committee recommend that Cabinet delegate authority to the Director of Resources and Corporate Projects to vary the existing s101 Share Service arrangement between the Council, Gloucester City Council and One Legal (Tewkesbury Borough Council) to;**
 - Include undertaking the statutory function of the Data Protection Officer (DPO) under the Data Protection legislation and;**
 - Designate the council's Borough Solicitor as the DPO for the Council.**

6. ANNUAL REVIEW OF RISK MANAGEMENT POLICY

The Corporate Governance, Risk and Compliance Officer introduced the Annual Risk Management report and policy. He reminded the committee that each year the policy was tabled for approval and the report summarised risk management activities since March 2017. The South West Audit Partnership had reviewed Risk Management processes and had made a recommendation regarding Project Managers' assurance, which was addressed immediately, with no other amendments required. With the commencement of the cemetery and crematorium project, he felt members could be reassured that lessons had been learned after the last major projects which encountered problems.

The Corporate Governance, Risk and Compliance Officer gave the following responses to member questions:

- Corporate Health and Safety was something very different to Corporate Risk Management. If however a missing was identified and a risk was added to the Corporate Risk Register, then the policy would be updated to reflect this.
- He was aware that there were processes and safety measures in place with regard to ensuring the safety of taxi marshals but he didn't have detailed knowledge of what these included. He would refer this to the Licensing Team for a response to members outside of the meeting.
- The cem and crem project was only chosen for review by SWAP as it represented the largest capital project of the council at this time but it was stressed that the same processes were in place for all projects.

The Corporate Governance, Risk and Compliance Officer advised the committee that this would be the last meeting he would attend as he was due to commence flexible retirement in the summer, after which his role would focus on DEPLO only, and took the opportunity to thank the committee for their support over the years. On behalf of the committee, the Chair wished the

officer all the best and thanked him for his hard work and dedication to his role in support for the committee.

Upon a vote it was unanimously

RESOLVED that the Risk Management Policy for 2018-19, at Appendix 2, be approved.

7. AUDIT COMMITTEE UPDATE

Barrie Morris of Grant Thornton (GT) introduced the Audit Committee update which detailed progress at April 2018. GT had started planning the 2017-18 financial statements audit, Value for Money (VfM) work had been undertaken, with details included in the audit plan (the next item on the agenda) and the VfM conclusion would be tabled with the committee in July. He highlighted that GT had completed a high level review of Internal Audit arrangements and had concluded that they provided an independent and satisfactory service to the council, contributing to an effective internal control environment. From Page 73 onwards sector updates detailed emerging national issues and developments, which could be of interest to members.

There were no comments or questions.

No decision was required.

8. AUDIT PLAN

Sophie Morgan-Bower, of Grant Thornton, introduced the External Audit Plan which set out the planned scope and timing of the statutory audit by Grant Thornton. Members were referred to pages 89 to 91 which detailed the significant risks that had been identified. She highlighted that the risk of fraudulent transactions being included in the revenue cycle had been rebutted. The risk of management override of controls was a presumed risk that was present in all entities and therefore a non-rebuttable risk. Property, plant and equipment and investment property represented the largest of the council's assets and the valuation of these assets was therefore identified as a risk requiring special audit consideration and was an area of particular focus for Grant Thornton. The valuation of pension fund net liability represented the largest liability to the council and therefore Grant Thornton would be looking closely at any assumptions being made. Page 92 outlined other risks which had been identified which were not significant but were slightly elevated and she highlighted the LGPS up-front payment, though this related to the disclosure associated with the payment, rather than the payment itself.

Barrie Morris of Grant Thornton referred members to Page 99 which detailed a disclosure made by GT about a potential breach of the ethical standards in connection with a contractor who was engaged with the firm (GT) and who was also the Chair of Publica Group (Support) Limited. The Ethical Standards does not allow a member of staff to take a role as an officer or member of board of directors in an entity where an audit client holds more than 20% of the voting rights. As soon as the breach was identified, GT notified the Public Sector Audit Appointments Ltd (PSAA) as well as the Director of Finance for each of the Councils and the contractor concerned. The contractor's engagement with GT was terminated, with immediate effect, as soon as the breach was identified and no members of the audit team had any involvement with the contractor

concerned and were unaware of his relationship with GT. Barrie explained that this was highly unusual and suggested that the reason the issue had arisen was that the definition of people had changed earlier in the year. He gave assurances that arrangements had been strengthened and reassured members that responsibility for this lay with Grant Thornton and not the Council. A member commented that the individual should have, themselves, declared a conflict of interest.

Finally, Barrie highlighted the non-audit services, which were of such low value, they did not undermine their independence.

In response to member question Barrie explained that work relating to Publica Group Support Ltd would be twofold. Firstly GT would review the Council's treatment of Publica in the accounts of the council and given that CBC had limited involvement this would be less than partners, but discussions were ongoing with the Section 151 Officer and Deputy Section 151 Officer. Secondly and in terms of VfM, GT would check that governance arrangements to monitor service standards and savings, which formed part of the business case on which the decision to form Publica was based, are sufficient and appropriate.

A member was aware that another member of the council was paid twice in one month and that this had come to light as a result of that member having reported it and his questions was: what if it wasn't report by an officer or member, if and how would this be picked up? GT explained that their work did not include substantive checks of all payroll transactions, instead undertaking a walkthrough of payroll and the controls in place. The Assistant Director for SWAP confirmed that the Internal Audit role did include transactional testing and any such issue would be reported, with the Deputy Section 151 Officer confirming that the finance team did pull off the payroll ledger, which would identify any issues.

There were no further comments or questions.

No decision was required.

9. INTERNAL AUDIT ANNUAL PLAN 2018-19 AND INTERNAL AUDIT CHARTER

The Assistant Director for the South West Audit Partnership (SWAP) introduced the Annual Internal Audit Plan 2018-19 and Internal Audit Charter 2018-19, which had been combined as both were tabled for approval. She explained that the Audit Plan 2018-19 listed the risk based assurance and consultancy work planned for the year ahead, and whilst it outlined the preferred programme of work, it was meant to be flexible to allow for any emerging issues throughout the year. The charter set out how the Internal Audit service would operate and formed part of the requirements for the Public Sector Internal Audit Standards, and would be tabled with the Internal Audit Annual Plan each year.

The Assistant Director gave the following responses to member questions:

- A decision was required on which of the four ICT Audits listed (Cybersecurity, Physical Networks / Network Access, Software / Hardware management, and Members' ICT) would be undertaken in 2018-19.

- It was likely that a staff survey would form part of the Corporate Culture review, but this had not yet been finalised, as the review was not scheduled until the final quarter.

There were no further comments or questions.

Upon a vote it was unanimously

RESOLVED that the Internal Audit Plan 2018-19 and Internal Audit Charter 2018-19 be approved.

10. INTERNAL AUDIT MONITORING REPORT

The Assistant Director of the South West Audit Partnership (SWAP) introduced the Internal Audit Monitoring Report, which was designed to give through the year comment and assurances on the control environment and outlined progress against the 2017-18 plan. She noted that since the publication of the report, the team had issued two final reports: Council Tax and NNDR.

The Assistant Director provided the following responses to member questions:

- Work had commenced on all items on the 2017-18 plan, with many of those marked as 'in progress' simply waiting for a management response, with the AGS and accounts work due for completion by the 31 May. It was noted that work had already started on the 2018-19 plan and therefore, at this stage, there were no concerns regarding deliverability.
- In terms of the opinions relating to Ubico (no assurance and partial assurance), recommendations had been made and an independent consultant had been appointed and would report back on the issue soon. The Assistant Director would report back details of any progress at the next meeting.

There were no further comments or questions.

Upon a vote it was unanimously

RESOLVED that the monitoring report be noted.

11. ANNUAL GOVERNANCE STATEMENT

The Assistant Director for SWAP introduced the Draft Annual Governance Statement (AGS), which had been published separately to the agenda. The Deputy Section 151 Officer confirmed that the AGS would form part of the final accounts which would be tabled for approval by the committee in July.

There were no comments or questions.

Upon a vote it was unanimously

RESOLVED that the draft Annual Governance Statement be noted.

12. COUNTER FRAUD UPDATE AND REGULATION OF INVESTIGATORY POWERS ACT 2000 UPDATE

The Counter Fraud Manager introduced the Counter Fraud Unit Report and Regulation of Investigatory Powers Act 2000 (RIPA) update, as circulated with the agenda. She first talked through the work plan and results, noting that at the end of the first year there was an underspend and as such £2248 would be returned to Cheltenham Borough Council. In addition to working directly for the partner Council's, the unit had grown and now provided support to other public sector bodies including: Cheltenham Borough Homes, Gloucester City Homes, Places for People, Bromford Housing and Ubico, as well as Publica. The work plan for 2018-19 was still being developed and would be circulated in due course, but the unit would be drawing on some of the objectives within the Home Office Anti Corruption Strategy, concentrating on promoting integrity across the public sector and reducing corruption within procurement.

Paragraph 1.7 of the report outlined how the team had supported the Council between October 2017 and March 2018, in undertaking the investigation of alleged fraud and abuse in relation to the Council Tax Reduction Scheme (Council Tax Support), National Non-Domestic Rates (Business rates) and Council Tax liabilities and detailed some of the results that had been achieved. She noted that, in recognition that it was more beneficial to join up as a county: county-wide bids had been submitted for pilot schemes for joint benefit investigations with DWP and business rates pilot work with NFI. It was also noted that work relating to empty residential properties was more to do with prevention and that the review of holiday lets had generated £1400, which had paid for the cost of the work, which was a positive result. CBC enforcement teams were proactive but the unit were offering support and expertise in terms of criminal cases. The unit were also currently running staff awareness sessions across the partner authorities and would be circulating the slides to members in due course.

Counter Fraud Manager gave the following responses to member questions:

- Much of the data matching that the unit undertook had exemptions applied relating to the prevention of crime and this would continue to be the case. Privacy Impact Assessments were being undertaken when necessary and because it was a newly formed team, a retention schedule was being currently being developed which should be easy to implement.
- The number of individuals on the housing waiting list had reduced because the more robust checks had identified individuals that should not have been on the list, which in turn, mean that CBH were able to house those that were legitimately on the list, more quickly. Making false statements on a housing application did constitute fraud but there was a decision to be made about the cost and reputational risk of pursuing all of these. The initial check had removed approximately 50 individuals.
- Licensing was a consideration in relation to feedback or checking where investigation cases warranted it.
- Right to Buy prevention checks were robust and necessary as successful RTBs resulted in the loss of properties, as well as income.

Moving on to RIPA, the Counter Fraud Manager explained that there had been no change to the policy but that it was currently being reviewed as a result of the new legislation. A new RIPA Social Media policy had been drafted, which

covered the use of social media as surveillance tool. This was currently out for consultation with officers from across the partnership and could be tabled for consideration by this committee in July if members so wished. Once adopted the Counter Fraud Team would work with Officers to whom RIPA may apply.

In response to a member question regarding test purchasing, the Counter Fraud Manager indicated that her team could support test purchasing of not just unlicensed taxis and drivers during race week (March 2019) but also of those licensed vehicles and drivers, who were not operating as they should. The team would raise this with the Licensing Team Leader to establish if their help was required. This could also include test purchasing for drivers who refuse guide dogs and wheelchairs.

There were no further questions or comments.

Upon a vote it was unanimously

RESOLVED that the report and update be noted.

13. REVIEW OF DRAFT ACCOUNTING POLICIES

The Deputy Section 151 Officer introduced the draft accounting policies, as circulated with the agenda. She explained that Grant Thornton had recommended that these be tabled with the committee ahead of approval of the final audited 2017-18 Statement of Accounts which was scheduled for July. There were no material changes, however, in line with the requirement to declutter the statement of accounts two accounting policies had been removed from the draft notes to the statements, as they were no longer considered relevant to the council's current operations or financial activities: Acquisitions and discontinued operations and; Foreign currency translation. She noted that these would be reviewed and included in accounting policies in future years if appropriate. It was also noted that a new group accounting policy note in respect of Publica had not yet been finalised, as confirmation on the requirement for Group status was pending.

In response to a member question the Deputy Section 151 Officer gave the example of Icelandic Banks where foreign currency translation had previously applied but was no longer applicable.

There were no further comments or questions.

Upon a vote it was unanimously

RESOLVED that the draft accounting policies be noted.

14. WORK PROGRAMME

The work programme had been circulated with the agenda.

The Democracy Officer noted that it had been suggested at a recent meeting of the Overview and Scrutiny Committee that the Audit Committee may wish to review the success of the governance arrangements for the leisure@ refurbishment programme, as it represented a new approach to project management for this council. The committee agreed and this would be added

to the work plan for a time after the project was due to be completed (start of July 2018).

Councillor Willingham reiterated his request that 'Information Security' be added to the work plan as a standing item. Officers would contact IT to establish a timely date for any such item.

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

There were no urgent items requiring a decision but as Chair, Councillor Harvey took the opportunity to thank retiring members of the committee and any members that were not re-elected in May. He paid particular thanks to Councillor Hay, who would be retiring and would be sadly missed as Chairman of this committee.

16. DATE OF NEXT MEETING

The next meeting was scheduled for the 25 July 2018.

Chairman

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Cheltenham Borough Council
Audit Committee – 25th July 2018
Annual Internal Audit Opinion 2017/18

Accountable member	Cabinet Member Corporate Services, Councillor Alex Hegenbarth
Accountable officer	Paul Jones
Ward(s) affected	All
Key/Significant Decision	No
Executive summary	<p>The Annual Internal Audit Opinion, Appendix A, gives the opinion, of the Acting Head of Audit Cotswolds 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 opinion is based on the adequacy of control, noted from a selection of risk-based audits carried out during the year and, other advice work on control systems including the proactive work of the service as it supports the control arrangements within change projects. The results of any external inspections also inform the opinion.</p> <p>Throughout the year we have measured the degree of control assurance within the systems or elements of systems we have audited or supported by way of control advice. Overall, the opinion is that a satisfactory assurance level can be given for the controls in place, within the areas where audit activity has taken place, to safeguard these systems which in turn support the delivery of the Council's overall business objectives.</p> <p>Where operational control issues were raised, the risks associated with the control issues raised, in the audit reports, are being actively managed by the responsible Management.</p> <p>Due to the information contained in The Annual Internal Audit Opinion, it was deemed unnecessary to submit a quarterly monitoring report but Executive Summaries for audits concluded since the last Audit Committee are included within the attached appendix.</p>
Recommendations	That the Committee considers the report and comments as necessary
Financial implications	<p>There are no financial implications arising from the report</p> <p>Contact officers: Sarah Didcote, Deputy Section 151 Officer Sarah.didcote@cheltenham.gov.uk, 01242 264125</p>
Legal implications	<p>None specific arising from the report recommendation</p> <p>Contact officer: Peter Lewis, Head of Legal Services, One Legal peter.lewis@tewkesbury.gov.uk, 01684 272012</p>

<p>HR implications (including learning and organisational development)</p>	<p>There are no direct HR implications arising from the content of the report.</p> <p>Contact officer: Carmel Togher, HR Business Partner Carmel.togher@cheltenham.gov.uk, 01242 775215</p>
<p>Key risks</p>	<p>That weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives, if recommendations are not implemented.</p>
<p>Corporate and community plan Implications</p>	<p><i>“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.” (Chartered Institute of Internal Auditing UK and Ireland).</i></p> <p>Therefore the internal audit activity impacts on corporate and community plans.</p>
<p>Environmental and climate change implications</p>	<p>Relevant to particular audit assignments and will be identified within <i>individual reports</i>.</p>
<p>Property/Asset Implications</p>	<p>Contact officer: Dominic.stead@cheltenham.gov.uk</p>

1. Background

1.1 The report outlines how the Internal Audit function has supported the Council in meeting the requirements of the Accounts and Audit (England) Regulations 2015. These state that:
“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

“A relevant authority must conduct, each financial year, a review of the effectiveness of the system of internal control.”

1.2 Under the CIPFA Public Sector Internal Audit Standards the Chief Audit Executive must deliver an Annual Internal Audit Opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme

2. Reasons for recommendations

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 in 2016/17, is one of the control assurances available to the Audit Committee, the Senior Leadership Team, and supports the work of the external auditor.

