



## Notice of a meeting of Audit, Compliance and Governance Committee

**Wednesday, 22 July 2020  
6.00 pm**

**Virtual WEBEX video conference via YouTube -  
<https://www.youtube.com/user/cheltenhamborough>**

<b>Membership</b>	
<b>Councillors:</b>	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

<b>1.</b>	<b>APOLOGIES</b>	
<b>2.</b>	<b>DECLARATIONS OF INTEREST</b>	
<b>3.</b>	<b>MINUTES OF THE LAST MEETING</b> 22 January 2020	(Pages 3 - 8)
<b>4.</b>	<b>PUBLIC AND MEMBER QUESTIONS</b> These must be received no later than 12 noon on the fourth working day before the date of the meeting	
<b>5.</b>	<b>ANNUAL INTERNAL AUDIT OPINION 2019/20</b> Lucy Cater, Assistant Director (SWAP)	(Pages 9 - 48)
<b>6.</b>	<b>AUDIT PLAN PLUS ADDENDUM AS PRESENTED TO LAST AUDIT COMMITTEE</b> Grant Thornton	(Pages 49 - 72)
<b>7.</b>	<b>AUDIT PROGRESS REPORT AND SECTOR UPDATE</b> Grant Thornton	(Pages 73 - 90)
<b>8.</b>	<b>INFORMING THE AUDIT RISK ASSESSMENT - THOSE CHARGED WITH GOVERNANCE</b> Paul Jones, Executive Director Finance and Assets	(Pages 91 - 124)

<b>9.</b>		<b>ASSESSMENT OF THE GOING CONCERN</b> Paul Jones, Executive Director Finance and Assets – to follow	
<b>10.</b>		<b>WORK PROGRAMME</b>	(Pages 125 - 128)
<b>11.</b>		<b>ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION</b>	
<b>12.</b>		<b>DATE OF NEXT MEETING</b> 23 September 2020	

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## Audit, Compliance and Governance Committee

**Wednesday, 22nd January, 2020**  
**6.00 - 7.30 pm**

Attendees	
<b>Councillors:</b>	Steve Harvey (Chair), David Willingham (Vice-Chair), Matt Babbage, Jonny Brownstein, Tony Oliver and Paul McCloskey (Reserve)
<b>Also in attendance:</b>	Lucy Cater (Assistant Director – SWAP), Emma Cathcart (Counter Fraud Manager), Aditi Chandramouli (Grant Thornton), Darren Knight (Executive Director People & Change), Sophie Morgan-Bowers (Grant Thornton), Barrie Morris (Grant Thornton) and Tony Oladejo (Publica)

## Minutes

### 1. APOLOGIES

Councillors Atherstone and Stafford had given their apologies. Councillor McCloskey would substitute for Councillor Atherstone.

### 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 18 September 2019, be agreed and signed as an accurate record.**

### 4. PUBLIC QUESTIONS

No questions were received.

### 5. CYBER SECURITY UPDATE

Tony Oladejo, the Audit and Compliance Manager / Data Protection Officer, introduced the cyber security update as circulated with the agenda. The Executive Director of People & Change was also in attendance, as the Client Manager for Publica and explained that unfortunately nobody from IT had been able to attend.

Tony explained that the team provided a service across 29 sites within the four partner councils, including Ubico, CBH and The Cheltenham Trust, serving more than 1500 users. The strategy remained the same as last year, 'Prevent, Detect & Recover', focussing resilience on prevention and detection and mitigating risks associated with cyber security incidents. The report summarised progress on specific cyber security activities from the last 12 months, as well as detailing those planned for 2020, however, for security

reasons, included no specifics, though more details would be available to members on request. A key risk in 2020 would be shadow ICT through the use of unauthorised cloud based software and whilst this was actually an Information Security risk rather than a Cyber Security risk, it would be viewed as a cyber incident/breach. The next 12 to 24 months would see a continuation of the 'Zero Trust' approach to the security architecture and this would be achieved by building trust into the user's identity, their devices and the services they access, rather than the networks they connect to. He reported that the service had successfully achieved the Cyber Essentials Plus Accreditation, which had in turn helped with the PSN assessment and subsequent certificate and that all staff had completed the Cyber & Data Protection Awareness training. Work in 2020 would include a review of the ICT Policies Framework, mitigation in terms of the ten remaining Windows 2008 servers and a disaster recovery desktop exercise. A successful bid to the LGA Cyber Security Fund would co-finance 'phishing simulation' exercises across the partner councils and a new learning management system would be used to roll-out Cyber Awareness training to all staff and monitor compliance.

The Audit and Compliance Manager / Data Protection Officer and Executive Director of People & Change gave the following responses to member questions:

- All but ten servers had migrated from Windows 8, leaving only the committee management system, and an extended support contract would mitigate the issues, which represented spend of approximately £600 plus VAT. Similarly, Windows 7 effected devices and with extended support, would be upgraded when the move to a new package was made.
- There were no reported instances of systems reverting to the year 19xx on the rollover from 2019 to 2020. There was potential for the Y238 bug to happen in 2038, but at present there were no contracts which extended beyond 5 years and therefore this would be looked at in greater detail, nearer the time. It was likely that suppliers would be asked about their mitigations.
- Cyber security was taken very seriously and awareness training was mandatory for all staff, as well as members and this would form part of the induction for any new members in May 2020. A meeting of the Members' ICT Working Group had been convened which would look at member provision as well as training issues. A private security briefing for members had been held last year and it would be possible to repeat this in 2020.
- Only 14 members had transferred to Blackberry Work, but some members had been prevented from making the transfer because their iPads were of an age that they were no able to support it. As mentioned, the Members' ICT Working Group were scheduled to meet to consider member's ICT provision going forward.
- The network was a whole, but it was possible to segment it between the four partner councils should the need arise.
- If the Members' ICT Working Group were to recommend the roll-out of laptops to all members, there would undoubtedly be complex security issues that would need to be explored further.

- Egress provided a secure means by which to share sensitive information/data, which only very few people used at CBC as alternative encryption tools were used instead. The message to members was that they should always seek advice from IT should they receive anything by email which they are unsure of.
- Officers acknowledged that there were Citrix could be unreliable, but stressed that this was an outdated resource which was no longer used by any officers and would be phased out upon roll-out of the new members' ICT solution. If like Officers, members were given laptops, they could be assured of more reliable, almost uninterrupted, access.
- In view of flexible working, out of hours support would be reviewed, but there were no plans to make this 24/7 support, nor did members expect this.

The Executive Director of People & Change reiterated that John Chorlton would have attended if he could have and committed to having him provide more information to members on the issues that had been raised; the plans in terms of Windows 7, confirmation that segregation of the server, to safeguard the other partners if one was affected by an issue and provide more information on when the use of Airwatch would cease. The Executive Director of People & Change invited members to email any further cyber security or IT related queries to him or the Audit and Compliance Manager / Data Protection Officer, directly.

Members were confident that all officers would comply and undertake mandatory cyber security training but were not wholly confident that members across the four partner councils would and acknowledged the risk that this posed.

It was unanimously

**RESOLVED that the report be noted.**

The Chairman thanked the Executive Director of People & Change and the Audit and Compliance Manager / Data Protection Officer for their attendance.

### **6. AUDIT PROGRESS REPORT**

Barrie Morris of Grant Thornton (GT), introduced his colleague Aditi Chandramouli, who would be replacing Sophie Morgan-Bower as the Engagement Manager. Sophie explained that the Progress Report paper provided the committee with a brief summary of progress of the audit to date; reminding members that GT had issued their opinion on CBCs 2018/19 Statement of Accounts on the 30 July 2019. She explained that GT would start planning for the 2019/20 audit and issue a detailed audit plan which would set out the way in which the audit of the council's 2019/20 financial statements would be approached. She noted that GT had previously brought a separate report on the certification of grants, but that this was no longer required and had therefore included their findings in this report. The certification of the pooling of housing capital receipts claim would be finalised by the 7 February 2020 deadline. A letter relating to audit fees had been circulated with the agenda and Barrie would present this in due course. In terms of certification of the Housing Benefits claim, the thresholds were set by the DWP and given the sums involved, any error exceeding 2p per week had to be reported and

extrapolated. A number of errors were identified and extrapolated resulting in a Qualification Letter, though she stressed that these were not significant errors and the majority of these were less than £5 per year. GT thanked the Housing Benefits Team for their support on this issue. The paper highlighted a number of reports which could be of interest to members and she picked out the GT Sustainable Growth Index, a tool which sought to define and measure the components that create successful places and help frame future discussions, stimulate action and drive change.