3. Annual Internal Audit Opinion

3.1 Reasonable Assurance can be given that there is a generally sound system of internal control, designed to meet the organisation’s objectives, and that controls are generally being applied consistently. Some weakness in the design and/or inconsistent application of controls have been identified, recommendations made, and improvement plans agreed

3.2 Officers from SWAP will be in attendance at the Committee meeting and will be available to address Members’ questions.

Report author	<p>Lucy Cater, Assistant Director, South West Audit Partnership</p> <p>lucy.cater@southwestaudit.co.uk</p> <p>01285 623340</p>
Appendices	<p>1. SWAP Annual Internal Audit Opinion 2017/18</p>

Cheltenham Borough Council

Report of Internal Audit Activity

Annual Opinion Report 2017/18

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox
Chief Executive
Tel: 01935 385906
Gerry.Cox@swapaudit.co.uk

Ian Baker
Director of Quality
Tel: 07917 628774
Ian.Baker@swapaudit.co.uk

Lucy Cater
Assistant Director
Tel: 07720 312470
Lucy.Cater@swapaudit.co.uk

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Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Purpose

The Accounts and Audit Regulations (England) 2015 requires public authorities to publish an Annual Governance Statement (AGS). The Statement is an annual review of the Systems of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. The Head of Internal Audit (SWAP Assistant Director) should provide a written annual opinion report to those charged with governance to support the AGS. This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's risk management systems and internal control environment;
- disclose any qualifications to that opinion, together with the reasons for the qualification;
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;
- compare the work undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria;
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.

The Assistant Director is required to

Summary

provide an opinion to support the Annual Governance Statement.

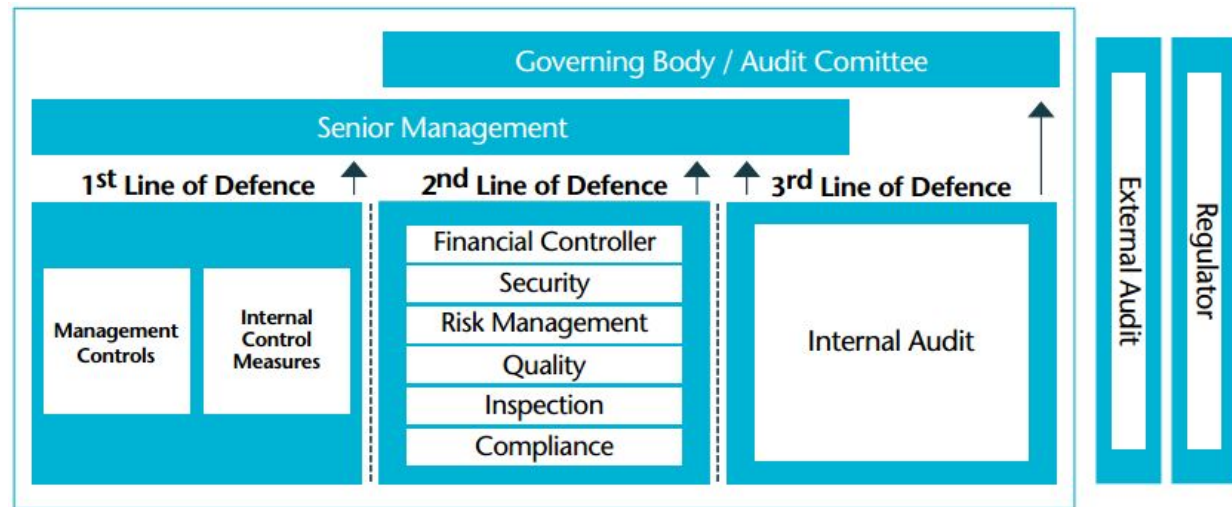


Background

The Internal Audit service for Cheltenham Borough Council is provided by SWAP Internal Audit Services Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). The Partnership is also guided by the Internal Audit Charter which is reviewed annually. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness through the work based on the Annual Plan agreed by Senior Management and this Committee.

The position of Internal Audit within an organisation's governance framework is best summarised in the three lines of defence model shown below.

Three lines of Defence Model



Chartered Institute of Internal Auditors, December 2015

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion

This Annual Report gives the opinion of the SWAP Assistant Director (Head of Internal Audit) on the adequacy and effectiveness of internal control, governance and risk management within Cheltenham Borough Council. Internal Audit has not reviewed all risks and assurances relating to Cheltenham Borough Council and cannot provide absolute assurance on the internal control environment. Our opinion is derived from the completion of the risk based internal audit plan at **Appendix B**, and as such it is one source of assurance on the adequacy of the internal control environment.

Senior Management and Members through the various committees are ultimately responsible for ensuring an effective system of internal control. The purpose of internal control is to manage risk rather than eliminate it. Getting the balance of internal control right is essential for organisational success—to knowingly take risk rather than be unwittingly exposed to it. Under control could expose the organisation to unacceptable risk and destroy value as over control takes valuable resources and can create inefficiency. Therefore, the Internal Control Environment needs the right balance to help Cheltenham Borough Council to deliver its services with ever decreasing resources.

A total of 39 reviews were planned to be delivered for Cheltenham Borough Council, of which 26 were to return an assurance opinion. Of the 26 assurance reviews 9 of these are in progress or at 'draft' report stage as we are waiting management responses to enable us to finalise the reports, these reports will be included in the 2018/19 Annual Internal Audit Opinion. We were unable to conduct 3 non-opinion reviews during 2017/18 and these will be undertaken during 2018/19. In agreement with management, and previously reported to this Committee, some reviews were 'exchanged' or 'removed', from the approved plan, as the need to respond to new and emerging risks was identified.

Eight of the finalised audits have returned 'Substantial' assurance and nine audits have returned an assurance of 'Reasonable'. A 'Partial' assurance and a 'No' Assurance were issued for the two Ubico audit reviews, Data Monitoring and Recyclates (respectively), and further work is being undertaken by officers at Cheltenham Borough Council. Follow-up audits for these reviews have been included in the

Internal Audit Annual Opinion 2017/18

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.

2018/19 audit plan.

It is also worth noting the number of 'Non-Opinion' audits during 2017/18. Given the level of change within the authority, Internal Audit has a role to play in being the 'Trusted Advisor', and as such we have been involved in a number of key areas of organisational change. Although no opinion is offered with this work, details of the work and findings are shared with the Committee and an action plan to address areas for improvement is agreed. Due to the size and nature of some of these areas, work will continue into 2018/19, or days have been carried forward to enable us to conduct a substantial review.

I have considered the balance of audit work in 2017/18, the assurance levels provided, the profile of each audit and outcomes, together with the response from Senior Management and offer '**Reasonable Assurance**' in respect of the areas reviewed during the year, as most were found to be adequately controlled. Generally, risks are well managed, but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives.

In keeping with the public sector in general, there continues to be challenges for the Senior Management at Cheltenham Borough Council for example ensuring that contracts, the Council has entered into, continue to meet the objectives of the authority by offering effectiveness and savings. In addition, there will continue to be significant challenges and risks for Publica as they continue ahead with their transformation programme, which could have an adverse impact in the short term on the effectiveness of the control environment and performance of the authority. Cheltenham Borough Council will therefore need to ensure that this risk is minimised, and that service delivery is maintained to an acceptable standard.

Cheltenham Borough Council have also embarked on a modernisation programme and Internal Audit will, again, support this programme during 2018/19.

Summary of Audit Work 2017/18

Our audit activity is split between:

- Governance Audits
- Key Financial Control Audits
- ICT Audits
- Operational Audits
- Follow-Up Audits
- Advice and Consultancy
- Other Reviews



Internal Audit Work Programme

The schedule provided at **Appendix B** contains a list of all audits agreed for inclusion in the Annual Audit Plan 2017/18 and the final outturn for the financial year. In total, 39 audits were planned to be delivered for 2017/18. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

The 39 reviews in the revised 2017/18 audit plan are broken down as follows:

Type of audit	2017/18 original plan	2017/18 revised plan
• Governance Audits	4	5
• Key Financial Control Audits	15	14
• ICT Audits	6	4
• Operational Audits	8	7
• Follow-Up Audits	1	1
• Advice and Consultancy	7	8
• Other Reviews	0	0
• TOTAL	41	39

The variation in audit plans can be summarised as:

- Device Strategy audit was dropped due to changes in the provision of ICT
- Serious and Organised Crime Checklist and Audit were reported together
- The days planned for ICT audit were included in the 2020 programme support
- We included provision for the development of the 2017/18 Annual Governance Statement
- The Equalities and Diversity review was originally planned as an operational audit but following discussion with the client, the scope was amended to be an advisory piece of work. All changes

to the plan were made following agreement with the S151 Officer.

Summary of Audit Work 2017/18

Significant Corporate Issues / Risks

Identified Significant Risks should be brought to the attention of the Audit Committee.



Significant Corporate Issues / Risks

The following are the significant issues / areas identified during the course of our audit programme of work for 2017/18. Follow-Up audits have been included in the 2018/19 audit plan to ensure agreed recommendations have / are being actioned.

Review	Issues / Risk
Publica Ltd	Given that Publica only became operational in November 2017, during 2018/19 the Council needs to embed the governance arrangements relating to Publica. This includes implementing new Service Delivery Plans which will enable improved performance reporting using a new set of Key Performance Indicators and new arrangements for engagement between Publica and Council Members.
GDPR	The Data Protection Regulatory Framework changed in May 2018. The Council needs to ensure that it is compliant with the new requirements.
Ubico Recyclates / Data Monitoring	Robust controls were not operating for the management of the recyclate. Value for money was not discussed or explored. Reporting of Ubico performance was inadequate to give CBC assurance that the contract is performing as expected.

Summary of Audit Work 2017/18

SWAP Performance - Summary of Audit Opinions

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

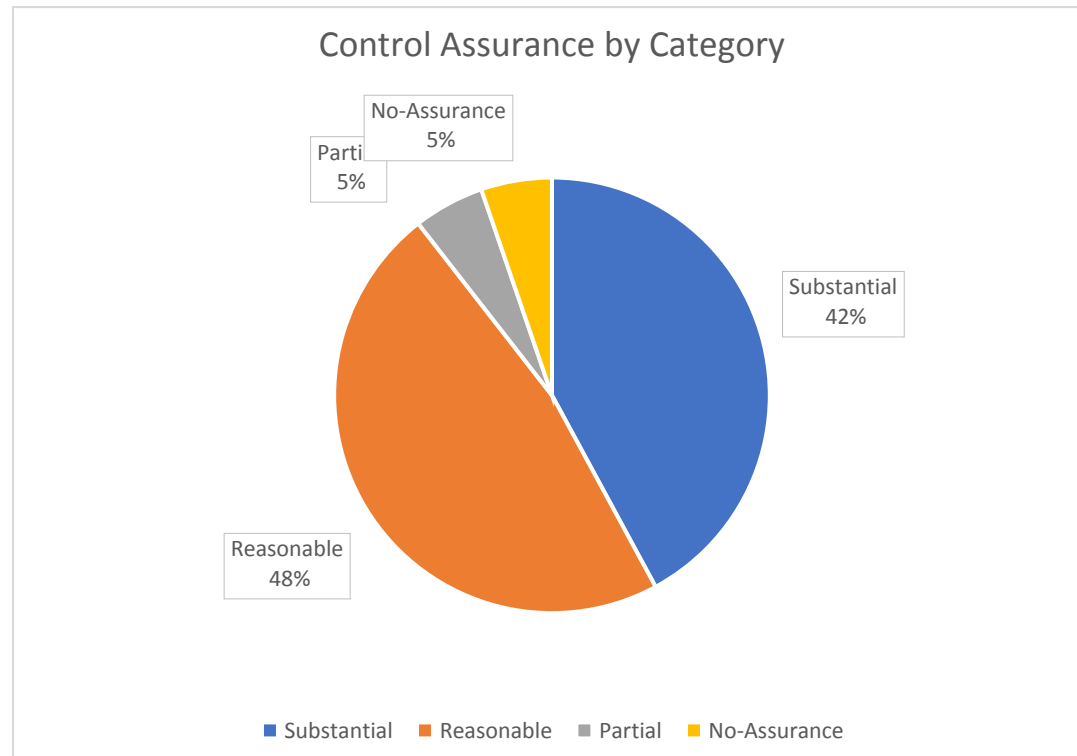
- Substantial
- Reasonable
- Partial
- No Assurance

We also undertake 'non-opinion' work on a consultancy basis where we have been asked to look at a specific area of potential concern.



Summary of Audit Opinion

Taking only the reviews that return an audit opinion, the breakdown is summarised below. Definitions for each assurance category can be found in [Appendix A](#).



Summary of Audit Work 2017/18

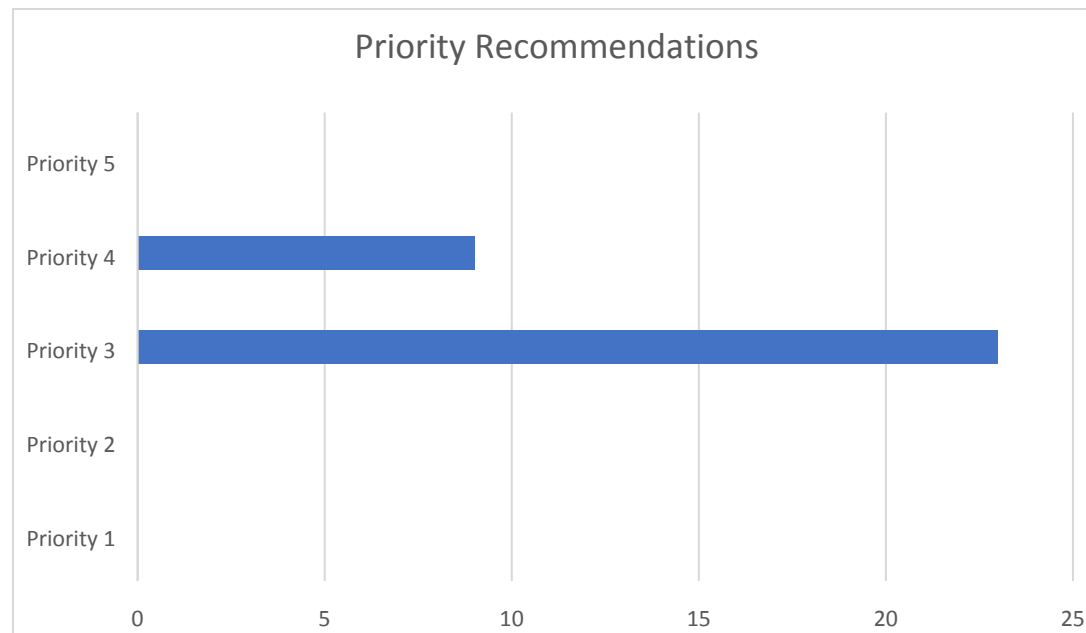
SWAP Performance - Summary of Audit Recommendations by Priority



Priority Actions

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. Therefore, recommendations are assessed as to how important they are to the scope of the area audited. Priority 5 recommendations being more important than priority 1. All recommendations as currently contained in **Appendix B**, for finalised reports, are summarised below. The reviews that are currently at 'draft' or 'in progress' will be included in the 2018/19 Annual Opinion.



Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.



Added Value

Primarily Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of “added value” is; “it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost”.

In addition to audits undertaken in [Appendix B](#), where requested by client officers we look to share risk information, best practice and benchmarking data/information. The following are some of the areas where Cheltenham Borough Council has requested or participated in enabling us to produce benchmarking reports across the partnership:

- Regular updates highlighting emerging risks and key issues.
- Comparison of Emergency Planning arrangements for all SWAP Partners.
- Comparison of Ethics and Culture, across the SWAP Partnership base, to establish the extent to which Ethics and Culture have been developed, communicated and embedded.
- Comparison of Election Payroll processes, including recruitment, availability and appointment process, payment of expenses for Election duties through Payroll, declaration of personal interest and separation of duties.
- Members Training Event

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



SWAP Performance

SWAP provides internal audit services to local authorities, police and fire authorities, schools, other quasi-government entities as well as some private sector companies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for Cheltenham Borough Council for the 2017/18 year are as follows;

Performance Target	Average Performance
<u>Audit Plan – Percentage Progress</u>	
Review Complete / Final Report	67%
Draft Report	15%
In progress	10%
Deferred / to Continue in 2018/19	8%
<u>Quality of Audit Work</u>	
*Customer Satisfaction Questionnaire	90.75%

*At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality and professionalism. A score of 80% would reflect the fact that the client agreed that the review was delivered to a good standard of quality, i.e. agreed with the statement in the questionnaire and satisfied with the audit process and report.

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



SWAP Performance

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). SWAP has been independently assessed and found to be in Conformance with the Standards.

SWAP carried out such an assessment in 2012 and again in 2016. SWAP was found to be in full conformance to the International Professional Practices Framework and the PSIAS. As a result of the quality review, a Quality Assessment Improvement Plan (QAIP) is produced. This document is a live document, reviewed regularly by the SWAP Board to ensure continuous improvement.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- No Assurance



Audit Framework Definitions

Control Assurance Definitions

Substantial	▲ ★ ★ ★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲ ★ ★ ★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲ ★ ★ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
No Assurance	▲ ★ ★ ★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Non-Opinion/Advice – In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendation are prioritised from 1 to 5 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



Audit Framework Definitions

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

- Priority 5: Findings that are fundamental to the integrity of the unit’s business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of Senior Management and the Audit Committee.

Summary of Audit Findings

Appendix C

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← 5 = Major				
						Recommendation				
						1	2	3	4	5
Governance	Annual Governance Statement (2016/17)	Q1	Final	Satisfactory	0					
Operational	Grant Payments to Third Parties	Q1	Final	Substantial	2			2		
Key Financial Control	Treasury Management and Bank Reconciliations	Q2	Final	Substantial	0					
ICT	EU General Data Protection Regulations	Q2	Final	Non-Opinion	0					
Operational	Elections	Q1	Final	Substantial	0					
Operational	Damages Recovery	Q3	Final	N/A	0					
Governance	Risk Management	Q2	Final	Substantial	1			1		
Operational	MTFS	Q4	Final	Reasonable	3			3		
Operational	S106 Agreements and Funds	Q2	Final	Reasonable	5			5		
Key Financial Control	Other GOSS area – Health and Safety	Q3	Final	Reasonable	2				2	
Key Financial Control	Accounts Payable (Creditors)	Q3	Final	Reasonable	1				1	
Operational	Ubico Recyclates	Q2	Final	No Assurance	3			2	1	
Operational	Ubico Data Monitoring	Q2	Final	Partial	2				2	
Key Financial Control	Payroll	Q3	Final	Substantial	2			2		

Summary of Audit Findings

Appendix B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← 5 = Major				
						Recommendation				
						1	2	3	4	5
Key Financial Control	Accounts Receivable	Q3	Final	Reasonable	2			2		
Key Financial Control	Main Accounting, Budgetary Control and Capital Accounting	Q3	Final	Substantial	1			1		
Key Financial Control	Council Tax Reduction Scheme	Q3	Final	Substantial	0					
Key Financial Control	Council Tax	Q3	Final	Reasonable	1				1	
Key Financial Control	National Non-Domestic Rates (NNDR)	Q3	Final	Substantial						
Governance	Drafting of the 2017/18 Annual Governance Statement (AGS)	Q4	Complete	N/A						
Key Control	Business World Systems Administration	Q3	Final	Reasonable	2			2		
Key Financial Control	Intermediaries Legislation – IR35	Q4	Final	Reasonable	5			3	2	
Follow-Up	Follow-Up of 2016/17 Audit Reviews	Q1 – Q4	Complete	N/A						
Non-Opinion	2020 Vision Programme	Q1 – Q4	Complete	Non-Opinion	N/A					
ICT	Protection from Malicious Code	Q3	Draft							
ICT	ICT Policies	Q3	Draft							
ICT	Public Services Network Submission (PSN)	Q3	Draft							
Key Financial Control	Fighting Fraud Locally	Q4	Draft							

Summary of Audit Findings

Appendix B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← 5 = Major				
						Recommendation				
						1	2	3	4	5
Key Financial Control	Serious and Organised Crime Checklist	Q4	Draft							
Key Financial Control	Serious and Organised Crime Audit	Q4								
Governance	Audit Committee Effectiveness	Q4	Draft							
Key Control	Human Resources	Q3	In Progress							
Follow-Up	Safeguarding	Q4	In Progress							
Advice and Consultancy	Equalities and Diversity	Q4	In Progress	Non-Opinion						
Governance	Performance Management		Deferred to 2018/19	Non-Opinion						
Non-Opinion	Cemetery and Crematorium Development	Q1 – Q4	IA support to continue in 2018/19	Non-Opinion	N/A					
Advice and Consultancy	Ubico	Q4	Review to continue in 2018/19	Non-Opinion	N/A					
Advice and Consultancy	Parking Strategy	Q1 – Q4	IA support to continue in 2018/19	Non-Opinion						
Advice and Consultancy	Leisure and Culture Trust	Q4	Days to be carried forward into 2018/19							

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major				
						Recommendation				
						1	2	3	4	5
Advice and Consultancy	Revised arrangements for S151 Officer Role		Days to be carried forward into 2018/19							
Other	Culture and Ethics Survey conducted by SWAP for all Partners		Complete	Non-Opinion	N/A					
Other	Emergency Planning Survey conducted by SWAP for all Partners		Complete	Non-Opinion	N/A					
Other	Environmental Protection (Permitted Installations) Survey conducted by SWAP for all Partners		Complete	Non-Opinion	N/A					
Other	Elections Payroll Survey conducted by SWAP for all Partners		Complete	Non-Opinion	N/A					
Other	Maintenance of Council Property Survey conducted by SWAP for all Partners		Complete	Non-Opinion	N/A					

Audit Assignments finalised since the last Audit Committee:



Summary of Audit Findings and High Priority Service Findings

The following information provides a brief summary of each audit review finalised since the last Committee update.

Payroll – Substantial Assurance

As part of the 2017/18 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place for Payroll.

There was considerable change during the period the audit was undertaken. Publica Group Ltd, jointly owned by Cheltenham Borough, Cotswold District, Forest of Dean District and West Oxfordshire District councils was launched within the period this audit was carried out. A number of key staff were (and still are) heavily involved in this project and therefore the production of this report was delayed.

Payroll services on behalf of Cheltenham Borough Council, Cheltenham Borough Homes, the Cheltenham Trust and Ubico are undertaken by the Publica Payroll team based at Cheltenham Borough Council. Payroll services on behalf of Cotswold District Council, Forest of Dean District Council, West Oxfordshire District Council, Publica, Cotswold Conservation Board and election staff at each council are undertaken by the Publica Payroll team based at Cotswold District Council. SWAP is not the internal audit provider for Cheltenham Trust or Cotswold Conservation Board; therefore, we do not provide assurance over their payroll services.

Testing was carried out on a sample of new starters, leavers and contract variations at each organisation to provide assurance over the accuracy of the collection and recording of officers' personnel information. Interviews were then carried out with key staff to identify core controls that ensure all staff are paid accurately and on time, BACs payment runs are secure and controls to prevent fraudulent payments are adequate. The audit also looked to provide assurance that following the transfer of staff to Publica, systems would be in place to ensure all employees would continue to be paid accurately and on time.

We are able to offer substantial assurance for all areas within the scope for the Payroll team based at Cheltenham. For Payroll (Cotswold) we can offer substantial assurance over the key elements of payroll (accuracy and timeliness), however there are a number of administrative items that could be improved, which are covered in the main report. Due to the increasing workload and a number of process ‘workarounds’, payroll performance, particularly at Cotswold, is heavily reliant on the experience of the Payroll officers. Due to the further demands of the Publica Transformation programme pressure on these officers is likely to continue to increase, potentially leading to decreased service performance, which may result in employees not being paid on time or errors in the payroll.

Accounts Receivable – Reasonable Assurance

As part of the 2017/18 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place for the Accounts Receivable system operated by Publica on behalf of CBC, FoDDC, CDC, WODC, UBICO and CBH.

The Review of Accounts Receivable (AR) is undertaken over a three-year cycle, so this review does not cover all procedures carried out by AR, although key system controls have been reviewed and the outcome of previous year’s audits have been considered to inform our work. 2017/18 is the first year of the three-year cycle. The areas covered in this review are detailed below:

- Subscriptions
- Fees & Charges

Key System controls reviewed annually are:

- Income management and control
- Cancellations and write-offs management and control
- Performance management and reporting

Our review of AR control arrangements can confirm that generally sound systems are operating to ensure that all income due is being invoiced for and collected appropriately. The annual review of fees and charges is being undertaken and price amendments made where applicable. Subscription invoice processing is

undertaken in a timely manner and appropriate controls are in place for credit notes and write off processes.

We have made two minor administrative recommendations which have been agreed with management and we can also confirm that previous year's recommendations have been implemented.

Main Accounting, Budgetary Control and Capital Accounting – Substantial Assurance

As part of the 2017/18 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place for the Main Accounting, Budgetary Control and Capital Accounting operated by Publica on behalf of Cheltenham Borough Council, Forest of Dean District Council, Cotswold District Council, West Oxfordshire District Council, UBICO and Cheltenham Borough Homes. We have not reviewed processes undertaken for the Cheltenham Trust as we are not their internal audit provider.

Due to the setting up of Publica Group (Support) Ltd and the finance resource required to support the transition, no modular approach was taken this year. Instead we reviewed budget setting, year-end close-down procedures and quarterly reporting to give an overview of the process.

We can confirm that procedures have not changed since the last review undertaken by Audit Cotswolds in 2016/17 when a 'High' assurance opinion was given. Our testing this year can confirm that generally sound controls are operating relating to the budget setting process, year-end close down of the accounts and regular quarterly reporting of budget monitoring.

We did note that at the FoDDC, the period for public consultation on the budget proposals was two weeks short from the requirement. A recommendation has been agreed to ensure the timing is not overlooked for future consultations.

Based on the areas reviewed in this audit and consideration of findings from the previous reviews undertaken by Audit Cotswolds we are able to offer a substantial assurance opinion on the areas reviewed.

Systems Administration – Reasonable Assurance

As part of the 2017/18 audit plan a review has been undertaken to assess the resources and processes in place to ensure the Systems Admin team are able to provide the required service to their clients.

The Business World System Support team (BWSST) support their clients to deliver against their corporate aims and objectives by carrying out the following tasks:

- Maintain and upgrade the financial accounting system, Business World (BW)
- Provide officers appropriate access to BW systems, according to service manager requests: - New starters appropriate access to BW systems - Amend existing officers' access and - Remove access for leavers. (Access and amendment requests should be addressed within five working days)
- Provide training so individuals can make full use of available information
- Set up cost centres / account codes / etc. as required to meet their clients' reporting requirements.

As well as the above tasks, the service undertakes a number of 'projects' throughout the year directed by the requirements of their clients. Some current/recent projects include: - Setting up, testing and implementing all modules of the new Publica BW client (P8) - Setting up, testing and implementing new workflows to allow Publica to make off-payroll payments (IR35) - End of year BW pay updates - Running BW reports required for National fraud initiatives data loads - Re-configuring all BW reports due to new printers at Cheltenham Borough Council

The BWSST provide support to all BW users: Cheltenham Borough, Cotswold District, Forest of Dean District and West Oxford District Councils, Cheltenham Borough Homes, Ubico, The Cheltenham Trust and Publica. At the time of the audit, the team comprised of two Systems Support Technicians (1.8 FTE). During the audit the team's reporting line changed from the Finance Manager to the ICT Chief Technical Officer.

Our testing found that Support Technicians lacked adequate internal resource to consistently fulfil their service objectives. However, by the time the report was finalised the recently appointed Group Manager Business Support reported a business review was underway to align the BWSST with the Application Support team and recruit addition resource.

Internal controls were found to be in place that assist the Business World System Support team achieve their service objectives. The System Support Technicians demonstrated expertise undertaking these controls, however at the time of reporting the service lacked adequate internal resource to consistently achieve its business aims and provide sufficient support to their clients in accordance with the Service Delivery Plan. The recently appointed Group Manager Business Support reported plans align the team to recruit three additional positions, but as these had not all been approved at the time of reporting we were unable to base our assurance opinion on this.

Intermediaries Legislation – IR35 – Reasonable Assurance

As part of the 2017/18 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place to ensure compliance with Intermediaries Legislation (IR35) across Cotswold District Council (CDC), West Oxfordshire District Council (WODC), the Forest of Dean District Council (FODDC) and Cheltenham Borough Council (CBC). Finance, Procurement, HR and Payroll services are provided to all 4 Councils by Publica.

Since April 2017 the responsibility for deciding whether IR35 (off-payroll working) applies lies with the Public-Sector Body, agency or third-party paying them rather than the worker. Public Sector Bodies must identify workers provided through intermediaries and assess whether they are in-scope of IR35 and deduct PAYE and NI and report them to HMRC; they are also responsible for telling the worker or agency if off-payroll working applies. The HMRC website contains an Employment Status Service tool (ESS) to determine employment status.

Evidence was supplied to support a review of potential IR35 suppliers and updates to the ERP system were undertaken prior to the change in legislation. It was confirmed changes were discussed with Service Managers by HR and Finance Officers and evidence was supplied to support this.

We were supplied the 'IR35 (Intermediaries Legislation) Off-Payroll Working Guidance for Service Managers', review of the document found it contains an overview of engaging agency workers and contractors, but the

document is not saved in a central location for Officers to access. We would recommend it is circulated to all service managers and uploaded centrally to ensure the correct process can be referenced. Publica may also want to consider making a template notification letter available to Service Managers to ensure a formal record of when agencies have been informed that off-payroll working applies is completed and kept.

'Supplier request forms' were updated prior to legislation changes and new forms for all 4 Councils were located. All forms state the supplier must complete the ESS but HMRC guidance confirms Public Authorities need to decide employment status. We were advised Accounts Payable currently check with the Service Manager that they are happy with the answers that have been provided, but to ensure accountability and reduce the likelihood of results being contrived, the service manager should complete the ESS to determine employment status and supplier forms amended to reflect this.

It was confirmed that once a worker has been identified and set up as an off-payroll worker system parameters and workflow tasks ensure individuals are paid in accordance with legislation. At the time of audit work, 1 off-payroll worker was identified; review of their creditor record found all relevant documents were present. During testing, 2 payroll process documents were supplied; to ensure document control and Officers carry out the same process across the shared service, Publica payroll should maintain a single process document to ensure consistency. Other than Real Time Reporting to HMRC, no other reporting was confirmed during this review in relation to off-payroll workers.

Our review has identified there is no individual or team who 'owns' the overall process; Publica should consider assigning ownership to ensure the process is overseen and day-to-day queries can be directed and resolved by an accountable Officer. A further review of Service Managers understanding of the IR35 process will be undertaken in the 2018/19 audit plan to assess their compliance with legislation.

We are able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Council Tax Reduction Scheme – Substantial Assurance

As part of the 2017/18 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place for the Council Tax Support Scheme (CTSS) at the Forest of Dean District Council (FODDC).

Council Tax Support (CTS) is available to some residents who claim benefits or are on a low income. The help that can be received depends on:

- circumstances (e.g. income, number of children, benefits, residency status)
- household income - including savings, pensions and partner’s income
- if children live with you
- if other adults live with you

Universal credit (UC) is administered by the Department of Work and Pensions (DWP) and was introduced at FODDC in Autumn 2017 and replaces the following benefits for new claimants:

- Income-based Job seeker’s Allowance (JSA)
- Housing Benefit
- Working Tax Credit
- Child Tax Credit
- Income-related Employment and Support Allowance (ESA)
- Income Support

CTS account information and supporting documentation are held on Civica OpenRevenues; we had access to this system and the Council’s website During this audit discussions were held with the Head of Revenues and Benefits, the Deputy Revenues and Benefits Manager, the Quality Control Officer, the Revenues Control Officer and a Senior Benefit Officer.

Council Tax – Reasonable Assurance

National Non-Domestic Rates – Substantial Assurance

As part of the 2017/18 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place for Council Tax and National Non-Domestic Rates (NNDR) across Cheltenham Borough

Council (CBC).

Council Tax is payable on all domestic properties and is collected by local authorities to help to pay for local services. Council Tax bills are sent annually and normally paid in 10 instalments. The amount of Council Tax charged is based on:

- The valuation band of the property
- How much the local authority charges for that band
- If the residents qualify for any discounts or exemptions

NNDR is payable on non-domestic properties and collected by local authorities to help to pay for local services. NNDR is billed annually and calculated by applying a multiplier to the rateable value of a property; rate relief and exemptions can be applied in certain circumstances.