The following responses were given to member questions:

- The process and rules for the audit of the Housing Benefit claim were set by the DWP and were complex but made it possible to identify incorrect calculations. The errors that had been identified were just that, errors, rather than fraudulent. GT did share best practice, but each client was different and the opportunities for improvement had been discussed with the relevant officers.

Barrie referred members to the letter which had been circulated with the agenda. He firstly apologised for the fact that it had been dated incorrectly. Members would recall the audit fee letter that had come to committee last year and reminded members that the scale fee was set by the PSAA. Things had moved on since and the letter set out the increased regulatory focus and an ever stricter quality environment. Whilst there was no suggestion that materiality would change, the level of work having to be done was increasing and this had an impact on GT's audit work and in turn, their fees. There had been an effort to limit this increase to 20% in local authorities, which was still lower than a few years previous.

A member noted that he felt the cost was in proportion to the assets held by the council, which equated to almost half a billion.

Members felt that GT provided an excellent service, which represented good value for money and were therefore comfortable with the proposed increase to fees.

The Chairman thanked Sophie Morgan-Bower for always being well briefed and for the work she had done, and wished her well for the future and welcomed Aditi.

No decision was required.

### **7. INTERNAL AUDIT MONITORING REPORT**

Lucy Cater, the Assistant Director for the South West Audit Partnership (SWAP) introduced the monitoring report as circulated with the agenda. The report gave members the opportunity to comment on progress throughout the year. Progress was summarised at Appendix B and since the last meeting 8 audits had been finalised, 6 were awarded 'substantial' control assurance and 2 'partial'. On the two that were awarded partial assurances; Procurement, the follow-up was already underway and Property (use of contractors), would be included in the Plan for next year. On 'Integrity of Data' the report had now been finalised and would be presented at the next meeting. She also confirmed

that work had commenced on the 2020/21 work plan and she invited members to contact her directly with any comments, or topics of interest.

The Assistant Director for the SWAP gave the following responses to member questions:

The Executive Director of Finance & Assets highlighted the negative press that Marketing Gloucester had received following the dismissal of their Chief Executive and the subsequent claims that Marketing Cheltenham had been structured in the same way. He assured members that unlike Marketing Gloucester, which was a separate entity from Gloucester City Council, Marketing Cheltenham was in fact part of CBC. He had however, asked that Internal Audit undertake an audit of Marketing Cheltenham to ensure that the governance arrangements were as they should be. Members thanked the Executive Director for this pro-active approach.

A member suggested that there should be a review of HR policies to ensure that CBC were promoting diversity and that as an organisation, it reflected the town it represented.

Another member queried how and when climate change would feature in the work plan, given the commitment made by this council. The Assistant Director for SWAP suggested that this would feature in the next plan, and may focus on the investment portfolio. The Chairman suggested that particular business areas could be reviewed.

It was unanimously

**RESOLVED that the report be noted.**

The Chairman thanked the Assistant Director for SWAP and the Executive Director of Finance & Assets, for their attendance.

### **8. REVISED RIPA (SURVEILLANCE AND CHIS) POLICY AND IPA (COMMUNICATIONS DATA) POLICY**

Emma Cathcart, the Counter Fraud Manager, introduced the two draft policies. She explained that new legislation had made it necessary to refresh the RIPA policy and rewrite the policy relating to communications data but this had also provided an opportunity to align the policies across the five CFU partner Councils. The CFU would also be ensuring a training programme was undertaken across the same. The refreshed RIPA policy introduced a mandatory requirement for staff to complete a Non-RIPA application form where surveillance was being undertaken but the offence did not meet the serious crime criteria to ensure best practice and minimise risk. She noted that there would be a third policy on the use of social media and how to use it for intelligence gathering would be introduced at a later Committee following some managerial decisions regarding procedures.

Members welcomed the revisions, commenting that the policies were well written comprehensive and straightforward.

It was resolved unanimously

**RESOLVED** that having considered the Regulation of Investigatory Powers Act 2000 Surveillance and Covert Human Intelligence Source Policy and the Investigatory Powers Act 2016 Acquisition of Communications Data Policy, the comments of the Audit, Compliance and Governance Committee be forwarded to Cabinet.

The Chairman thanked the Counter Fraud Manager for her attendance.

**9. WORK PROGRAMME**

The work plan had been circulated with the agenda.

Grant Thornton asked that the certification of grants and returns be removed from the list of annual items, as this certification no longer existed.

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

There were no urgent items requiring a decision.

**11. DATE OF NEXT MEETING**

The next meeting was scheduled for the 24 March 2020.

Steve Harvey  
**Chairman**

## Cheltenham Borough Council

### Audit, Compliance and Governance Committee – 22 July 2020

#### Annual Internal Audit Opinion 2019/20

<b>Accountable member</b>	Cabinet Member Corporate Services, Councillor Alex Hegenbarth
<b>Accountable officer</b>	Paul Jones, Executive Director – Finance and Assets (S151 Officer)
<b>Ward(s) affected</b>	<b>All</b>
<b>Key/Significant Decision</b>	<b>No</b>
<b>Executive summary</b>	<p>The Annual Internal Audit Opinion, Appendix A, gives the opinion, of the Head of Internal Audit (SWAP Assistant Director) 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 'Reasonable' 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 Internal Audit Annual Opinion, it was deemed unnecessary to submit a separate quarterly monitoring report. Instead, we have produced a condensed version of the usual report which contains a summary of the work concluded since the last meeting of this Committee.</p>
<b>Recommendations</b>	<b>The Audit, Compliance and Governance Committee considers the report and makes comment on its content as necessary</b>
<b>Financial implications</b>	<p><b>There are no financial implications arising from the report</b></p> <p><b>Contact officers: Paul Jones, Director, Assets and Finance</b>  <a href="mailto:Paul.Jones@cheltenham.gov.uk">Paul.Jones@cheltenham.gov.uk</a>, 01242 264365</p>
<b>Legal implications</b>	<p><b>None specific arising from the report</b></p> <p><b>Contact officer: Sarah Farooqi, Head of Legal Services, One Legal</b>  <a href="mailto:Sarah.Farooqi@tewkesbury.gov.uk">Sarah.Farooqi@tewkesbury.gov.uk</a>, 01684 272012</p>
<b>HR implications (including learning and organisational development)</b>	<p><b>There are no direct HR implications arising from the content of the report. Contact officer: Julie McCarthy, HR Manager- Operations</b>  <a href="mailto:Julie.McCarthy@publicagroup.uk">Julie.McCarthy@publicagroup.uk</a>, 01242 264355</p>

<b>Key risks</b>	That weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives, if recommendations are not implemented.
<b>Corporate and community plan Implications</b>	“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). Therefore; the internal audit activity impacts on corporate and community plans.
<b>Environmental and climate change implications</b>	Relevant to particular audit assignments and will be identified within <i>individual reports</i> .
<b>Property/Asset Implications</b>	<p><b>None specific arising from the report</b></p> <p><b>Contact officers: Paul Jones, Director, Assets and Finance</b>  <a href="mailto:Paul.Jones@cheltenham.gov.uk">Paul.Jones@cheltenham.gov.uk</a>, 01242 264365</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 SWAP Internal Audit Services, the Council’s internal audit service in 2019/20, is one of the control assurances available to the Audit, Compliance and Governance 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.

<b>Report author</b>	<b>Lucy Cater, Assistant Director, SWAP Internal Audit Services</b> <b>lucy.cater@swapaudit.co.uk</b> <b>01285 623340</b>
<b>Appendices</b>	<ol style="list-style-type: none"> <li>1. Annual Internal Audit Opinion 2019/20</li> <li>2. Summary of work completed since January 2020</li> </ol>

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# Cheltenham Borough Council

Internal Audit Annual Report and Opinion 2019/20

# Contents

## The contacts at SWAP in connection with this report are:

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●	Summary:	
	Purpose & Scope	Page 1-2
	Annual Opinion	Page 3-5
●	Internal Audit Annual Opinion 2019/20:	
	Internal Audit Work Programme	Page 6
	Significant Corporate Issues	Page 7
	Summary of Audit Opinions 2019/20	Page 8
	Priority Actions	Page 9
●	Plan Performance:	
	Added Value	Page 10-11
	SWAP Performance	Page 12-13
●	Appendices:	
	Appendix A – Audit Definitions	Page 14
	Appendix B – Internal Audit Work Plan 2019/20	Page 15-18

## Summary

**The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.**

### Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the Authority's Annual Governance Statement (AGS). This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment, including an evaluation of the following:
  - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities;
  - whether the information technology governance of the organisation supports the organisation's strategies and objectives;
  - the effectiveness of risk management processes.
- 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;
- 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.

## Summary

### Three Lines of Defence

To ensure the effectiveness of an organisation's risk management framework, the Audit, Compliance and Governance Committee and Senior Management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines of Defence' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

- The first line of defence – functions that own and manage risk.
- The second line of defence – functions that oversee or specialise in risk management and compliance.
- The third line of defence – functions that provide independent assurance.

### Scope

The Internal Audit service for Cheltenham Borough Council is provided by SWAP Internal Audit Services Limited (SWAP). The team's work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Note. The work of the team is guided by the Internal Audit Charter which is reviewed annually.

Internal Audit provides an independent and objective opinion on the organisation's control environment by evaluating its effectiveness. Primarily the work of the service is based on the Annual Plan agreed by Senior Management and the Audit, Compliance and Governance Committee. This report summarises the activity of the Internal Audit Team for the 2019/20 year against the Internal Audit Plan (approved by the Audit, Compliance and Governance Committee, April 2019).

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



*Chartered Institute of Internal Auditors, October 2019*

## Internal Audit Annual Opinion 2019/20

The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.

### Annual Opinion

I have considered the balance of 2019/20 audit work, the assurance levels provided, the profile of each audit and outcomes, together with the response from Senior Management and am able to offer '**Reasonable Assurance**' in respect of the areas reviewed during the year. Generally, risks are well managed, but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives.

This opinion is however qualified, in light of the current coronavirus pandemic and the impact of this on Cheltenham Borough Council. The opinion given above is based on internal audit work undertaken, and completed, prior to emergency measures being implemented as a result of the pandemic. These measures have resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops. It is therefore not possible to quantify the additional risk arising from the current short-term measures or the overall impact on the framework of governance, risk management and control.

Internal Audit's work has been guided by the Annual Audit Plan and emerging risks identified by Senior Management; therefore, we have not reviewed all risks and assurances relating to Cheltenham Borough Council and Publica (where appropriate) and cannot provide absolute assurance on the internal control environment. Senior Management and Members are ultimately responsible for ensuring an effective system of internal control.

The Annual Opinion is made based on the following sources of information:

- Completed audits (during 2019/20) which evaluate risk exposures relating to the organisation's governance, operations and information systems, reliability and integrity of information, efficiency and effectiveness of operations and programmes, safeguarding of assets and compliance with laws and regulations.
- Observations from advisory / consultancy support.
- Follow-Up of previous audit activity, including agreed actions against recommendations.
- Significant / material risk where management has not accepted the need for mitigating action.

Opinions are a balanced reflection, not a snapshot in time. Information to support this assessment is obtained

### Audit Opinion Continued

from multiple engagements and sources (including advice / consultancy work and the assurance mapping records the team maintain). The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

Over the year, the Audit Team have found that Senior Management of Cheltenham Borough Council and Publica to be generally supportive of Internal Audit findings and responsive to recommendations made. In addition, there is a good relationship with management whereby they feel they can approach the Audit Team openly in areas where they perceive potential problems. There are a number of outstanding priority 2 recommendations, which we will continue to monitor. These recommendations are discussed at Corporate Governance Group and have been taken into account when formalising this opinion.

We have completed 34 reviews for Cheltenham Borough Council, including assurances over Publica's control framework. The completed reviews consist of assurance pieces of work, follow-ups, advice and consultancy and non-opinions.

The majority of audits from the 2019/20 plan have been completed to final or draft report stage. The Covid-19 pandemic has inevitably caused some delay in progress due to availability of Officers dealing with service delivery priorities.

Where audits were in progress, or draft reports have been issued, we have not actively pursued these in the early phase of Covid-19 lockdown, however we are now working to finalise outstanding audits. These reports and assurances will be included in the 2020/21 Annual Opinion.

In agreement with Management, and previously reported to this meeting some reviews were exchanged, removed or deferred from the approved plan, as the need to respond to new and emerging risks was identified. Any new, or unplanned, audit work has been included in the annual plan and can be identified with an \*.

All recommendations made are followed up by the Audit Team. The team have not raised any additional concerns over the delay / non-implementation of recommendations.

Determining whether risk management processes are effective is a judgement resulting from the internal auditor's assessment that:

- Organisational objectives support and align with the organisation's priorities.
- Significant risks are identified and assessed.
- Appropriate risk responses are selected that align risks with the organisation's risk appetite.
- Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management, and members to carry out their responsibilities.

It is also worth noting the 'Non-Opinion' audits during 2019/20. Given the level of change Internal Audit has a role to play in being the 'Trusted Advisor'. Although no opinion is offered with this work, details of the work and findings are shared with Senior Management and the Committee and an action plan to address areas for improvement is agreed.

### 2020/21

We recognise the changing risk environment that Covid-19 has and will bring to Cheltenham Borough Council. During these unprecedented times, organisations are having to take a wide range of decisions quickly and effectively. Naturally, services & processes have needed to adapt, staff reallocated, and wide-spread remote working leading to changes in communication and oversight. These changes in working practices will also present financial challenges. Due to this the 2020/21 audit plan will be under constant review and work prioritised on a quarterly basis and therefore there could be more frequent changes to the audit plan. Any changes will be clearly communicated to the Audit Committee with an explanation for the change.

## Internal Audit Annual Opinion 2019/20

### Our audit activity is split between:

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

### Internal Audit Work Programme

The schedule, included in the report (pages 15-18), contains a list of all audits agreed for inclusion in the Annual Audit Plan 2019/20 and the final outturn for the year. In total, 49 pieces of work were commissioned. 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 49 reviews in the 2019/20 audit plan are broken down as follows:

Type of audit	2019/20 plan
• Governance Audits	3
• Key Financial Control Audits	12
• ICT Audits	4
• Operational Audits	16
• Follow-Up Audits	6
• Advice and Consultancy	6
• Grant Certification	2
• TOTAL	49

## Internal Audit Annual Opinion 2019/20

### Significant Corporate Issues

**Identified Significant Issues should be brought to the attention of Members.**

### Significant Corporate Issues

The following are the significant issues / areas identified during the course of our audit programme of work for 2019/20. Follow-Up audits have been included in the 2020/21 audit plan to ensure agreed recommendations have / are being actioned.

The Property – Use of Contractors review found a lack of guidance and procedures resulting in inconsistent processes operating in respect of awarding contracts which led to a lack of transparency over decisions taken and could result in allegations being made of works being awarded inappropriately.

A follow-up review was planned for quarter 1 of 2020/21, however, due to Covid-19, this review has not commenced. We are aware the service area provided Senior Management with an update in April 2020 with progress on the recommendations

The Procurement review focussed on the processes undertaken on behalf of the Publica partner Councils. A number of weaknesses were identified which include:

- Incomplete Contract Registers and not publicly available
- Monitoring of expected contract spend to actual contract spend is not widely undertaken.
- Waivers not being logged
- Central record of waivers was not maintained
- Training for all staff

We have completed a follow-up a review for this audit and can confirm that some progress has been made to improve controls. However, our report has not been finalised with Publica.