CBC also collects Council Tax and NNDR for Gloucestershire County Council, Gloucestershire Police Authority and 5 Parish Councils.

The audits of Council Tax and NNDR are carried out over a three-year period; 2017/18 is year three of this cycle. The areas reviewed were processes relating to collection methods, financial reconciliations, write offs and counter fraud.

During this audit sample testing was undertaken to check compliance with Council procedures and discussions were held with the Head of Revenues & Benefits, the Senior Revenues Officer and the Revenues Control Officer.

Our review found that effective processes are operating in the areas reviewed for both the Council Tax and NNDR systems.

As a result of an unrelated investigation undertaken at another SWAP Partner which led to legal advice being

provided regarding the use of Completion Notices and inclusion of growth within the Council Tax Base setting process, testing within this audit review was extended to allow for an assessment to be made as to whether the Council are compliant with the legal opinion obtained.

We can confirm that the Council does not include growth when setting the base due to the level of uncertainty regarding the completion of new housing developments. Also, for this reason, Council Tax Completion Notices are generally not issued for properties that are not fully complete. We were advised all issued Completion Notices are included in the calculation and growth is included when determining collection targets. Following discussions with the Head of Revenues & Benefits, a recommendation has been agreed to ensure the legislation is appropriately applied.

We have also reviewed one recommendation from last year's audit review and can confirm it has been implemented.



Pat Pratley
Chief Executive
Cheltenham Borough Council
Municipal Offices
Promenade
Cheltenham
GL50 9SA

13 April 2018

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL

T 44 (0)1173057600

www.grant-thornton.co.uk

Dear Pat

Planned audit fee for 2018/19

The Local Audit and Accountability Act 2014 (the Act) provides the framework for local public audit. Public Sector Audit Appointments Ltd (PSAA) has been specified as an appointing person under the Act and the Local Authority (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of opted- in local government bodies from 2018/19.

For opted- in bodies PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

From 2018/19 all grant work, including housing benefit certification, now falls outside the PSAA contract, as PSAA no longer has the power to make appointments for assurance on grant claims and returns. Any assurance engagements will therefore be subject to separate engagements agreed between the grant-paying body, the Council and ourselves and separate fees agreed with the Council.

Scale fee

PSAA published the 2018/19 scale fees for opted-in bodies in March 2018, following a consultation process. Individual scale fees have been reduced by 23 percent from the fees applicable for 2017/18. Further details are set out on the [PSAA website](#). The Council's scale fee for 2018/19 has been set by PSAA at £38,043.

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes'.

The audit planning process for 2018/19, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

There are no changes to the overall work programme for audits of local government audited bodies for 2018/19. Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors. Audits of the accounts for 2018/19 will be undertaken under this Code. Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return (if applicable).

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

Value for Money conclusion

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its latest guidance for auditors on value for money work in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2018	9,510.75
December 2018	9,510.75
March 2019	9,510.75
June 2019	9,510.75
Total	38,043.00

Outline audit timetable

We will undertake our audit planning and interim audit procedures in November to February. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in April and work on the whole of government accounts return in July 2019.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	November to January- planning January to February - interim	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June to July	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	January to April	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	July	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	September	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.

Our team

The key members of the audit team for 2018/19 are:

	Name	Phone Number	E-mail
Engagement Lead	Barrie Morris	0117 3057708	Barrie.Morris@uk.gt.com
Engagement Manager	Sophie Morgan-Bower	0117 3057757	Sophie.J.Morgan-Bower@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Jon Roberts, our Public Sector Assurance regional lead partner, via jon.roberts@uk.gt.com.

Yours sincerely



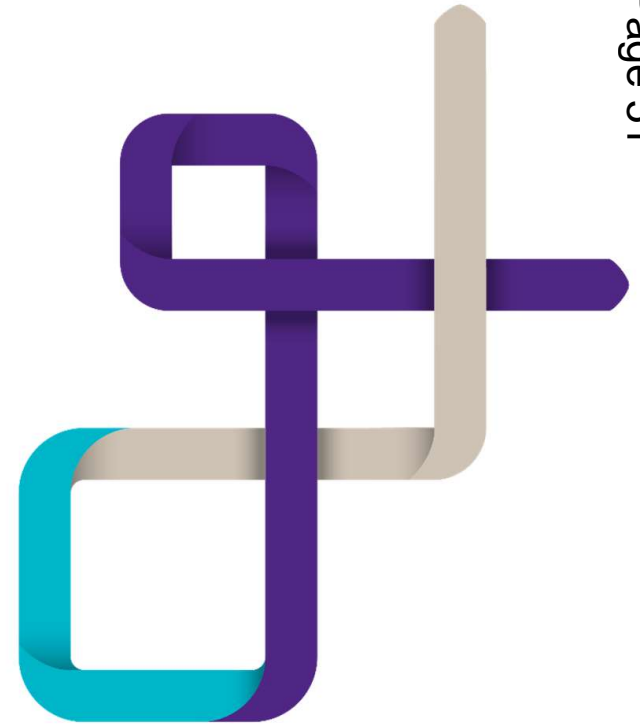
Barrie Morris
Engagement Lead
For Grant Thornton UK LLP

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Audit Findings

Year ending 31 March 2018

Cheltenham Borough Council
15 July 2018



Contents



Your key Grant Thornton team members are:

Barrie Morris
Director

T: 0117 305 7708
E: barrie.morris@uk.gt.com

Sophie Morgan-Bower
Manager

T: 0117 305 7757
E: sophie.j.morgan-bower@uk.gt.com

Scott Corboy
Assistant Manager

T: 0117 305 7616
E: scott.f.corboy@uk.gt.com

Section

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2. Financial statements
3. Value for money
4. Independence and ethics

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Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key issues arising from the statutory audit of Cheltenham Borough Council Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2018 for those charged with governance.

<p>Financial Statements</p>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the group and Council's financial statements give a true and fair view of the group's and Council's financial position and of the group and Council's expenditure and income for the year, and have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July 2018. Our findings are summarised on pages 4 to 29. We have identified no adjustments to the financial statements which have resulted in £nil adjustment to the Statement of Comprehensive Income and Expenditure. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 25 July 2018, as detailed in Appendix E. These outstanding items include:</p> <ul style="list-style-type: none"> - Receipt of management representation letter - Review of the final set of financial statements - Completion of our final review and receipt of a number of outstanding queries <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
<p>Value for Money arrangements</p>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion') 	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Cheltenham Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 22 to 29.</p>
<p>Statutory duties</p>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and certify the closure of the audit 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group and is risk based, and in particular included:

- An evaluation of the group's internal controls environment including its IT systems and controls
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a targeted approach was required for the components Gloucestershire Airport Limited, and Cheltenham Borough Homes.
- In our Audit Plan we reported to you that we expected group accounts to be prepared in respect of Publica Group (Support) Limited. After consideration of the Council's view that group accounts were not required on either a quantitative or qualitative materiality basis. We determined that it was reasonable for group accounts to not be prepared. Further details are provided at page 17.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 25 July 2018, as detailed in Appendix E. These outstanding items include:

- Receipt of management representation letter
- Review of the final set of financial statements
- Completion of our final review, finalisation of our audit testing, and receipt of a number of outstanding queries

Summary

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remains the same as reported in our audit plan.

We detail in the table below our assessment of materiality for Cheltenham Borough Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,606,000	1,606,000	We have determined planning materiality to be £1.606m (PY £1.646m), which equates to 2% of your forecast gross expenditure for the year.
Performance materiality	1,204,500	1,204,500	This has been set at 75% of materiality as there has been no indication from our risk assessment of any significant deficiencies.
Trivial matters	80,300	80,300	We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. Clearly trivial has been set at £0.080m (PY £0.082m).
Materiality for specific transactions, balances or disclosures	10,000	10,000	Senior Officers' Remuneration and Members Allowances are balances which require a lower materiality due to the sensitive nature of these balances. Due to public sensitivity we have chosen £10,000 – the equivalent of two remuneration bands in the officer remuneration note.

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management’s assessment process

Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Auditor commentary

- The disclosures in the accounts are considered appropriate.
- We have reviewed the Council’s budget forecast and associated sensitivity analysis for the 4 year period to 31 March 2022, which exceeds 12 months from the date of signing (to 30 July 2019).
- We have reviewed the Council’s financial plans for 2018/19 including the requirement to achieve savings, and the associated sensitivity analysis.

Work performed

We have reviewed the Section 151 Officer’s assessment, including the four year plan and associated sensitivity analyses. We have reviewed the associated disclosures in the financial statements.

Auditor commentary

- Management set out their consideration of the appropriateness of the adoption of going concern assumption in a specific report provided to the auditor in June 2018. In this report the s151 officer confirmed his view that the Council is a going concern. Subsequently the s151 Officer has also confirmed there are no material uncertainties that would require disclosure, under ISA 570. We concur with this view.
- Disclosures in the financial statements relating to material uncertainties are appropriate and sufficient.

Concluding comments

We are satisfied that the Going Concern basis is appropriate for the 2017/18 financial statements.

Auditor commentary

- Our audit opinion will be unmodified in respect of Going Concern.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	<p>Improper revenue recognition</p> <p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Cheltenham Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Cheltenham Borough Council.</p> <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2	<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> • Gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; • Obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; and • Evaluate the rationale for any changes in accounting policies or significant unusual transactions. • Reviewed any unusual significant transactions <p>Our audit work has not identified any evidence of management over-ride of controls. In particular our testing of journal entries has not identified any significant issues – subject to completion of our audit work in respect of this risk.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Significant audit risks

	Risks identified in our Audit Plan	Commentary
3	<p>Valuation of property, plant and equipment The Council revalues its land and buildings on an rolling basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Reviewed the competence, expertise and objectivity of any management experts used. • Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. <p>Our audit work has not identified any issues in respect of valuation of property, plant and equipment – subject to completion of our audit work in respect of this risk</p>
4	<p>Valuation of investment property The Council revalues its investment property on an rolling basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of investment property revaluations as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Reviewed the competence, expertise and objectivity of any management experts used. • Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. <p>Our audit work has not identified any issues in respect of valuation of investment property – subject to completion of our audit work in respect of this risk</p>

Significant audit risks

	Risks identified in our Audit Plan	Commentary
5	<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	<p>Auditor commentary</p> <p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none">• Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement;• Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation.• Gained an understanding of the basis on which the IAS19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.• Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary <p>In addition we have reviewed the accounting treatment of the early repayment of £7.1m paid across to the pension fund in 2017/18.</p> <p>Our audit work has not identified any issues in respect of the Pension Fund net liability – subject to completion of our audit work in respect of this risk</p>

Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
<p>6 Employee remuneration Payroll expenditure represents a significant percentage of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness • Undertook a walkthrough of the key controls to understand the Council's system for accounting for payroll expenditure, and to assess the whether those controls were in line with our documented understanding • Agreed the year-end payroll reconciliation and ensured amount in accounts can be reconciled to the ledger and through to payroll reports. • Agreed payroll related accruals to supporting documents and reviewed any estimates for reasonableness. <p>Our audit work has not identified any issues in respect of employee remuneration – subject to completion of our audit work in respect of this risk</p>
<p>7 Operating expenses Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • Gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls; • Reviewed a sample of non-pay payments made post year end to ensure that they have been charged to the appropriate financial period. <p>Our audit work has not identified any issues in respect of operating expenditure – subject to completion of our audit work in respect of this risk</p>
<p>8 Disclosure risk – LGPS upfront payment We understand that the Council are considering making an advance contribution to the Gloucestershire County Council Pension Fund. The Council have sought guidance on the implications of making an advance payment of its Secondary contributions into the Fund for 2018-19 and 2019-20.</p> <p>We have identified the pension contribution prepayment and the associated accounting disclosures as a risk requiring particular audit attention.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Reviewed the financial statement disclosures associated with the up-front payment to ensure they are in line with the Code. <p>Our audit work has not identified any issues in respect of the financial disclosures associated with the upfront pension payment.</p>

Internal Controls

We considered and walked through the internal controls for the significant and other risks identified as set out on page 7 to page 10 above.

The matters that we identified during the course of our audit are set out in the table below. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.


These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

Assessment	Issue and risk	Recommendations
<p>1.</p> <p style="text-align: center;">●</p> <p style="text-align: center;">Deficiency</p>	<p>Proactive Reviews of Logical Access within Active Directory (AD) Publica review AD user accounts and access permissions when notified of new starters, movers and leavers. However, they can only review the access permissions of those accounts when notified of changes and so would not necessarily review the access permissions of those AD accounts of movers and leavers if not properly notified by departments.</p> <p>This condition poses the following risk(s) to the organisation:</p> <ul style="list-style-type: none"> • Gaps in user administration processes and controls may not be identified and dealt with in a timely manner • Access to information resources and system functionality may not be restricted on the basis of legitimate business need • Enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls • No-longer-needed permissions may granted to end-users may lead to segregation of duties conflicts • Access privileges may become disproportionate with respect to end users' job duties 	<p>Auditor commentary</p> <ul style="list-style-type: none"> • It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within Active Directory. • These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. <p>Management Response: ICT Audit & Compliance Manager will conduct periodic reviews on Active Directory User accounts and allocated permissions. In addition assurance reviews will be undertaken on users with High privilege access; all reviews will be appropriately documented and results concluded.</p>

Assessment

- Significant deficiency
- Deficiency – risk of inconsequential misstatement

Internal Controls

Assessment	Issue and risk	Recommendations
<p>2.  Deficiency</p>	<p>CIVICA Openrevenues CORE System administration duties</p> <p>We note that the Head of Revenues & Benefits at Cheltenham Borough Council (CBC) has 'CORE' functionality and is required to perform high level system administration duties as well as business functions. The possibility of granting another member of her staff the system security administration ability is currently being explored to support more effective segregation of duties.</p> <p>This condition poses the following risk(s) to the organisation:</p> <ul style="list-style-type: none"> Required security maintenance and support requests may not be resolved (or may not be resolved timely) due to competing administrative and operational responsibilities 	<p>Auditor commentary</p> <ul style="list-style-type: none"> The responsibility of administering high level system security of the CIVICA Openrevenues System should be undertaken by another member of the Revenues & Benefits Team based at CBC. This could be achieved via 'SSL1' functionality. <p>Management Response: Management accepts there may be a need to introduce an additional officer to undertake the system administration role. We will consider the best way of implementing the recommended procedure control.</p>

Assessment

-  Significant deficiency
-  Deficiency – risk of inconsequential misstatement

Internal Controls

Assessment	Issue and risk	Recommendations
<p>3.</p> <p style="text-align: center;">●</p> <p style="text-align: center;">Deficiency</p>	<p>Super User Monitoring</p> <p>There are four members of Publica IT who have super-user access to CIVICA to undertake system maintenance duties. However, this activity is not formally monitored and reported to Cheltenham Borough Council on a periodic basis.</p> <p>This condition poses the following risk(s) to the organisation:</p> <ul style="list-style-type: none"> Access to information resources and system functionality may not be restricted on the basis of legitimate need. 	<p>Auditor commentary</p> <ul style="list-style-type: none"> There should be monitoring of super-user activities of all critical financial applications. Cheltenham Borough Council should ensure that evidence is provided of monitoring of such activity being undertaken through the appropriate service level reporting with Publica. <p>Management Response: ICT Audit & Compliance Manager will conduct periodic reviews high privilege access & super-users across all key support applications; all reviews will be appropriately documented and results concluded.</p>

Assessment

- Significant deficiency
- Deficiency – risk of inconsequential misstatement


Internal Controls

Assessment	Issue and risk	Recommendations
<p>4. ● Deficiency</p>	<p>CIVICA Access management procedure</p> <p>We note that access to the application is not supported by a documented user management procedure for adding, amending or removing users. We appreciate that the current team are experienced and work to an agreed on-line process supported with flowcharts. However, we would suggest that this advice is enhanced to ensure that Councils are provided with consistent and formalised services to better support the Information Security Policy's access requirements.</p> <p>This condition poses the following risk(s) to the organisation:</p> <ul style="list-style-type: none"> • There is a risk that users are provided with access is given without the appropriate authorisation or at a level that is not commensurate with their role 	<p>Auditor commentary</p> <ul style="list-style-type: none"> • We note that Partner Council Information Security (IS) Policy stipulates that: "Formal user access control procedures must be documented, implemented and kept up to date for each application and information system to ensure authorised user access and to prevent unauthorised access. They must cover all stages of the lifecycle of user access, from the initial registration of new users to the final de-registration of users who no longer require access." • Cheltenham Borough Council should ensure that CIVICA Openrevenues System services adheres to the above policy as stated. <p>Management Response:</p> <p>ICT Audit & Compliance Manager will provide compliance procedures support to the CIVICA Openrevenue system administrators to ensure all users management access procedures are adequately reviewed and documented ensuring compliance with our partner Council & Public Information Security Policies.</p> <p>A User access control document is being set up for open Revenues.</p>