## Internal Audit Annual Opinion 2019/20

### SWAP Performance - Summary of Audit Opinions

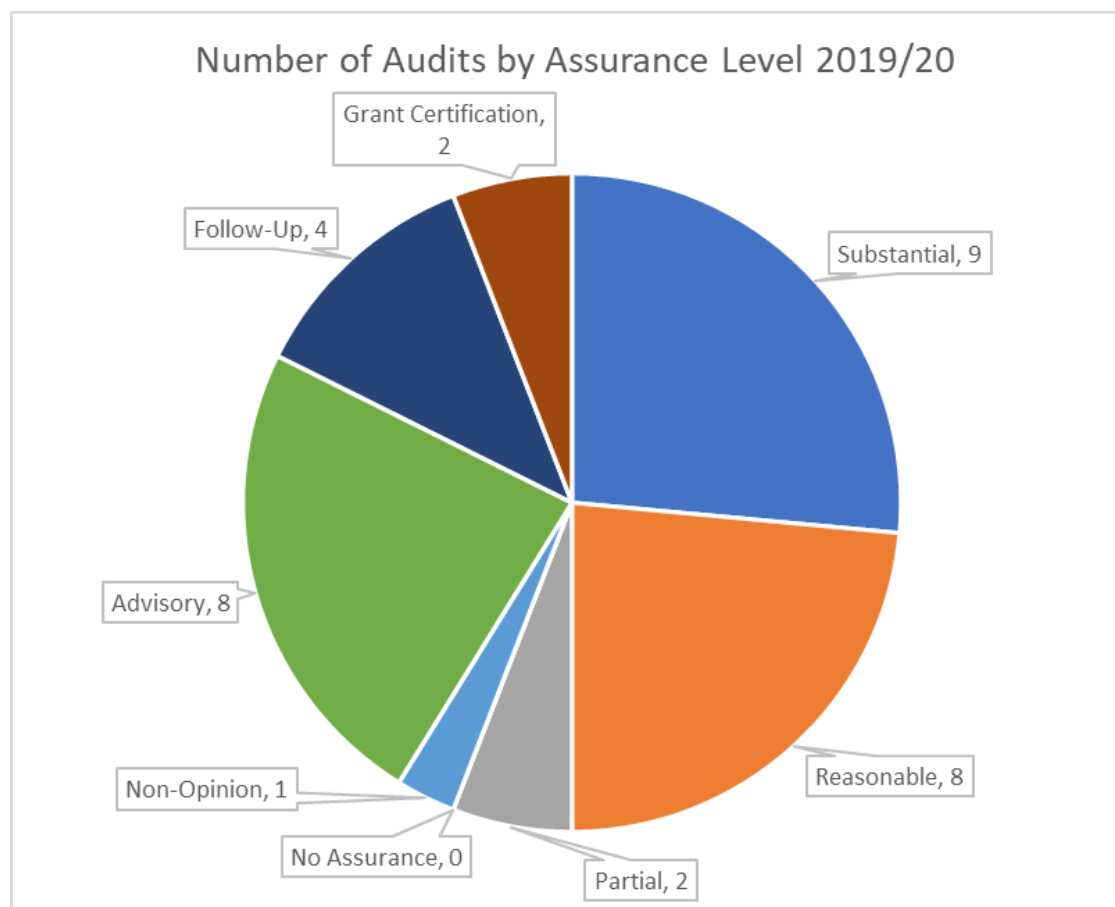
At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition".

- 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

The following chart is a summary of all the reviews finalised / completed during 2019/20.



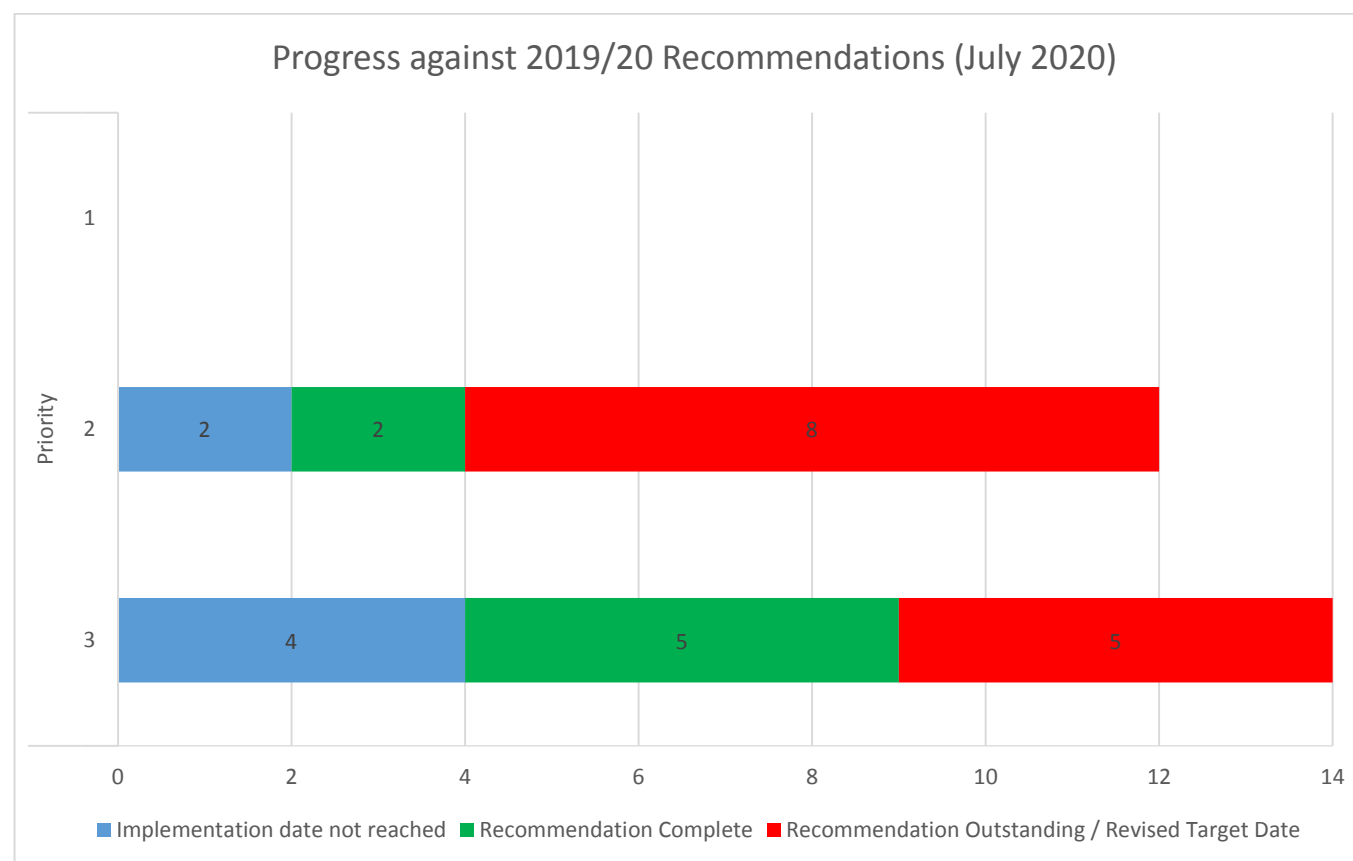
# Internal Audit Annual Opinion 2019/20

## SWAP Performance - Summary of Audit Recommendations by Priority

We rank our recommendations on a scale of 1 to 3, with 1 being major concern requiring immediate corrective action and 3 being minor or administrative concerns

## Priority Actions

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.



### Added Value

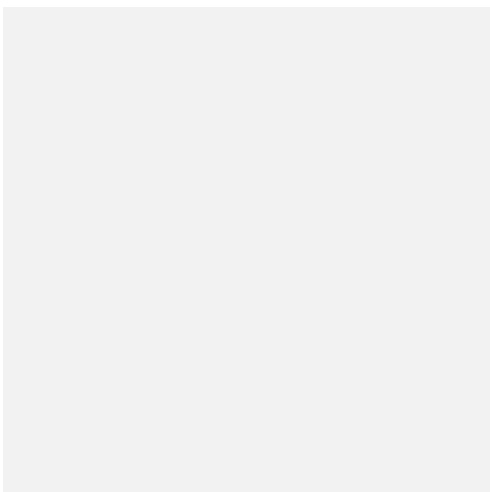
**Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.**

### ● 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 our audit plan, 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:

- Fraud Bulletins – We send out regular fraud bulletins highlighting where there are attempted frauds and what officers need to be on the lookout for.
- Partners Newsletters – We produce quarterly partner newsletters that provides information on topical areas of interest for public sector bodies. We have increased the frequency of our newsflash to weekly during Covid-19 to provide relevant information.
- An Internal Audit View – These are quarterly newsletters where SWAP and other Local Authority Audit Partnerships convey key audit matters that Local Authorities should be aware.
- Responsiveness - we adapt our audit plans to address emerging risks and areas requiring assurance to management.
- Benchmarking and best practice – we share best practice from our partners wherever possible and undertake benchmarking exercises in a number of audits.
- Data Analytics – We are increasing the use of data analytics across all audits to provide a greater level of assurance and insight to trends and themes.
- Procurement threshold – Provided comparison on the limits set for when quotations and tenders need to be completed across the SWAP partners.
- Supplier Resilience – compared the approach to managing the risk posed by supplier failure.
- Lone Working Arrangements – Compared the approach to managing lone working arrangements and



- identifying best practice.
- Members Training Events.
- Support to our partners and clients during the Coronavirus pandemic.

## Plan Performance 2019/20

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 Performance

SWAP's performance is subject to regular monitoring and review by the (SWAP) Board and Member Meetings. The respective outturn performance results for Cheltenham Borough Council for the 2019/20 year are as follows:

Performance Target	Average Performance
<b><u>Audit Plan – Percentage Progress*</u></b> Final Report / Complete / Position Statements Draft Report (awaiting management response) In Progress Not Started	76% 6% 7% 11%
<b><u>Quality of Audit Work</u></b> **Customer Satisfaction Questionnaire	100%

\*Note some work has taken longer to conclude due to Covid-19 lockdown and changes in priorities and officer availability.

\*\*At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated office. The aim of the questionnaires is to gauge satisfaction against timeliness, quality, professionalism, and value added.

SWAP's work is completed to comply with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Under these standards we are required to be independently externally assessed at least every five years to confirm conformance to the required standards. SWAP was recently externally assessed in February 2020 and confirmed that we 'Generally Conform' to the standards.

Attribute Standard 1300 of the IPPF requires heads of internal audit to develop and maintain a Quality Assurance and Improvement Programme (QA&IP). Standard 1310 continues that the programme must include both internal and external assessments for improvement. Following our external assessment, we have pulled together our QA&IP and included additional improvements and developments identified internally that we want to achieve, as aligned to SWAP's Business Plan. The QA&IP is a live document and will be regularly reviewed by the SWAP Board to ensure continuous improvement and delivery on our agreed actions.

And finally, just like any other company and Cheltenham Borough Council itself, our accounts are subject to both Internal and External Audit Review. The auditor confirmed that the audit did not find any areas of concern and the auditor was confident that the processes in place are adequate to support SWAP's annual report and financial statements.

At the conclusion of an audit assignment a 'Control Assurance' is awarded. A summary of the assurance levels is as follows:

Assurance Definitions	
None	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.
Partial	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.
Reasonable	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.
Substantial	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.

**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.

Recommendations are assigned a priority rating based on the following framework:

Categorisation of Recommendations	
In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:	
Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Audit Type	Audit Area	Status	Opinion	No of Recs	1 = Major, 2 = Moderate, 3 = Minor		
					Recommendation		
					1	2	3
Final Audits, Completed Reviews & Position Statements							
Operational	Procurement and Contract Management	Final Report	Reasonable	1		1	
ICT	Systems Admin	Final Report	Reasonable	7		2	5
Key Financial Control	Human Resources	Final Report	Reasonable	2		1	1
Key Financial Control	Procurement	Final Report	Partial	10		7	3
ICT	Cyber Security	Complete	Advisory	-			
Operational	Integrity of Data	Final Report	Reasonable	5		4	1
Governance	Annual Governance Statement	Final Report	Substantial	2			2
Operational	Safer Recruitment	Final Report	Reasonable	4		2	2
Operational	Remote Workers	Final Report	Substantial	2			2
Operational	Property (Use of Contractors)	Final Report	Partial	5		5	
Operational	Affordable Housing	Final Report	Substantial	-			
Operational	Apprenticeship Scheme	Final Report	Substantial	1		1	

Audit Type	Audit Area	Status	Opinion	No of Recs	1 = Major, 2 = Moderate, 3 = Minor		
					Recommendation		
					1	2	3
Key Financial Control	Council Tax and NNDR	Final Report	Substantial	1			1
Key Financial Control	Housing Benefit / Council Tax Support	Final Report	Substantial	-			
Key Financial Control	Accounts Payable	Final Report	Substantial	-			
Key Financial Control	Treasury Management and Bank Reconciliations	Final Report	Substantial	3			3
Key Financial Control	Payroll	Final Report	Reasonable	1		1	
ICT	Systems Admin Follow Up	Final Report	Advisory	4		1	3
Key Control	Human Resources – Use of Volunteers	Final Report	Reasonable	7		3	4
Operational	Health and Safety (Fire Risk Assessments)	Final Report	Reasonable	2		1	1
Follow Up	Ubico's Accounting of Fleet Maintenance	Final Report	Substantial	1			1
Follow Up	Business Continuity Management	Final Report	Advisory	2		1	1
Advice & Consultancy	DFG Process	Complete	Advisory	-			
Grant Certification Work	Disabled Facilities Grants	Complete	Not Applicable	-			
Grant Certification Work	Disabled Facilities Grants (Additional Funding)	Complete	Not Applicable	-			

Audit Type	Audit Area	Status	Opinion	No of Recs	1 = Major, 2 = Moderate, 3 = Minor		
					Recommendation		
					1	2	3
Advice & Consultancy	Benefits Realisation	Position Statement	Non-Opinion	-			
Advice & Consultancy	Support to the Publica Transformation Programme throughout the year	Complete	Advisory	-			
Follow-Up	Follow-Up of Recommendations made in Substantial and Reasonable Audits	Complete	Follow-Up	-			
Follow-Up	Follow-Up of Control Weaknesses identified by the Counter Fraud Unit	Complete	Follow-Up	-			
Operational	Support to the Council in respect of Covid-19 – Business Grant Payments	Complete	Not Applicable	-			

Audit Type	Audit Area	Status	Comments
<b>Draft Reports</b>			
Key Financial Control	Accounts Receivable	Draft Report	
Follow Up	Procurement	Draft Report	
Follow Up	Procurement and Contract Management	Draft Report	
<b>Work in Progress / not commenced as at 30<sup>th</sup> June 2020</b>			
ICT	Business Continuity	In Progress	

Audit Type	Audit Area	Status	Comments
ICT	Incident Management	In Progress	
Governance	Risk Management	Not Commenced	Planned as a Quarter 4 Audit, not commenced due to Covid-19. Scope will be included in 2020/21 audit
Governance	Performance Management	Not Commenced	Planned as a Quarter 4 Audit, not commenced due to Covid-19. Scope will be included in 2020/21 audit
Operational	Asset Management	ToE Agreed	
Operational	Commercial Property / Investment Property	ToE Agreed	
Operational	Planning Process and Complaints Procedure	In Progress	
Key Financial Control	Main Accounting	Not Commenced	Annual review therefore scope will be included in 2020/21 audit
Operational	Planning Applications	Not Commenced	Planned as a Quarter 4 Audit, not commenced due to Covid-19.
<b>Audits Deferred / Removed from the Plan during the year</b>			
Operational	Management and Monitoring of Contracts		Audit deferred to 2020/21 due to delays in finalising procurement audits
Advice and Consultancy	Publica Transformation Benefits Realisation		Audit deferred to 2020/21 by request of client and will allow 2 full years to be reviewed
Operational	Corporate Culture		Audit deferred by request of client
Advice and Consultancy	Workforce Strategy		Audit deferred by request of client
Operational	Commissioning		Replaced by the Property (Use of Contractors) Audit

Audit Type	Audit Area	Status	Comments
Operational	Business Rates Reset		Replaced by the Business Grant Payments work

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# Cheltenham Borough Council