Assessment

- Significant deficiency
- Deficiency – risk of inconsequential misstatement

Internal Controls

Assessment	Issue and risk	Recommendations
<p>5.  Deficiency</p>	<p>Agresso and CIVICA Password Settings</p> <p>We have reviewed the password settings for the Agresso and CIVICA Openrevenues systems and note the following:</p> <ul style="list-style-type: none"> Agresso - no minimum length or complexity settings in place. (A user may only have to enter a userid to access Agresso with the current security settings.) CIVICA Openrevenues - minimum password setting of seven characters. <p>This condition poses the following risk(s) to the organisation:</p> <ul style="list-style-type: none"> The lack of security access controls on the Agresso system could allow unauthorised access by just the use of a known userid and that weak passwords can be easily guessed leading to access by unauthorised individuals to sensitive data. 	<p>Auditor commentary</p> <ul style="list-style-type: none"> Cheltenham Borough Council should ensure that an appropriate password policy is applied to the Agresso and CIVICA Openrevenues Systems. Password settings should meet the following standards: eight characters; complex password enabled; and renewable every 60 days. <p>Management Response</p> <p>Whilst we agree with the issue and risks on the Agresso and CIVICA Openrevenues Systems Password Settings.</p> <p>These risks are reduced and mitigated by the high Password Policy settings within our corporate Active Directory (AD). Agresso and CIVICA Openrevenues Systems users can only access their applications via our corporate AD. We have also have complied with the governments (NCSC) guidance on Password settings within our network. However we will seek to review our passwords policy setting and on both applications. Our information security policy for all ICT systems says at least 7 characters and renewable after 90 days.</p> <p>Open Revenues parameter setting for passwords has been amended to increase the number of characters to 8 and require a change every 60 days.</p>

Assessment


-  Significant deficiency
-  Deficiency – risk of inconsequential misstatement

Internal Controls

We considered and walked through the internal controls for the significant and other risks identified as set out on page 7 to page 10 above.

The matters that we identified during the course of our audit are set out in the table below. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

Assessment	Issue and risk	Recommendations
<p>6.  Deficiency</p>	<p>Lack of adequate screensaver setting in Active Directory</p> <p>The evidence we were provided with revealed no screensaver settings in the Active Directory services. An examination of this evidence revealed that individual devices rely on 'screen sleep' settings of 15 minutes for an 'unplugged' devices and an hour for 'plugged in' devices.</p> <p>This condition poses the following risk(s) to the organization:</p> <ul style="list-style-type: none"> There is a risk that 'screen sleep' settings can be overridden by a user and that devices left unattended and logged in are accessible by unauthorised users who would have access to any application open on the device. 	<p>Auditor commentary</p> <ul style="list-style-type: none"> Cheltenham Borough Council should ensure that an appropriate screensaver policy is in place on the network and that the current reliance on screen sleep settings is reviewed to tighten controls. Management should ensure that evidence is provided of any system changes requested through the service level reporting with Publica. <p>Management Response: Agreed - We will review our 'Screensaver Policy and controls as part of our ICT project work plans and seek to implement the appropriate screen lock timeout settings. .</p>

Assessment

-  Significant deficiency
-  Deficiency – risk of inconsequential misstatement

Other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.




1	Issue	Commentary	Auditor view
1	<p>Consolidation of Publica Group (Support) Limited</p> <p>Following a number of successful partnership and shared services arrangements between the Council, Cotswold, West Oxfordshire and the Forest of Dean District Councils, Publica Group (Support) Ltd, a local authority owned company was created by the four councils and became operational in November 2017.</p> <p>The Council have considered whether Publica Group (Support) Limited will be consolidated into the Group's accounts for 2017/18.</p>	<ul style="list-style-type: none"> The Council jointly owns (with Cotswold District Council, the Forest of Dean District Council and West Oxfordshire District Council) Publica Group (Support) Limited, a wholly owned company, limited by guarantee, operating with Mutual Trading Status to deliver services on behalf of the Council and services to other members Councils under contract. We reported in our Audit Plan that group accounts would be prepared in 2017/18 to reflect this arrangement. While the Council has an interest in the Company the Council's share of profit for the year and net assets at the balance sheet date have not been consolidated into the Council's single entity accounts. The figures involved are not material to the accuracy of the accounts. Officers concluded that consolidation would not provide the reader of the accounts with any more information than is already provided within the narrative report, related party transaction and critical judgement note. The Council has not prepared Group Accounts on this basis The Council will continue to monitor this position on an annual basis to see if the position changes. 	<p>Auditor view</p> <ul style="list-style-type: none"> After consideration of both materiality and qualitative considerations of the Council, we concur with their view that it is reasonable to not prepare group accounts. The Council have also expanded the disclosure (Critical Judgements) to include their consideration of qualitative factors in the decision not to prepare group accounts.
2	<p>Lender Option Borrowing Options (LOBOs)</p> <p>The Council has two LOBOs (a type of longer term borrowing where the lender can change terms), and this area is subject to increased attention by auditors due to the complexities valuing these in a more complex form.</p>	<ul style="list-style-type: none"> We have considered the LOBOs held by the Council, including the accounting treatment of these, and whether the Council hold any non-standard LOBOs which may result in material changes to the values in the accounts. 	<p>Auditor view</p> <ul style="list-style-type: none"> We have not identified any non-standard LOBOs held by the Council. We have not identified any significant issues with the accounting treatment of the standard LOBOs held by the Council.

Other issues




This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

	Issue	Commentary	Auditor view
3	Ubico Vehicle Lease	<ul style="list-style-type: none"> Ubico Ltd. was established in 2011/12 by Cotswold District Council and Cheltenham Borough Council to deliver a range of integrated environmental services including recycling, household and commercial refuse collection. Since 2012 the shareholding of Ubico Ltd has expanded. Cheltenham Borough Council is now one of seven partners Councils. During 2017/18 the Council has granted use of a number of waste collection and recycle vehicles to Ubico Ltd. Although detailed schedules of payments due have been agreed we identified that a formal agreement has not been put in place to set out the arrangements regarding the use of these vehicles and how risks and responsibilities are shared between the Council and Ubico Ltd. 	<ul style="list-style-type: none"> We recommend that an agreement is formalised between Ubico and Cheltenham Borough Council to ensure that the Council is not exposed to any unintended financial risks and also to corroborate the substance of the accounting treatment within the financial statements for this arrangement. See Appendix A. As additional partner councils enter into this arrangement and contractual terms are formalised by each partner, it is necessary that we continue to evaluate the accounting treatment by all entities to ensure is managed consistently across all partners and any differences are clearly understood. During the course of the audit we have discussed the arrangement with officers to ensure that the accounting treatment is appropriate for the Council. We concluded that we support management's judgement to classify this arrangement as a finance lease.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. There is a separate policy for NNDR and Council Tax as well as general revenue. 	The various accounting policies are considered to be reasonable and in line with the CIPFA Code.	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include : <ul style="list-style-type: none"> Useful life of PPE Revaluations Accruals Valuation of pension fund net liability Provision for NNDR appeals Judgement applied when decision taken not to prepare group accounts in respect of Publica (Group) Support Limited Judgement applied when recognising lease with Ubico for refuse and recycling vehicles as a finance lease 	<p>Key judgements relating to useful life of PPE, revaluation, accruals, valuation of pension fund net liability, and NNDR appeals provision are deemed appropriate, and appropriate disclosure of key judgements have been made in the statement of accounts.</p> <p>We have requested that management enhance the disclosures to set out the judgements made and criteria considered in relation the decision to:</p> <ul style="list-style-type: none"> categorise the waste collection vehicles with Ubico as a finance lease (see page 18) not produce group accounts (see page 17); and <p>Other estimates and judgements have been considered in the audit process, and no other issues have been identified, subject to completion of our audit work in this area.</p>	 Green
Other critical policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	The Council's accounting policies are appropriate and consistent with previous years.	 Green

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	Matters in relation to fraud	<ul style="list-style-type: none"> We discussed matters in relation to fraud in our communications with management and Those Charged With Governance. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the bodies with which the Council hold investment, cash and debt balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation – Awaiting two letters in respect of this area We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have received the final response from the pension fund auditor and have not identified any issues in respect of the Pension Fund net liability.
6	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. A number of minor disclosure changes were proposed throughout the statement of accounts, the Annual Governance Statement, and the Narrative Report.
7	Audit evidence and explanations	<ul style="list-style-type: none"> All information and explanations requested from management was provided.
8	Significant difficulties	<ul style="list-style-type: none"> We did not experience any significant difficulties during the course of the audit.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
<p>① Other information</p>	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>Minor inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect – refer to appendix E.</p>
<p>② Matters on which we report by exception</p>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>Minor improvements to the Annual Governance Statement been identified but have been adequately rectified by management. We have nothing to report on these matters subject to receipt of the final AGS.</p>
<p>③ Specified procedures for Whole of Government Accounts</p>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>For Cheltenham Borough Council, this work is not required as the Council does not exceed the threshold.</p>
<p>④ Certification of the closure of the audit</p>	<p>We intend to certify the closure of the 2017/18 audit of Cheltenham Borough Council in the audit opinion, as detailed in Appendix E.</p>

Value for Money

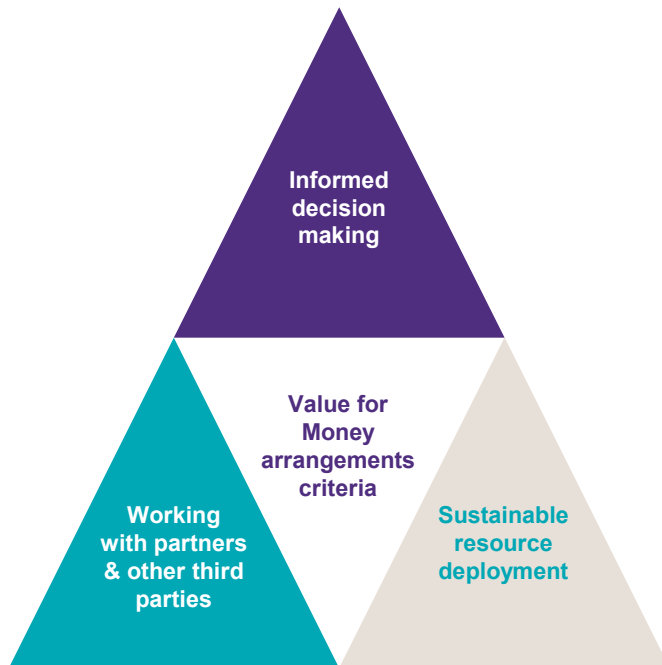
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in December 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated April 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council's Medium Term Financial Strategy (MTFS)
- The Council's arrangements for the establishment of Publica Group (Support) Limited and the contract monitoring processes in place to ensure performance and quality standards are delivered in line with the original Business Plan to demonstrate the Value for Money is being achieved.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 24 to 29.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Work undertaken	Findings and Conclusions
1	<p>Medium Term Financial Strategy</p> <p>The Council have been required to deliver substantial savings since 2010/11, and forecast continued significant savings requirements going forward.</p> <p>The current MTFS indicated that the Council proposes to fund a gap of £860k from the budget strategy (support) earmarked reserve during 18/19, and also included a number of unidentified savings over the period to 2021/22.</p>	<ul style="list-style-type: none"> Reviewed the MTFS, including the robustness of the assumptions that underpin the plan. Gained an understanding of how savings are identified and monitored to ensure that they support in the delivery of budgets Considered 2017/18 performance against savings plans. Considered the use of Reserves in 2018/19 to reach the balanced budget 	<ul style="list-style-type: none"> Our detailed review of the assumptions underpinning the MTFS concludes that they are satisfactory and reasonable. The Council has a strong track record of delivering balanced budgets and identifying required savings. Savings for 2017/18 have been achieved and the Council has delivered an underspend of £403k during the year. This underspend has been transferred to the Budget Strategy (Support) Reserve, and will be used to support the future years' budget. Savings are built into base budgets, and are therefore monitored through the variances reported in quarterly revenue budget monitoring. The savings for 2018/19 have been identified and can be attributed to specific plans, such as the discount attributable to the upfront payment on the Pension Fund. The Council currently has a balanced budget to 2021/22 however this is dependent on a number of red-rated savings in 2019/20 onwards. Savings are monitored by Finance on a monthly basis. Any new capital scheme or projects with a financial implication have to be subject to a business case. Financial services will be involved in this process and have to sign off the financial business case, including the impact on the MTFS. Cabinet Members are involved on the project board, which is set up for all major schemes and are fully briefed and included in the project process, prior to a committee report being submitted for approval. We have considered the use of reserves in 2018/19 to deliver financial balance. The Council plan to use £913k of the Budget Strategy (Support) Reserve in 2018/19. The level of reserves is sufficient to support the budget for 18/19 but beyond 2019/20 it will have to be replenished. The Budget Strategy (Support) Reserve is part of the Council's medium term strategy and was set up in 2015 specifically for the purpose of supporting the budget. The use of this reserve has been appropriately considered by the Section 151 Officer and approved by Cabinet and Council. <p>We concluded that the risk was sufficiently mitigated and the Council has proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities.</p> <p>We have made two recommendations in relation to the Council's saving plan at Appendix A.</p>

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Conclusion	Recommendation	Management Response
<p>1 Medium Term Financial Strategy</p> <p>The Council have been required to deliver substantial savings since 2010/11, and forecast continued significant savings requirements going forward.</p> <p>The current MTFS indicated that the Council proposes to fund a gap of £860k from the budget strategy (support) earmarked reserve during 18/19, and also included a number of unidentified savings over the period to 2021/22.</p>	<ul style="list-style-type: none"> The Council currently has a balanced budget to 2021/22, however the achievement of the balanced budget is dependent on a number of red-rated savings from 2019/20. In order to set a balanced budget for 2018/19 the Council plans to use of £913k of its Budget Strategy (Support) reserve. This reserve was created in October 2015 specifically for future challenges around budget setting. 	<ul style="list-style-type: none"> We recommend that management continue to monitor high risk savings within the balanced budget We recommend that management continue to monitor the use of reserves when budget setting to ensure that into the medium term dependency on reserves is reduced. 	<ul style="list-style-type: none"> The Senior Leadership Team and Cabinet Member for Finance receive a 'Bridging the Gap' project highlight report at their monthly meetings, which will include any changes to the MTFS or budget strategy and very much focuses on the monitoring of high risk savings. The Section 151 Officer also provides an independent assessment of the overall financial position as part of the budget setting process (Section 25 report). The Section 151 Officer regularly reports on the adequacy of reserves and reinforces the need to replenish reserves from any additional windfall income and underspends delivered. The Council has agreed a vision to become an enterprising and commercially focused Council which people are proud to work for and which others want to work with. We will use our assets, skills and infrastructure to shape and improve public services and enable economic growth in the Borough. We shall generate significant levels of new income for the Council working towards the objective of enabling it to become financially sustainable by financial year 2021/22. The delivery of this vision through greater use of our assets and workforce will ensure dependency on reserves is reduced.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work Undertaken	Findings and Conclusions
<p>2 Publica Group (Support) Ltd</p> <p>Following a number of successful partnership and shared services arrangements between the Council, Cotswold, West Oxfordshire and Forest of Dean District Councils, Publica Group (Support) Ltd, a local authority owned company was created by the four councils and became operational in November 2017.</p>	<ul style="list-style-type: none"> Reviewed the Council's arrangements for the establishment of Public Group (Support) Ltd and the contract monitoring processes in place to ensure performance and quality standards are delivered in line with the original Business Plan to demonstrate that Value for Money is being achieved by the Council. Reviewed the arrangements in place at the Council to ensure that Publica is delivering the required financial savings whilst maintaining the agreed service standards. Reviewed the Council's Governance arrangements to provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified. 	<p>Background</p> <ul style="list-style-type: none"> The company, Publica Group was registered in the latter part of 2016/17. Executive and Non-Executive Directors were appointed to the Board in March 2017, and the first monthly Publica Board meeting took place in April 2017. The majority of staff transferred to the Company on the 1st November 2017. A business plan has been developed and approved by all partner Councils. A transformation programme is currently ongoing to redesign services. For three of the member councils, not including Cheltenham Borough Council, Publica directly manages public services. Publica provides reduced-scope services to Cheltenham Borough Council which include ICT, HR and finance functions. The Council hold 25% of the voting rights of Publica, and service delivery is managed within the company in accordance with the service contracts agreed by the Council. <p>Contract monitoring processes in place to ensure performance and quality standards are delivered in line with the original Business Plan</p> <ul style="list-style-type: none"> The company provides a mechanism to bring employees from across the partner Councils under a single employment arrangement. The company is independent of individual councils but accountable equally to all partners. As part of the establishment of Publica a number of items were identified as reserved matters for council approval to ensure that member councils retained an element of control over their company. The reserved matters were approved in October 2016 as part of the governance principles underpinning the establishment of Publica. Frequent informal and formal reporting is provided by Publica to enable the Councils to monitor performance and quality standards (including, for example, standards around data protection). This also includes informal, regular meetings and correspondence with the s151 Officer at the Council; providing an additional platform for issues to be discussed. Cabinet and the Overview and Scrutiny Committee continue to receive quarterly performance and finance reports which provide members with an understanding of the performance and quality of services delivered. Any underperformance issues would be addressed and challenged at these key meetings. Reports provided by Publica also provide a review of outturn against budget which include savings to be achieved through Publica. Explanations are provided for significant under and over spends. The Council has also included a risk around Publica service delivery within their corporate risk register which is reported to Cabinet. <p>We concluded that the Council has appropriate arrangements in place to establish and monitor Publica's performance against quality standards in line with the original Business Plan.</p>