## Report of Internal Audit Activity

Summary of work completed since January 2020

July 2020

## Contents

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Appendix C – Executive Summary of Finalised Audit Assignments

Summary of Audit Assignments Finalised since the last Internal Audit update to this Committee

Audit Assignments finalised since the last Meeting of the Board:

- Summary of Audit Findings and High Priority Service Findings

**2019/20 – Affordable Housing – Substantial Assurance**  
**Background**

Cheltenham Borough Council submitted its Local Plan 2011-2031 for examination in October 2018. A six-week public consultation period closed on the 16th December 2019 during which people were asked to consider modifications to a previous draft plan. In the interim the Council's strategy is driven by the Joint Core Strategy (JCS) 2011-2031 (adopted in December 2017). The Joint Core Strategy was developed in collaboration with Gloucester City Council and Tewkesbury Borough Council. Affordable housing obligations are covered within Policy SD12, which states:

The JCS authorities will seek, through negotiation, for new development to deliver new affordable housing on a sliding scale approach as set out below:

- i. Within the Strategic Allocation sites a minimum of 35% affordable housing will be sought;
- ii. Outside of the Strategic Allocation sites, on sites of 11 dwellings or more, or sites with a maximum combined gross floor space of greater than 1000m<sup>2</sup>; a minimum of 20% affordable housing will be sought on developments within the Gloucester City administrative area and a minimum of 40% will be sought within the Cheltenham Borough and Tewkesbury Borough administrative areas;
- iii. On sites of 10 dwellings or less, which have a maximum combined floorspace of no more than 1,000m<sup>2</sup>, no contribution towards affordable housing will be sought;
- iv. Notwithstanding the above, affordable housing policy for sites of 10 dwellings or less may be applied under policies set out within District plans.

According to the latest Strategic Housing Market Assessment (2015) Cheltenham will require 3,696 additional affordable homes between 2015-2031. Cheltenham's potential supply of affordable homes (determined through planning commitments, district plans and strategic allocation assumptions) during this period is up to 2,654, resulting in a shortfall of at least 1,042. The Council therefore developed a Housing & Homelessness Strategy (2018-2023) which looks to address this shortfall by providing additional affordable outside of planning commitments or reduce housing need.

Below shows the actual and expected number of affordable houses delivered between 2014/15 and 2020/21:

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Affordable Housing delivered	24	32	35	106	86	67	106

### Audit Conclusion / Findings

We are pleased to offer substantial assurance over the management of affordable housing provision at Cheltenham Borough Council. All areas set out within the scope were reviewed and no control weaknesses were found that could impact on the Council. One suggestion has been made concerning the affordable housing supplementary planning guidance, currently available on the Council's website, which is significantly out of date and could lead to confusion and frustration for developers. Revising this document is already within the service's workplan. We have suggested the old document is removed, to be replaced when the new document is approved (following the adoption of the Council's Local plan).

### 2018/19 – Integrity of Data – Reasonable Assurance

#### Background

Publica Group (Support) Ltd is a council owned company which delivers services, including HR and Payroll for Cheltenham (CBC) and Cotswold (CDC), Forest of Dean (FoDDC) and West Oxfordshire (WODC) District Councils. The HR and Payroll team based at the Municipal Offices are responsible for maintaining CBC HR data and providing management information to publish in accordance with the Equality Act 2010. Information on CBC's responsibility as a local authority within the Equality Act 2010 can be found on the CBC Website.

The Equality Act 2010 defines 9 protected characteristics and are; age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion and belief, sex and sexual orientation.

Publica HR complete an annual Gender Pay Gap Report on behalf of CBC. The annual publication of the gender pay gap is a requirement of the Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017 for local authorities with over 250 employees.

CBC's headcount at the end of the 2018/19 Quarter 4, was 232 employees. CBC publish the gender pay gap report on a voluntary basis for transparency.

Business World is the system used for managing HR and Payroll processing and stores the personal information of all employees across the Partner Councils. CDC, FoDDC and WODC use Business World Self-Service functionality for payroll related processes including sickness recording. However, processing for Cheltenham Borough Council requires manual input by Payroll personnel.

**Audit Conclusion / Findings**

Cheltenham Borough Council (CBC) have responsibility under the Public Sector Equality Duty under the Equality Act 2010 to be able to consider how best to publish information that could include but is not limited to; the makeup of the overall workforce, the gender pay gap and recruitment and retention rates for staff with different protected characteristics. Therefore, it is important that accurate and up to date employee information is maintained. We were advised that a project to collect and update employee personal information has been identified. We would suggest CBC clearly defines the scope of the data they require as part of the project.

At CBC, the reporting of sickness absence is a manual process and requires completion and return of sickness forms to Payroll which are then input into the payroll system so that employees' pay is adjusted accordingly. The Business World system offers the functionality, via Self-Service to enable managers and employees to enter sickness into the system directly, removing manual intervention which could result in input errors or processing delays. A recommendation is made for CBC to consider onboarding to the 'Self-Service' system.

New job applicants are not advised of personal data collection and processing responsibility under the Data Protection Act 2018, we noted there is no HR or Recruitment privacy notice on the CBC website. A recommendation is made to update the CBC website to ensure compliance with the requirements of the act.

Finally, an annual gender pay-gap report that CBC publish as part of the Equality Act, and quarterly management information reports are produced by the HR and Payroll service. Our testing found some inconsistencies and identified areas where improvements can be made; we recommend full work instructions are documented to enable future reports to be completed consistently should responsibility for their completion change.

Priority	Recommendation	Management Response	Due Date
2	As stated by Publica HR, we recommend that a project be initiated to review and bring up to date CBC employee's personal data. HR Processes should also ensure that required data is captured and recorded accurately.	We will commence work to update the emergency contact data for CBC employees by end of Feb 2020.  We have shared the data that we could collect with CBC and we are investigating with ICT	31 <sup>st</sup> March 2020

	<p>CBC should work with the HR service to determine the information they require to be collected as part of the refresh project and ongoing collection.</p> <p>Availability of Self-Service functionality to empower employees to view and update their own personal information should be investigated.</p> <p>Personal data collection and use should be completed in line with the Data Protection legislation, including the deletion of records that are no longer necessary.</p>	<p>how we can develop self-service so that employees can view and update their personal information – we will provide a plan on how this could be undertaken this by 31st March 2020</p>	
2	<p>We recommend that precise work instructions to complete MI reports are documented so that personnel responsible for producing MI reports, are able to gather and report on the information in a consistent and accurate manner, especially as the process is only undertaken once every three months. We also recommend that, peer review is completed on management information to verify its accuracy.</p>	<p>Work has commenced to gather, store and utilise MI data centrally. The work is being overseen by the Contract Manager.</p>	31 <sup>st</sup> March 2020
2	<p>We recommend that CBC consider onboarding to the Business World Self-Service functionality for sickness reporting. This will enable line managers to enter sickness periods immediately, or as soon as practically possible, and also provides Payroll with up to date absence</p>	<p>This project has commenced and will be completed early next year.</p>	30 <sup>th</sup> June 2020

	information. This would then reduce potential delays encountered due to manual forms being requested, delivered and sometimes chased by Payroll. It would also reduce any risk of mistakes being made with the additional manual input of sickness data.		
2	We recommend that a data privacy statement for recruitment and employment is added to the CBC website, and new applicants advised of this at the application stage.	Agree – the recruitment team will complete by the end of December.	31 <sup>st</sup> December 2019

#### **2019/20 – Systems Admin – Follow Up of 2018/19 Audit**

##### **Background**

Seven recommendations were made in the 2018/19 review of Systems Admin to put controls in place or strengthen existing controls. Due to the number of recommendations made, the 2019/20 audit has concentrated on following-up these recommendations and documenting progress made.

Three of the recommendations are complete and therefore can be closed. At the time of testing three of the recommendations have not been actioned by the implementation date, and therefore we have agreed to extend this date to ensure the recommendations can be fully actioned and one has not commenced as it will be incorporated into a larger piece of work (Data Audit).

A further Follow-Up will be planned to be undertaken once the revised target dates have been reached for the outstanding recommendations.