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work Undertaken	Findings and Conclusions
<p>2 Publica Group (Support) Ltd</p> <p>Following a number of successful partnership and shared services arrangements between the Council, Cotswold, West Oxfordshire and Forest of Dean District Councils, Publica Group (Support) Ltd, a local authority owned company was created by the four councils and became operational in November 2017.</p>	<ul style="list-style-type: none"> Reviewed the Council's arrangements for the establishment of Public Group (Support) Ltd and the contract monitoring processes in place to ensure performance and quality standards are delivered in line with the original Business Plan to demonstrate that Value for Money is being achieved by the Council. Reviewed the arrangements in place at the Council to ensure that Publica is delivering the required financial savings whilst maintaining the agreed service standards. Reviewed the Council's Governance arrangements to provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified. 	<p>The arrangements in place at the Council to ensure Publica is delivering required financial savings while maintaining agreed service standards</p> <ul style="list-style-type: none"> Publica's business plan includes a number of objectives, ambitions and key tasks against which their performance (and in particular, delivery of financial targets) can be measured and highlights the importance of providing robust data and performance metrics to the Councils' to that they can track their performance. This was presented to Cabinet in March 2018. The 2020 Partnership, preceding Publica, historically has a good track record of cashable savings to date. The savings planned are £5.6m per annum across the four member Councils to 2020, of which £0.7m are planned to be delivered by the Council in the next four years through a transformation programme. Up to 2017/18, the 2020 Partnership had achieved savings of £2.33m. The Council have included a red-rating "Transformation and Modernisation" saving of £265k in the MTFs, from 2020/21 onwards, due to alignment in technology through Publica. Although Cheltenham is not involved to the extent of the other three Councils in Publica, it expects reasonable savings from organisational transformation. Overall, for 2017/18, Publica delivered the required financial savings planned. The overall 'contract sum' payable to Publica was underspent in 2017/18 by £258k. Financial performance measures were implicit within the four Councils' budgets for the year. In 2017/18 this amounted to £240k in total across the Councils. All partners exceeded the minimum business case savings with the total over delivery in the order of £412k for the five month period; a return of 10%. This meant that the target 5% return for the year was exceeded. We noted that some performance standards, such as "Days taken to process new claims" were not meeting the target levels. This had been communicated to the Council in a timely and open manner in the year end performance report and to the Member Liaison Group. <p>We concluded that the Council has appropriate arrangements in place to ensure Publica is delivering required financial savings while maintaining agreed service standards.</p>

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work Undertaken	Findings and Conclusions
<p>2 Publica Group (Support) Ltd</p> <p>Following a number of successful partnership and shared services arrangements between the Council, Cotswold, West Oxfordshire and Forest of Dean District Councils, Publica Group (Support) Ltd, a local authority owned company was created by the four councils and became operational in November 2017.</p>	<ul style="list-style-type: none"> Reviewed the Council's arrangements for the establishment of Public Group (Support) Ltd and the contract monitoring processes in place to ensure performance and quality standards are delivered in line with the original Business Plan to demonstrate that Value for Money is being achieved by the Council. Reviewed the arrangements in place at the Council to ensure that Publica is delivering the required financial savings whilst maintaining the agreed service standards. Reviewed the Council's Governance arrangements to provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified. 	<p>The Council's Governance arrangements to provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified.</p> <ul style="list-style-type: none"> We have considered the Governance arrangements of the Council over Publica, to provide appropriate oversight as one of the partnership organisations. In October 2016, the Council agreed the detailed governance principles applicable to Publica. These principles were incorporated within the Company's Articles and Association and the Members' Agreement, providing Councillors with rights to monitor the operational performance of the company. The 2018/19 Publica Business Plan was presented by the Publica Managing Director to Cabinet for consideration by members. This plan is based upon the principles and targets set out in business case which was approved by Council in 2016. Cabinet concluded that the business plan accorded with the Council's priority to provide efficient and value for money services, whilst delivering quality front line services. The plan was also reviewed by the Overview and Scrutiny Committee. The plan was approved by the Council leader as recommended by Cabinet. Internally, the Council hold to account the managing director of Publica, and monitor the partnership through the Overview and Scrutiny Committee – this Committee is responsible for monitoring performance, quality and improvement. Weekly meetings are held between officers of the Council and Publica and briefings are provided to members. Members are engaged on any proposals to improve performance monitoring. Arrangements to ensure members of the Council are kept informed of any issues are evolving but informal liaison meetings with Cabinets, political group leaders and Scrutiny Chairs of the member Councils have taken place. A Member Group comprised of the Chairmen of the Overview and Scrutiny Committees, representatives of the Cabinet and the Leaders of the Political Groups had been established to review the work of Publica, agreed as part of the year end performance meeting in May 2018. The Group is to meet on a quarterly basis during 2018/19. This Group represents a member platform for queries and discussions around Publica's performance and operations. The decision to set up a formal member liaison group and review liaison arrangements has been deferred until Publica has been operational for a year. <p>We concluded that the Council has appropriate arrangements in place to provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified.</p> <p>Arrangements for Council members to formally liaise and communicate with Publica should be agreed following the year anniversary of the operation of Publica.</p>

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Conclusion	Recommendation	Management Response
<p>2 Publica Group (Support) Ltd</p> <p>Following a number of successful partnership and shared services arrangements between the Council, Cotswold, West Oxfordshire and Forest of Dean District Councils, Publica Group (Support) Ltd, a local authority owned company was created by the four councils and became operational in November 2017.</p>	<ul style="list-style-type: none"> Recognising the evolving nature of governance arrangements, the council has appropriate arrangements in place for working with Publica. Arrangements for Council members to formally liaise and communicate with Publica should be agreed following the year anniversary of the operation of Publica. 	<ul style="list-style-type: none"> Formalise liaison and communication arrangements between members and Publica to ensure members have the opportunity to challenge and scrutinise Publica's performance. 	<ul style="list-style-type: none"> A positive officer and member dialogue has been established with Publica to consider how Publica can support the CBC modernisation programme. A request has been made to review and reconsider member engagement arrangements.

Independence and ethics

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms). In this context, we disclose the following to you:

In our 2017-18 Audit Plans we brought a specific issue to the attention of those charged with governance. In November 2017 Grant Thornton UK LLP identified a potential breach of the ethical standards in connection with a contractor who was engaged with the Firm and who was also the Chair of Publica Group (Support) Limited (the company). The company was incorporated as a dormant company on 24 January 2017 and is jointly owned by the four councils of Forest of Dean, Cotswold, West Oxfordshire and Cheltenham. The company started operations on 1 November 2017. As soon as this breach was identified, we notified Public Sector Audit Appointments Ltd (PSAA) as well as the Director of Finance for each of the Councils and contractor concerned. The contractors' engagement with the Firm was terminated, with immediate effect, as soon as the breach was identified. No members of the audit team had any involvement with the contractor concerned and were unaware of his relationship with the Firm.

- Following the subsequent discussions with our Head of Ethics, it has been agreed that there is no ongoing conflict of interest and there is no impact upon our independence of the audit of either the Councils or the company. We have subsequently been approached to be the external auditors of Publica Group (Support) Limited and are currently going through the formal appointment process.
- We are reporting this breach to those charged with governance to ensure that they are fully apprised of the situation and can confirm that they do not have any concerns with either our appointment as external auditors to the Council or to Publica Group (Support) Limited.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	2,100	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,100 in comparison to the total fee for the audit of £49,406 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO insights	3,750	Self-Interest (because this is a recurring fee)	We have provided subscription services only; any decisions are made independently by the Council. The work is undertaken by a team independent to the audit team.



The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.




None of the services provided are subject to contingent fees.

Action plan

We have identified a number of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.




	Assessment	Issue and risk	Recommendations
1	 Medium	<ul style="list-style-type: none"> The Council currently has a balanced budget to 2021/22, however the achievement of the balanced budget is dependent on a number of red-rated savings from 2019/20. 	<ul style="list-style-type: none"> We recommend that management continue to monitor high risk savings within the balanced budget <p>Management response</p> <ul style="list-style-type: none"> The Senior Leadership Team and Cabinet Member for Finance receive a 'Bridging the Gap' project highlight report at their monthly meetings, which will include any changes to the MTFS or budget strategy and very much focuses on the monitoring of high risk savings. The Section 151 Officer also provides an independent assessment of the overall financial position as part of the budget setting process (Section 25 report).
2	 Medium	<ul style="list-style-type: none"> In order to set a balanced budget for 2018/19 the Council plans to use of £913k of its Budget Strategy (Support) reserve. This reserve was created in October 2015 specifically for future challenges around budget setting. 	<ul style="list-style-type: none"> We recommend that management continue to monitor the use of reserves when budget setting to ensure that into the medium term dependency on reserves is reduced. <p>Management response</p> <ul style="list-style-type: none"> The Section 151 Officer regularly reports on the adequacy of reserves and reinforces the need to replenish reserves from any additional windfall income and underspends delivered. The Council has agreed a vision to become an enterprising and commercially focused Council which people are proud to work for and which others want to work with. We will use our assets, skills and infrastructure to shape and improve public services and enable economic growth in the Borough. We shall generate significant levels of new income for the Council working towards the objective of enabling it to become financially sustainable by financial year 2021/22. The delivery of this vision through greater use of our assets and workforce will ensure dependency on reserves is reduced.

Key




-  High – Significant issue or risk of material misstatement requiring immediate action
-  Medium – Impact on the control environment resulting in a deficiency or weakness or the risk of incorrect financial reporting
-  Low – Best practice

Action plan

We have identified a number of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
3	 Medium	<ul style="list-style-type: none"> Recognising the evolving nature of governance arrangements, the council has appropriate arrangements in place for working with Publica. Arrangements for Council members to formally liaise and communicate with Publica should be agreed following the year anniversary of the operation of Publica 	<ul style="list-style-type: none"> Formalise liaison and communication arrangements between members and Publica to ensure members have the opportunity to challenge and scrutinise Publica's performance. <p>Management response</p> <ul style="list-style-type: none"> A positive officer and member dialogue has been established with Publica to consider how Publica can support the CBC modernisation programme. A request has been made to review and reconsider member engagement arrangements.
4	 Medium	<ul style="list-style-type: none"> A number of IT deficiencies were identified as part of our 2017/18 IT review. 	<ul style="list-style-type: none"> The Council should implement the recommendations arising from our IT review as set out on page 12. <p>Management response</p> <ul style="list-style-type: none"> Agreed.
5	 Medium	<ul style="list-style-type: none"> A formal lease is not in place between Ubico and Cheltenham Borough Council for arrangements to lease recycling and refuse vehicles from the Council to Ubico. 	<ul style="list-style-type: none"> We recommended that a lease between Ubico and Cheltenham Borough Council is formalised to support the accounting treatment within the financial statements and to ensure that the Council is not exposed to any unintended financial risks. <p>Management response</p> <ul style="list-style-type: none"> Agreed.

Key

-  High – Significant issue or risk of material misstatement requiring immediate action
-  Medium – Impact on the control environment resulting in a deficiency or weakness or the risk of incorrect financial reporting
-  Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Cheltenham Borough Council's 2016/17 financial statements, which resulted in 4 recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations and note 2 are still to be completed.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	The Council should implement the recommendations arising from our 2015/16 IT review.	<ul style="list-style-type: none"> An updated IT review has taken place in 2017/18 and this review point is no longer applicable.
2	X	At as December 2016 there was a cumulative shortfall in the savings plans of £436k, mostly in 2018-19. The shortfall mostly arose as a result of the New Homes Bonus settlement in December 2016 which was £381k less than forecast. The gap had only recently opened, and the Council have since identified a number of savings strategies to close this gap. The Council currently has a balanced budget to 2019-20, however the achievement of the balanced budget is dependent on a number of red-rated savings in 2019-20. We recommend that management continue to monitor high risk savings within the balanced budget.	<ul style="list-style-type: none"> The recommendation remains applicable in 2017/18.
3	X	In order to set a balanced budget for 2017/18, the Council plans to use of £882k of its Budget Strategy (Support) reserve. This reserve was created in October 2015 specifically for future challenges around budget setting. We recommend that management continue to monitor the use of reserves when budget setting to ensure that into the medium term dependency on reserves is reduced.	<ul style="list-style-type: none"> The recommendation remains applicable in 2017/18.
4	✓	We reported in our Audit Plan that we had identified that journal entries posted by the Deputy Section 151 Officer were not regularly reviewed.	<ul style="list-style-type: none"> The recommendation was implemented in June 2017.

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

We did not identified any adjusted adjustments which have had an impact on the key statements and the reported net expenditure for the year

Impact of unadjusted misstatements

We have not identified any adjustments identified during the audit which have not been made within the final set of financial statements

Impact of prior year unadjusted misstatements

We did not identified any prior year adjustments which have not been made within the final set of financial statements

Audit Adjustments (cont)

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 3 - Critical Judgements in Applying Accounting Policies	<ul style="list-style-type: none"> The note did not provide details of the qualitative considerations for not preparing group accounts in respect of Publica Group (Support) Limited. The note did not provide details of the key considerations taken into account when categorising the vehicle lease with Ubico as a finance lease 	<ul style="list-style-type: none"> Agreed with officers that the note be expanded to provide details of both the quantitative and qualitative considerations for not preparing group accounts and details of the key considerations when categorising the vehicle lease with Ubico as a finance lease. 	✓
Note 6 – Events after the reporting period	<ul style="list-style-type: none"> The draft statement of accounts did not disclose whether there had been any events after the reporting period. 	<ul style="list-style-type: none"> The Council should disclose whether there have been any events after the reporting period. 	✓

Audit Adjustments (cont)

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 18 - Expenditure and income analysed by nature	<ul style="list-style-type: none"> The total income and expenditure figures in Note 18 did not match gross income and expenditure in the CIES. This is due to the deficit of the Collection Fund in Note 10 not being reflected in the income of the note, resulting in the expenditure and income figures being understated by £437k. 	<ul style="list-style-type: none"> Precept and levies expenditure should increase by £437k to £18,889k. Income from council tax and non-domestic rates should increase by £437k to £29,890k 	✓
Various	<ul style="list-style-type: none"> There were a number of other minor presentational adjustments made to improve the quality of disclosure in the accounts. 	<ul style="list-style-type: none"> Presentational adjustments identified should be corrected in the final version of the statement of accounts. This included moving the Expenditure and Funding Analysis from within the primary financial statements; and removing an unnecessary contingent liability note. Other minor amendments were made throughout. These adjustments are not significant and do not warrant separate reporting to the Audit Committee. 	✓
Annual Governance Statement & Narrative Report	<ul style="list-style-type: none"> There were a number of other minor presentational adjustments and improvements made to enhance the quality of disclosure in the Annual Governance Statement & Narrative Report 	<ul style="list-style-type: none"> Presentational adjustments identified should be corrected in the final version of the Annual Governance Statement & Narrative Report. 	✓

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

	Proposed fee	Final fee
Council Audit	£49,406	£49,406
Grant certification	£8,361	TBC
Total audit fees (excluding VAT)	£57,767	TBC

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA) and our audit plan.

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

Fees for other services	Fees (£)
Audit related services:	2,100
• Certification of Housing Capital Receipts grant	
Non Audit related services:	
• CFO Insights	3,750
Total	5,850

Audit opinion

We anticipate we will provide the group with an unmodified audit report

Independent auditor's report to the members of Cheltenham Borough Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cheltenham Borough Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director - Finance & Assets use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director - Finance & Assets has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Executive Director - Finance & Assets is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the Group and Authority financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the s151 Officer, Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on [page 17](#) the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the s151 Officer who is the Executive Director - Finance & Assets. The Executive Director - Finance & Assets is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Executive Director - Finance & Assets determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director - Finance & Assets is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit Committee are Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities for the review of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(e) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

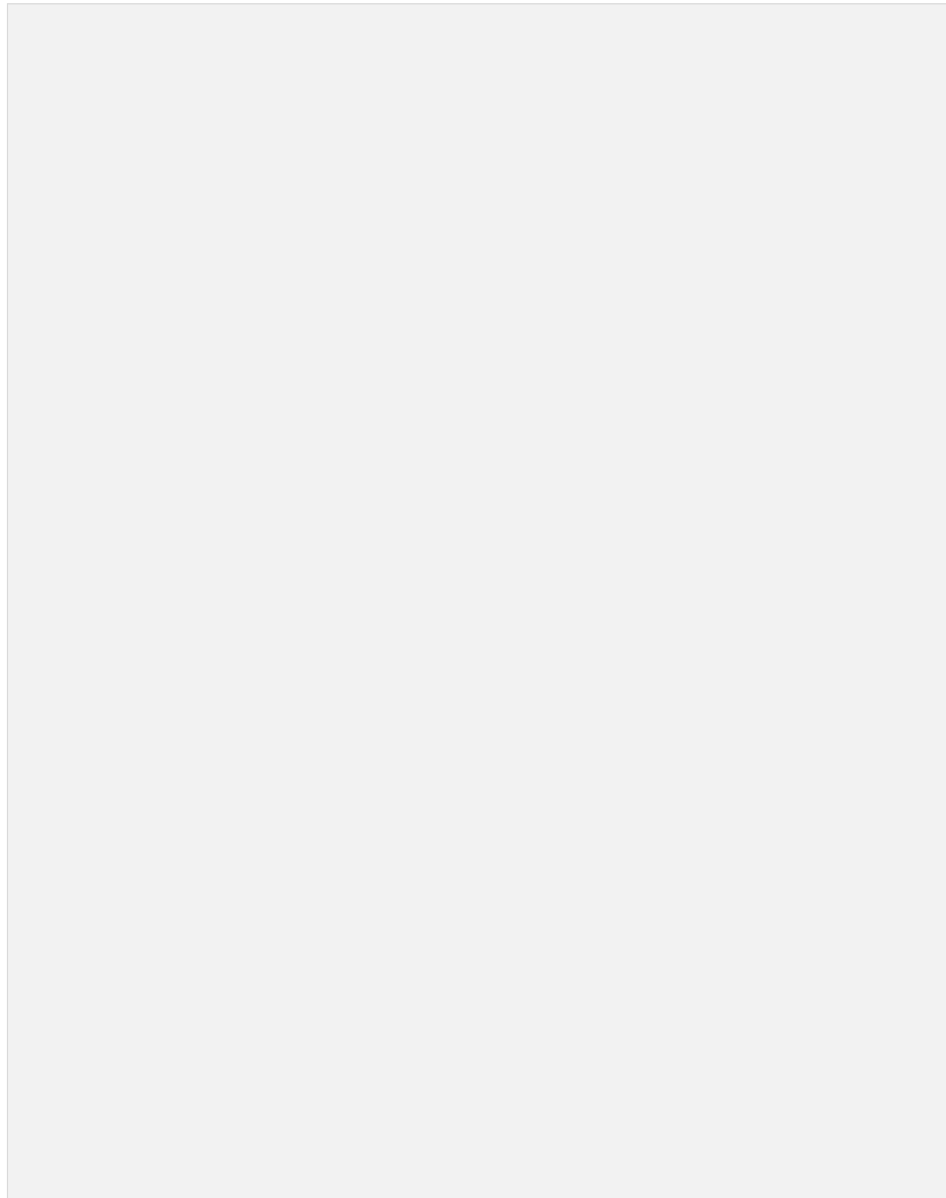
We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Signature

Barrie Morris
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

2 Glass Wharf, Temple Quay, Bristol, BS2 0EL

Date





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CHELTENHAM BOROUGH COUNCIL

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL

ask for: Paul Jones
ddi number: 01242 264365
email: paul.jones@cheltenham.gov.uk
our ref: PJ/SLF
your ref:
date: 16 July 2018

Dear Sirs

Cheltenham Borough Council Financial Statements for the year ended 31 March 2018

This representation letter is provided in connection with the audit of the financial statements of Cheltenham Borough Council and its subsidiary undertakings, for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the group and parent Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Group Financial Statements

- i We have fulfilled our responsibilities for the preparation of the group and parent Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the group and parent Council financial statements are fairly presented in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group and parent Council financial statements.



INVESTOR IN PEOPLE

- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi Except as disclosed in the group and parent Council financial statements:
 - a there are no unrecorded liabilities, actual or contingent
 - b none of the assets of the group and parent Council has been assigned, pledged or mortgaged
 - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- viii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix All events subsequent to the date of the group and parent Council financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Council financial statements.
- xiii We believe that the group and parent Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Council's needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xiv We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xv We have communicated to you all deficiencies in internal control of which management is aware.
- xvi All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.
- xvii We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.
- xviii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and parent Council and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the group and parent Council financial statements.
- xix We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, analysts, regulators or others.
- xx We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxi We have disclosed to you the identity of the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.
- xxii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

Annual Governance Statement

- xxvi We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- i The disclosures within the Narrative Report fairly reflect our understanding of the group and parent Council's financial and operating performance over the period covered by the group and parent Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 25 July 2018.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Governing Body



Councillor Colin Hay
Chair of the Audit Committee
Cheltenham Borough Council
Municipal Offices
Promenade
GL50 9SA

1 February 2018

Grant Thornton UK LLP
2 Glass Wharf
Bristol BS2 0EL

T +44 (0)117 305 7600
F +44 (0)117 305 7784
www.grant-thornton.co.uk

Dear Cllr Hay

**Cheltenham Borough Council Financial Statements for the year end 31
March 2018
Understanding how the Audit Committee gains assurance from management**

To comply with International Auditing Standards, each year we need to refresh our understanding of how 'Those Charged with Governance' (which for Cheltenham Borough Council is the Audit Committee) obtain assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me in your role as Chair of the Audit Committee Chair with your responses to the following questions.

- 1 How does the Audit Committee oversee management's processes in relation to:
 - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
 - identifying and responding to the risk of breaches of internal control
 - identifying and responding to risks of fraud in the Council (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)
 - communicating to employees its views on appropriate business practice and ethical behavior (for example by updating, communicating and monitoring against the codes of conduct)?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with?
- 4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

I have enclosed a separate schedule which explores these areas in more detail and also your response from 2016/17 as this may help to frame this year's response.

For information, we are also required to make enquiries of management and recently sent a letter and schedule of questions to Paul Jones.

Yours sincerely

A handwritten signature in black ink, appearing to read "Barrie Morris".

Director
For Grant Thornton UK LLP

T +44 (0) 117 305 7708
E Barrie.Morris@uk.gt.com

Response from Audit Committee Chair

Fraud risk assessment

Auditor Question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	<p>Yes.</p> <p>The highest material risk is in respect of Treasury Management activity although this is mitigated through different 'layers' of segregation of duties (initiator, reviewer and approver) and regular internal audit reviews.</p> <p>The internal audit plan includes a risk based audit of the core financial systems that are used in the compilation of the financial statements. These core systems are audited annually and any risks identified that may result in the financial statements being materially misstated due to fraud will be reported to the Corporate Governance Group and the Audit Committee.</p>
What are the results of this process?	I can confirm that at 31st March 2018 I am not aware of any fraud that might cause a misstatement of the accounts.
What processes does the Council have in place to identify and respond to risks of fraud?	<p>The Council has a zero tolerance approach to fraud and will investigate any allegations or whistleblowing complaints.</p> <p>The Counter Fraud and Anti-Corruption Policy and the Whistleblowing Policy have been approved by the Audit Committee. These documents set out the role of Internal Audit and the Counter Fraud Unit in the prevention and investigation of fraud. The Audit Committee also approves the risk-based annual audit plan and prepares audits to consider possible areas where fraud may be a risk.</p> <p>The Counter Fraud Unit is a permanent shared support service tasked with minimising fraud and abuse of public funds. The overall remit is to prevent, detect and deter the abuse of public funds within the Council by working closely with other public sector organisations and referring to recommendations by the Home Office and other professional bodies.</p> <p>The team undertakes reactive investigation work where a referral is received and where necessary, proactive fraud drives in high risk areas.</p> <p>The Council also employs a number of Enforcement Officers within the various service areas who undertake work to tackle abuse of public funds.</p>
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what	The Council regularly takes part in the National Fraud Initiative (NFI) – no areas of fraud have been

<p>has been done to mitigate these risks?</p>	<p>identified in 2017/18.</p> <p>Key areas of risks are covered by internal audit. Any serious findings are reported to Audit Committee.</p> <p>The Council is a member of the Gloucestershire Counter Fraud Unit (CFU), and a formal work-plan has been agreed. The team is tackling areas of known abuse with Enforcement Teams where appropriate and corporately with the direction of the Corporate Management Team. Where fraud or abuse is identified a formal report is issued to senior management and Statutory Officers for consideration in relation to risk and control.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively?</p>	<p>Yes. The internal auditors (SWAP) review all key systems annually and any breaches of internal control would be reported to both the Section 151 Officer and the Audit Committee. Any special investigations carried out by SWAP and the CFU are also reported to the Audit Committee.</p>
<p>If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>N/A.</p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Budgetary pressures / savings targets are shared by the Senior Leadership Team. There is open reporting of progress to Cabinet via budget monitoring reports which are regularly scrutinised by the Budget Scrutiny Working Group.</p> <p>Treasury Management activity is reported and scrutinised by the Treasury Management Panel and Cabinet on a regular basis and reported through to Full Council.</p>
<p>Are there any areas where there is a potential for misreporting?</p>	<p>There is always the potential but we believe appropriate checks and balances are in place within the teams, and through Publica Support Services, to ensure misreporting does not occur.</p> <p>The Council monitors budgets to cost centre level which highlights any unexpected variances for further investigation.</p> <p>Financial rules govern what is required to be reported and controls the rules surrounding 'virement'.</p>
<p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?</p>	<p>The Audit Committee receives regular reports from internal audit, external audit and the CFU and the responsibility for reviewing the Code of Corporate Governance, Counter Fraud and Anti-Corruption policies sits with the Audit Committee.</p>
<p>What arrangements are in place to report fraud issues and risks to the Audit Committee?</p>	<p>The responsibility for the investigation of actual or suspected fraud now lies with the Section 151 Officer, Monitoring Officer, the CFU and SWAP</p>

	<p>which can be reported via the Council's Whistleblowing policy.</p> <p>The council has a robust risk management process which requires managers to manage all risks within projects and services with escalation to the strategic risk register (where appropriate) which is reviewed regularly by SLT. All reports to committees require financial and legal implications to be identified and include a template for financial and legal implications and risks to be identified.</p>
<p>How does the Council communicate and encourage ethical behaviour of its staff and contractors?</p>	<p>Code of conduct for employees (link via intranet).</p> <p>Contract procedure rules for contractors.</p> <p>Procurement Strategy.</p> <p>The officer Corporate Governance Group addresses ethical matters as part of its work.</p> <p>Staff and Member awareness sessions have been provided by the Counter Fraud Unit. Provision of refresher information and literature for new starters is being developed.</p> <p>Publicity with regard to identified fraud and error will also be encouraged to act as a deterrent.</p> <p>A review of gifts and hospitality practices will be undertaken this year.</p>
<p>How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?</p>	<p>All employees are periodically reminded of the whistleblowing policy and all staff are expected to sign related party transaction declarations on an annual basis.</p> <p>No significant issues have been reported.</p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p>No – but the Council's constitution requires members to declare any such interests and where appropriate withdraw. Senior decision making officers are also required to declare any related party transactions.</p>
<p>Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council since 1 April 2017?</p>	<p>Mainly Benefit and Council tax fraud, tenancy fraud and Right to buy fraud which are investigated by the Counter Fraud Team and reported to the Audit Committee.</p>

Law and regulation

Auditor Question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	<p>Managers and team leaders are expected, by virtue of their job descriptions and personal professional development requirements, to keep up to date and comply with laws and regulations as they apply to their duties and those of their teams.</p> <p>In addition, the Council's legal provider, One Legal (which is a shared service between the Council and Gloucester City Council and Tewkesbury Borough Council) advises officers and members on laws and regulations.</p> <p>Within One Legal new legislation and regulations are monitored via various electronic resources including Local Government Association updates, Local Government Lawyer, Westlaw and PLC.</p> <p>Key changes in the law are considered by the Senior Leadership Team and, for any legislation that has a significant impact on the functions of the Council, working groups are set up and implementation plans prepared.</p> <p>Any potential non-compliance is reported to the Senior Leadership Team and an action plan put in place.</p> <p>The Annual Governance Statement also identifies areas of concern and areas for improvement.</p>
How does management gain assurance that all relevant laws and regulations have been complied with?	<p>Key changes are reported to the Senior Leadership Team and, for any legislation that has a significant impact on the functions of the Council, working groups are set up and implementation plans prepared.</p> <p>Any potential non-compliance is reported to the Senior Leadership Team and an action plan put in place.</p>
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	<p>Through the Annual Governance Statement which identifies areas of concern and areas for improvement. In addition, each senior and service manager provides an annual assurance statement.</p> <p>In addition, training sessions are used to explain new legislation (e.g. GDPR). Where the changes would have a significant impact on the Council they will appear on the corporate risk register which is available. Any accounting requirements are explained at the annual workshop to help understand the accounts.</p> <p>For any specific cases a special report is prepared for the Audit Committee.</p>
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2017?	No.

<p>What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>The Council's legal team work with management when any potential claims or litigation are identified; it also provides the Section 151 Officer with details of any litigation or claims for inclusion within the financial statements.</p> <p>The Council has a customer complaints process which aims to resolve issues before they escalate.</p> <p>The Council has robust risk management in place which includes the recording of any risks of litigation or claims either within service areas or corporately.</p> <p>The Council has processes in place to manage significant contracts so they operate on a partnership basis and any issues can be raised and managed with the aim of minimising litigation or claims. Contract performance is monitored by the use of management information including key performance indicators.</p>
<p>Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>No.</p>
<p>Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?</p>	<p>No.</p>

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Mr P Jones
Section 151 Officer
Cheltenham Borough Council
Municipal Offices
Promenade
Cheltenham
GL50 9SA

Grant Thornton UK LLP
2 Glass Wharf
Bristol BS2 0EL

T +44 (0)117 305 7600
F +44 (0)117 305 7784
www.grant-thornton.co.uk

1 February 2018

Dear Paul

Cheltenham Borough Council Financial Statements for the year end 31 March 2018

To comply with International Auditing Standards, we need to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with law and regulation. We are also required to make inquiries of both management and those charged with governance (the Audit Committee) as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document management's view on some key areas affecting the financial statements.