#### **2019/20 Business Continuity Management – Follow-Up**

##### **Background**

Five recommendations were made in the 2018/19 review of Business Continuity Management to strengthen existing controls. Although 'Reasonable' assurance was offered we have reviewed progress of these recommendations as business continuity is a key risk area if not effectively controlled.

The 2018/19 review focussed on business continuity activity at a corporate level. We were advised that once corporate processes were reviewed and actions updated, service area plans would follow the same format. We can confirm that good progress has been made since our review. We are aware that the GCC Civil Protection team have worked with the Council to provide input into the new format of the Business Continuity Plan (BCP) to ensure that it aligns with the requirements of the Civil Contingencies Act 2004. They have also delivered mandatory training and 1:2:1 sessions with all service managers.

We can confirm that service area business continuity plans have been updated and are now clearer and therefore easier to instigate in the event of emergencies. Whilst work has been completed on the Corporate Business Continuity Plan, the Programme & Governance Manager advised that due to the Covid-19 pandemic, the Corporate Plan is not currently available in the new format.

To summarise, three of the recommendations are complete and therefore can be closed. The other two recommendations are almost complete; therefore, we have extended the target implementation dates to allow for the recommendations to be fully implemented.

### **2019/20 Safer Recruitment – Reasonable Assurance**

#### **Background**

Safer recruitment is the method of designing recruitment processes to deter unsuitable applicants from applying for roles with vulnerable groups, and to identify and reject them if they do. Safer recruitment processes should include things like:

- Informing candidates of the organisation's commitment to safeguarding
- Detail that candidates will undergo pre-employment checks and other checks - such as DBS - if appropriate to the role
- Carry out pre-employment checks
- Ensure staff receive appropriate training for their role

The traditional focus of Safer Recruitment is in education, social services and other sectors that have regular and direct contact with children. As a public facing organisation that provides front-line services to a wide range of individuals and groups, it is important that Cheltenham Borough Council (CBC) also has robust safer recruitment practices in place.

Pre-employment checks play an important part of the recruitment process and enable the organisation not only to ensure they are recruiting the most suitable person for the role, but also allows the organisation to safeguard against any negative impact caused by the recruitment of that impact – e.g. potential reputational risk. There are key pieces of legislation surrounding the recruitment process and pre-employment checks, such as the Immigration, Asylum and Nationality Act 2006 which covers illegal working and right-to-work checks and the Rehabilitation of Offenders Act 1974 which regulates the disclosure of criminal records.

The Disclosure and Barring Service (DBS) promotes safer recruitment choices by processing DBS checks, and also maintains the adults' and children's Barred Lists and decides whether an individual should be included on one or both of these lists and barred from engaging in regulated activity. 'Regulated activity' is defined in the Safeguarding Vulnerable Groups Act 2006 and is work that a barred person is not permitted to do. There are 3 levels of DBS check – basic, standard and enhanced – and a gov.uk tool allows potential employers to check which level (if any) of DBS check is required for the role they are recruiting for.

Recruiting managers are responsible for the initial stages of recruitment at CBC, from assessing need for recruitment through to interview arrangements, shortlisting, selecting the candidate and obtaining the applicant's relevant documentation. Once the successful candidate is chosen after interview, the HR Team conduct the rest of the process including the pre-employment checks. A Recruitment Guidance Flowchart is in place to set out the key steps and ensure compliance with the process.

#### **Audit Conclusion / Findings**

The recruitment and 'onboarding' process for new employees is effectively managed and administrated by the Recruitment and HR Teams. Safer recruitment practices have been embedded into the recruitment process by ensuring that all necessary pre-employment checks are made before an employee commences with Cheltenham Borough Council (CBC); the standard pre-employment checks carried out by the HR Team are in line with legislation and good practice within the HR sector (Chartered Institute of Personnel and Development). Recruiting managers are asked to indicate at an early stage whether the post they are recruiting for requires a Baseline Personnel Security Standard (BPSS) check or Disclosure and Barring Service (DBS) check is required for the post being advertised.

Some opportunities for improvement have been highlighted within the report around the DBS check procedure and four recommendations have been made to enhance the control environment and the procedures already in place.

CBC has three policies in relation to DBS checks, the handling of DBS information and the recruitment of ex-offenders. All three policies are out-of-date and require review and/or updating to ensure they are still relevant and in line with current legislation and guidance. A priority 2 recommendation has been made to this effect.

Testing was carried out to ensure that where BPSS or DBS checks had been carried out, the information recorded was both relevant and consistent. The information was also reviewed to ensure that renewals had been processed for any DBS checks that required them (3 years from the initial check date). Testing found that three of the twenty sampled officers had passed the renewal date with no action having been taken. This was reported to the HR Business Centre Team Leader and resolved during audit fieldwork. We were advised that the process in place for checking the requirement to renew DBS checks quarterly had not been consistently applied due to resourcing and workload within the department. A priority 2 recommendation has therefore been made to ensure this procedure is

carried out.

Although recruiting managers are prompted to indicate whether a BPSS or DBS check is required for a new post, this is not reflected in the form used when a Page | 2 Unrestricted current employee changes post within the organisation. A priority 3 recommendation has been made to amend the form to ensure that this prompt is made, reducing the resulting reputational or safeguarding risk should an unchecked individual be placed in a post that requires a BPSS or DBS check.

CBC does not currently have a Recruitment Policy in place. A priority 3 recommendation has been made for consideration to be given to implementing a policy which would not only ensure that all applicants are treated equally and fairly and promote transparency, but ensure consistency in the recruitment process – especially given the emphasis on recruiting managers to carry out the initial stages of the recruitment process.

Priority	Recommendation	Management Response	Due Date
2	We recommend that HR policies relating to DBS issues and recruitment of ex-offenders are reviewed to ensure they are still relevant and are updated in line with current procedure and legislation.	These policies will be reviewed to assess whether they are still relevant and necessary, and updates made accordingly.	31 <sup>st</sup> August 2020
2	We recommend that DBS renewal dates are regularly monitored and checks renewed in a timely manner. All DBS check details should be recorded within ABW to aid this process, including the original DBS check date, the DBS check renewal date and the DBS check reference number.	A process has been implemented to ensure that a report showing BPSS and DBS expiry dates is produced monthly from ABW in relation to DBS/BPSS checks and any required renewals are processed accordingly.	Complete

**2019/20 Payroll – Reasonable Assurance****Background**

Publica HR and Payroll Teams provide a centralised function for Publica employees and those of the Member Councils.

The scope of this review covers the Member Councils and Publica.

Employees' salaries are paid on the 20<sup>th</sup> of each month. Therefore, processes require all the necessary payroll changes to be in place, verified and authorised to ensure that employees are paid on time.

The HR and Payroll systems and the General Ledger systems are all part of the same integrated system – Agresso Business World (ABW).

**Audit Conclusion / Findings**

Testing was carried out on a sample of starters, leavers and payroll variations. The information recorded on ABW was compared to physical source documentation held within personnel files for each test to ensure accuracy and verification of data. Records were also checked to ensure that any changes were made in a timely manner.

Overall, testing results were satisfactory. One finding has been made relating to inconsistency of pre-employment checks during the onboarding process for starters. Instances were identified during testing where full references had not been obtained, and also identified that standard pre-employment checks were not applied to employees where TUPE transfers applied (nor was assurance gained from the previous employing organisation that these checks had been carried out previously).

In the 2019/20 Safer Recruitment audit, a suggestion was made to consider using third-party checks (e.g. BPSS or similar) for all employees. Currently, they are used only for employees working within specific teams or with access to certain systems/information. These third-party checks can verify right to work, employment history and can include a basic criminal record check. A recommendation has been made in this report to implement this within the recruitment process, to mitigate fraud and safeguarding risk and to encourage best practice.

Recommendations from the 2018/19 Payroll Audit were also followed-up as part of this review. Of four recommendations made, one has been completed and three are still in progress. The target implementation date of these recommendations has been amended to June 2020 and will be followed-up again at this time. Further information on the progress made to date can be found within the body of

the report.