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the attached schedule. In completing this task, you may wish to take into account the views of other senior officers at the Council where you think appropriate. The schedule relates to operational issues as well as the financial statements.

In addition to our request to management, we also will need to gain an understanding of how the Audit Committee maintains oversight of the above process. Therefore, I have also made a similar request for information to the Chair of the Audit Committee.

In preparing your responses, it would assist me greatly if you could include a summary of evidence that you have relied on to inform your responses. In addition, please document any sources of assurance which confirm relevant management controls have operated effectively through the financial year to date and will operate up to the date the accounts are approved.

I would be grateful for a response by 31 March 2018. We suggest that it would be useful to coordinate both the Audit Committee and management responses.

Chartered Accountants

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A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

As always, please do not hesitate to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Barrie Morris'.

Barrie Morris
Director
For Grant Thornton UK LLP

T +44 (0) 117 305 7708
E Barrie.Morris@uk.gt.com

Cheltenham Borough Council

Responses from Management:

Auditor question	Response
<p>What do you regard as the key events or issues that will have a significant impact on the financial statements for 2017/18?</p>	<p>Revenue Outturn:</p> <ul style="list-style-type: none"> • There is a net overspend on the Ubico contract of circa £210k which is mainly attributed to one-off increased operating and vehicle maintenance costs incurred in 2017/18. • These overspends are more than offset by surplus development control and building control income and overachievement on our investment income. Vacancy savings in employee budgets have also enabled the Council to deliver an under-spend against the 2017/18 budget. <p>Business Rates Retention – a significant pool surplus distribution is expected which, in line with previous years, will be appropriated to the BRR earmarked reserve.</p>
<p>Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>There are no material changes to the accounting policies in 2017/18. However two accounting policies disclosed in 2016/17 have now been removed from the draft notes to the statements, as they are no longer considered to be materially relevant to the council's current operations or financial activities.</p> <ul style="list-style-type: none"> - Acquisitions and discontinued operations - Foreign Currency Translation <p>The removal of these notes is in line with the requirement to declutter the statement of accounts, although these will be reviewed and included in the accounting policies in future years if appropriate.</p> <p>There are additional accounting policy notes in respect of Publica Group Ltd, following the creation of the company in 2017/18, for which the council has a shared interest with Cotswold District Council, West Oxfordshire District Council and Cheltenham Borough Council. Note 1.3 Employee benefits; details the approach taken re ex Forest of Dean Staff LGPS members, transferred into Publica Group (Support) Ltd and note 1.29 Group Accounts details the council's approach to consolidation, assessing Publica to be a joint venture and thus negating the need to prepare group accounts. This note has been developed in liaison with the partner councils and will be included in the final statement of accounts accounting policies, for review by Audit Committee in July 2018.</p>

Auditor question	Response
<p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>Annually, Publica Support Services request that service managers highlight any change to the Council's regulatory environment. None of the responses result in any significant impact on the financial statements although the move to 100% retention of business rates, changes to the allocation of New Homes Bonus and changes to the funding needs assessment may create some volatility in future years.</p>
<p>How would you assess the quality of the Council's internal control processes?</p>	<p>The Council's Annual Governance Statement is based upon an annual review of its internal controls and the work of SWAP (internal audit).</p> <p>The Corporate governance group have considered the governance arrangements in place for each of the council's service areas.</p> <p>The governance structures within each of the commissioned services have been designed to ensure that decision making is transparent and based upon sound audit principles.</p> <p>One Legal provides advice on the lawfulness of decision making.</p> <p>SWAP provides the Audit Committee with monitoring reports which provide a level of assurance for the Council and for partners within shared services. The opinion in respect of 2017/18 was classified as 'reasonable' assurance.</p>
<p>How would you assess the process for reviewing the effectiveness of internal control?</p>	<p>Key areas of risks are covered by internal audit. Any serious findings are reported to the Audit Committee.</p> <p>Reliance on audit reports and the Annual Governance Statement which includes officer annual declarations which cover internal control.</p> <p>Internal Audit provides a cyclical effectiveness review which will be reported to the Audit Committee.</p>
<p>How do the Council's risk management processes link to financial reporting?</p>	<p>The council has a robust risk management process which requires managers to manage all risks within projects and services with escalation to the corporate risk register (where appropriate) which is reviewed monthly by Senior Leadership Team prior to circulation to the Cabinet.</p> <p>All reports to committees require financial, legal, HR and property implications and risks to be identified.</p>
<p>How would you assess the Council's arrangements for identifying and responding to the risk of fraud?</p>	<p>The Counter Fraud and Anti-Corruption Policy, the Whistleblowing Policy, Internal Audit Charter and the terms of reference for the Chief Internal Auditor are formally agreed by the Audit Committee. These documents set out the role of Internal Audit in the prevention and investigation of fraud. The Audit Committee also approves the risk-based annual audit</p>

Auditor question	Response
	<p>plan and prepares audits to consider possible areas where fraud may be a risk.</p> <p>The Counter Fraud Unit is a permanent shared support service tasked with minimising fraud and abuse of public funds. The overall remit is to prevent, detect and deter the abuse of public funds within the Council by working closely with other public sector organisations and referring to recommendations by the Home Office and other professional bodies.</p> <p>The team undertakes reactive investigation work where a referral is received and where necessary, proactive fraud drives in high risk areas.</p> <p>The Council also employs a number of Enforcement Officers within the various service areas who undertake work to tackle abuse of public funds.</p>
<p>What has been the outcome of these arrangements so far this year?</p>	<p>The Counter Fraud Unit 2017/18 work plan buildt on the feasibility work that the Counter Fraud Unit undertook during the pilot period considering high risk areas, income generation, loss avoidance work and deterrent.</p> <p>The team is tackling areas of known abuse with Enforcement Teams where appropriate and corporately with the direction of the Corporate Management Team. Where fraud or abuse are identified a formal report is issued to senior management and Statutory Officers for consideration in relation to risk and control.</p> <p>The Counter Fraud Unit meets regularly with Internal Audit to ensure a joined up approach and that any fraud risk and control issues are minimised.</p> <p>Audit Committee is updated biannually with regard to the progress of the work plan and any identified fraud risk or abuse through management reports to the Committee.</p> <p>The Council feeds data in to the Cabinet Office National Fraud Investigation process and reviews the information feedback from the data matching process to identify potential fraud for investigation.</p>
<p>What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The Counter Fraud Unit is in its infancy and as such the team are undertaking work with various departments across the authority concentrating on areas which attract a higher risk of fraud; CTAX discount abuse, fraudulent Right to Buy applications / Tenancy Fraud. The team are also reviewing possible areas of abuse internally such as incorrect expenses and allowances.</p>

Auditor question	Response
	<p>Work this year will also start to focus on procurement processes and risks within the financial processes such as requests for refunds by members of the public (criminal cashback). Development of work with Gloucestershire Constabulary in relation to serious and organised crime also being developed.</p> <p>Historically the Council has targeted abuse within the Housing Benefit system and there has been little focus elsewhere. The Counter Fraud Unit now has a larger remit to tackle fraud and abuse more holistically.</p>
<p>Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The Counter Fraud Unit has been contacted for advice in relation to referrals from internal members of staff. Any reports would be dealt with correctly and in line with the Whistleblowing Policy.</p> <p>The Counter Fraud Unit have reviewed and redrafted the Whistleblowing Policy to ensure it is current and robust when dealing with these types of referral. This was adopted by the Council in 2016, staff awareness training is being rolled out across the organisation.</p>
<p>Have any reports been made under the Bribery Act?</p>	<p>No.</p>
<p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The Counter Fraud Unit provides biannual updates to Audit Committee.</p> <p>The Counter Fraud Unit reports to the S.151 Officer and with agreement reports results, risk and control recommendations to the Senior Leadership Team for consideration.</p>
<p>As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?</p>	<p>Staff and Member awareness sessions have been provided by the Counter Fraud Unit. Provision of refresher information and literature for new starters is being developed.</p> <p>Publicity with regard to identified fraud and error will also be encouraged to act as a deterrent.</p>
<p>What are your policies and procedures for identifying, assessing and accounting for litigation and claims?</p>	<p>Any significant litigation claims are referred to One Legal who will then advise the relevant officer. The relevant officer will brief Exec Board / SLT / Members and notify the insurance officer as appropriate.</p> <p>Legal costs will also form part of the quarterly budget monitoring reports.</p> <p>Advice from Publica Insurance Officer is used to assess level of provision held for excesses. Other liability identified includes</p>

Auditor question	Response
	MMI write-off provision and contingent liability.
Is there any use of financial instruments, including derivatives?	No.
Are you aware of any significant transaction outside the normal course of business?	No.
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No.
Are you aware of any guarantee contracts?	No although in the case of local authority owned companies (Publica, Ubico and SWAP), the Council is obliged to cover liabilities if they operate with a loss.
Are you aware of allegations of fraud, errors, or other irregularities during the period?	The Counter Fraud Unit is conducting a number of investigations in relation to abuse of public funds within or against the authority. This includes allegations of Tenancy Fraud with the Council's arms- length organisation, Cheltenham Borough Homes.
Are you aware of any instances of non-compliance with laws or regulations or is the Council on notice of any such possible instances of non-compliance?	<p>The Council's S151 officer, Solicitor/Monitoring Officer, Chief Executive and Directors ensure that all legal requirements are met. All complete an annual assurance review which includes compliance with legislation and regulation.</p> <p>Assurance is gained from internal controls within the audit process, VAT and treasury advisers. All of the reports to Cabinet, Council, and other Committees include HR, legal and financial implications which are completed by the relevant professional officer.</p> <p>The Audit Committee is advised by the Council's S.151 Officer, Internal Audit and the Corporate Governance, Risk and Compliance officer who provide assurance regarding compliance with laws, regulation and financial rules. They bring any issues to the attention of the Committee and provide updates on progress against any appropriate action plans.</p>
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	No.
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	The non-domestic (NDR) appeals provision has been estimated based on past experience of successful appeals and other RV reductions, and actual success rates and reductions may differ from the estimate. The process was altered from 1 April 2017 and we do not yet have sufficient data to indicate the success rate and likely reductions under the new system.
Where the financial statements include amounts based on significant	PPE Valuations are performed by the Authority's in house valuer in line with RICS guidance. A rolling programme of asset

Auditor question	Response
<p>estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?</p>	<p>revaluation is in place. The remaining useful life of property assets is estimated by the valuer in line with RICS guidance. For provisions and liabilities an estimate is made of the likely future cost based on a review of the likelihood and risk related to the potential obligation. Where appropriate, information is obtained from the Authority's legal advisors. For pensions, actuarial valuations of pension liabilities and assets are undertaken annually by the actuary in accordance with IAS 19.</p>
<p>Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?</p>	<p>No.</p>
<p>Although the public sector interpretation of IAS1 means that the financial statements should be prepared on a going concern basis, management are required to consider whether there are any material uncertainties that cast doubt on the Council's ability to continue as a business. What is the process for undertaking a rigorous assessment of going concern? Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?</p>	<p>SLT receive a 'Bridging the Gap' project highlight report at each of their monthly meetings, which will include any changes to the MTFS or budget strategy. The Council's MTFS was approved by full Council in February 2018 showing the council is a going concern over the next 4 years with plans in place to alleviate the significant reductions in core government funding.</p> <p>The Section 151 Officer also provides an independent assessment of the overall financial position as part of the budget setting process (Section 25 report).</p> <p>In addition, the Section 151 Officer provides an annual assessment of the going concern status. The main factors which underpin this assessment are the:</p> <ul style="list-style-type: none"> • Council's current financial position; • Council's projected financial position; • Council's governance arrangements; • Regulatory and control environment applicable to the Council as a local authority. <p>The Section 151 Officer does not foresee any reason why the statements for 2017/18 will alter that position as the Council has once again delivered services within budget, with the added benefit of being able to return funds to the budget strategy support earmarked reserve.</p>
<p>Can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>The legal provider to Cheltenham BC is One Legal which is a shared service between the Council and Gloucester City Council and Tewkesbury Borough Council. The majority of legal work is undertaken internally at One Legal. Locum solicitors are used periodically to cover recruitment shortfalls and peaks in workload.</p> <p>During 2017/2018, specialist external legal support was engaged in respect of planning inquiries, property regeneration</p>

Auditor question	Response
	<p>and property disputes and such advice continues as at April 2018.</p> <p>In addition, the Council is involved in a number of group claims through the Local Government Association.</p>
<p>Can you provide details of other advisors consulted during the year and the issue(s) on which they were consulted?</p>	<p>Capita and Arlingclose, Treasury Management advisors. LAVAT and Grant Thornton, general VAT advice. Portmore Insurance broker advice.</p>
<p>Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?</p>	<p>No.</p>

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Audit Committee 2017-18 work plan

Item	Author
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25th July 2018 (Report deadline: Mon 16th July)	
Internal audit opinion (for the previous year)	Internal Audit
Annual Audit Fee letter for the coming year	Grant Thornton
Audit highlights memorandum - ISA 260 (for the previous year) inc. Financial Resilience	Grant Thornton
Statement of Accounts (previous year) (inc. letter of representation)	Finance Team
Auditing Standards – communicating with the Audit Committee (moved from April)	Grant Thornton
19 September 2018 (Report deadline: Fri 7th September)	
Internal audit monitoring report	Internal Audit
Counter Fraud update and future work provision	Counter Fraud Unit
Leisure@ refurbishment project review – how did the ‘new’ governance approach work	Mark Sheldon
23rd January 2019 (Report deadline: Fri 11th Jan)	
IT Security update	IT (Tony Oladejo?)
Audit committee update	Grant Thornton
Annual audit letter (for the previous year)	Grant Thornton
Certification of grants and returns (for the previous year)	Grant Thornton
Internal audit monitoring report	Internal Audit
Annual governance statement – significant issues action plan	Internal Audit
24th April 2019 (Report deadline: Wed 10th April)	
Audit committee update	Grant Thornton
Audit plan (for the current year)	Grant Thornton
Auditing Standards – communicating with the Audit Committee	Grant Thornton
Annual plan (for the upcoming year)	Internal Audit
Internal audit monitoring report	Internal Audit
Counter Fraud update and future work provision	Counter Fraud Unit
Annual review of risk management policy	Bryan Parsons
Annual review and approval of RIPA guidance policies	Counter Fraud Unit

Audit Committee 2017-18 work plan

Item	Author
Approval of the Code of Corporate Governance	Bryan Parsons
Annual governance statement	Internal Audit
24th July 2019 (Report deadline: 12th July)	
Audit committee update	Grant Thornton
Internal audit opinion (for the previous year)	Internal Audit
Annual Audit Fee letter for the coming year	Grant Thornton
Audit highlights memorandum - ISA 260 (for the previous year) inc. Financial Resilience	Grant Thornton
Statement of Accounts (previous year) (inc. letter of representation)	Finance Team

ANNUAL ITEMS (standing items to be added to the work plan each year)		
January	IT Security update	IT
	Audit committee update	Grant Thornton
	Annual audit letter (for the previous year)	Grant Thornton
	Certification of grants and returns (for the previous year)	Grant Thornton
	Internal audit monitoring report	Internal Audit
	Annual governance statement – significant issues action plan	Internal Audit
April	Audit committee update	Grant Thornton
	Audit plan (for the current year)	Grant Thornton
	Auditing Standards – communicating with the Audit Committee	Grant Thornton
	Annual plan (for the upcoming year)	Internal Audit
	Internal audit monitoring report	Internal Audit
	Counter Fraud update and future work provision	Counter Fraud Unit
	Annual review of risk management policy	Bryan Parsons
	Annual review and approval of RIPA guidance policies	Counter Fraud Unit
	Approval of the Code of Corporate Governance	Bryan Parsons
	Annual governance statement	Internal Audit

Audit Committee 2017-18 work plan

Item		Author
July	Audit committee update	Grant Thornton
	Internal audit opinion (for the previous year)	Internal Audit
	Annual Audit Fee letter for the coming year	Grant Thornton
	Audit highlights memorandum - ISA 260 (for the previous year) inc. Financial Resilience	Grant Thornton
	Statement of Accounts (previous year) (inc. letter of representation)	Finance Team
September	Internal audit monitoring report	Internal Audit
	Counter Fraud update and future work provision	Counter Fraud Unit

Information Security annual report – awaiting confirmation from Tony O about when would be an appropriate time in the year to do this.

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