Priority	Recommendation	Management Response	Due Date
2	We recommend that all new starters are subject to a BPSS (or similar) check regardless of the role to which they are being recruited. This will ensure that consistent checks of right to work, employment history and basic criminal record checks are carried out on all employees.	A piece of work has been carried out to re-write the pre-employment check process. The HR and Recruitment Teams are also working towards the implementation of an Application Tracking System (ATS), subject to approval at Publica and the Councils, which would help to mitigate the risks identified. The ATS would not allow for progression in the recruitment and onboarding process without specific criteria being fulfilled first (e.g. obtaining references, ID checks etc).	30 <sup>th</sup> September 2020

### **2019/20 Treasury Management and Bank Reconciliation – Substantial Assurance**

#### **Background**

As part of the 2019/20 Internal Audit plan, a review was carried out to provide our partners and clients assurance over the adequacy of procedures and controls in respect of Treasury Management and Bank Reconciliations.

CIPFA defines Treasury Management (TM) as "the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks." The importance of Treasury Management to an organisation is evident from the CIPFA definition, and as such is included in each year's internal audit plan for review.

Bank reconciliation is one of the primary key financial controls to detect fraud and error, and as such it is very important to provide assurance that this fundamental control is being undertaken correctly and on a regular basis. Consequently, bank reconciliation is also included in each year's internal audit plan for review.

#### **Audit Conclusion / Findings**

We are pleased to offer Substantial Assurance for Treasury Management and Bank Reconciliation.

Records of investments and diversification were reviewed regarding Treasury Management investments, which were found to be in line

with the approved strategies of the authorities. There is an appropriate level of segregation of duty in respect on making investment payments, treasury information is accurately recorded, and updated regularly which allows detailed forecasting.

Bank reconciliations are conducted on a monthly basis for each Council. Any imbalances, as part of the process, are investigated and corrected prior to posting to the ledger. Bank reconciliations are reviewed by an independent officer prior to completion and posting.



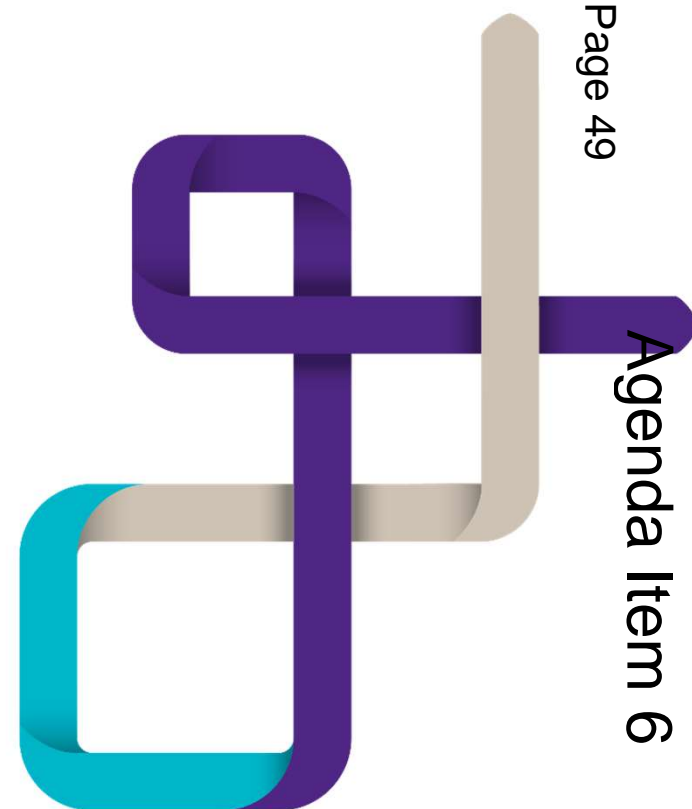
# External Audit Plan

*Year ending 31 March 2020*

Cheltenham Borough Council  
11 March 2020

Page 49

Agenda Item 6



# Contents



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Section	Page
1. Introduction & headlines	3
2. Key matters impacting our audit	4
3. Group audit scope and risk assessment	5
4. Significant risks	7
5. Other risks identified	9
6. Other matters	10
7. Materiality	11
8. Value for Money arrangements	Page 50
9. Audit logistics & team	
10. Audit fees	
11. Independence & non-audit services	

## Appendix

### A. Audit quality – national context

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. 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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# 1. Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Cheltenham Borough Council ('the Authority') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of [insert name of organisation]. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Authority and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, Compliance and Governance Committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit, Compliance and Governance Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

<b>Group Accounts</b>	The Authority is required to prepare group financial statements that consolidate the financial information of its subsidiary undertakings
<b>Significant risks</b>	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none"> <li>• Management override of controls</li> <li>• Valuation of land and buildings, including investment properties</li> <li>• Valuation of net pension fund liability</li> </ul> <p>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.</p>
<b>Materiality</b>	We have determined planning materiality to be £1.595m (PY £1.60m) for the group and £1.573m (PY £1.569m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.079m (PY £0.078m).
<b>Value for Money arrangements</b>	Our risk assessment regarding your arrangements to secure value for money has identified Medium Term Financial Planning as a significant risks and, as in previous years, we will review the arrangements you have in place to mitigate this.
<b>Audit logistics</b>	<p>Our interim visit will take place in March and our final visit will take place in June and July 2020. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.</p> <p>Our fee for the audit will be £45,543 (PY: £42,543) for the Authority, subject to the Authority meeting our requirements set out on page 14.</p>
<b>Independence</b>	We have complied with 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. There is one ethical issue that we are liaising with the s151 Officer on relating to the employment of a former Grant Thornton audit manager into Publica Ltd.

# 2. Key matters impacting our audit

Factors		
<p><b>The wider economy and political uncertainty</b></p> <p>Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Cheltenham Borough Council, the latest medium term financial plan reflects a funding gap for the period 2021/22 to 2023/24 of £2.616m.</p> <p>In January 2020 the UK government and the EU ratified the Withdrawal Agreement and the UK’s membership of the EU formally ceased on 31 January. The existence of a ‘transition period’ to 31 December 2020 means that there will be little practical change for the Council until at least 2021. However, the nature of the future relationship between the UK and the EU is still to be determined and considerable uncertainty persists. The Authority will need to ensure that it is prepared for all outcomes, including those with any impact on contracts, on service delivery and on its support for local people and businesses.</p>	<p><b>Financial reporting and audit – raising the bar</b></p> <p>The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.</p> <p>Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.</p>	<p><b>Implementation of IFRS 16 – Leases</b></p> <p>The Council is required to respond effectively to new accounting standards, and we must ensure our audit work in these new areas is robust. IFRS 16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a right of use asset with a corresponding liability from 1 April 2020. There is a requirement, under IAS8 to disclose the expected impact of this change in accounting treatment in the 2019-20 financial statements</p>
Our response		
<p>We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.</p> <p>We will consider the actions that the Authority are taking in order to evaluate the impact of matters arising due to Brexit</p>	<p>As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audi Plan, has been agreed with the Director of Finance and is subject to PSAA agreement.</p>	<p>We will assess the adequacy of your disclosure about the financial impact of implementing IFRS 16 – Leases from 1 April 2020.</p>

### 3. Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
<b>Cheltenham Borough Council</b>	Yes	Audit of financial information using component materiality	<ul style="list-style-type: none"> <li>• Risk of management override</li> <li>• Pension net liability valuation</li> <li>• Valuation of property, plant and equipment, including investment properties</li> </ul>	Full scope UK statutory audit performed by Grant Thornton UK LLP
<b>Gloucestershire Airport Limited</b>	Yes	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of the group financial statements	<ul style="list-style-type: none"> <li>• Risk of management override</li> <li>• Pension net liability valuation</li> <li>• Valuation of property, plant and equipment, including investment properties</li> </ul>	<p>Specific scope procedures on balances to have audit procedures applied to performed by component auditor</p> <p>The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor's audit documentation and meeting with appropriate members of management.</p>
<b>Cheltenham Borough Homes</b>	Yes	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of the group financial statements	<ul style="list-style-type: none"> <li>• Risk of management override</li> <li>• Pension net liability valuation</li> <li>• Valuation of property, plant and equipment, including investment properties</li> </ul>	<p>Specific scope procedures on balances to have audit procedures applied to be performed by component auditor</p> <p>The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor's audit documentation and meeting with appropriate members of management.</p>

### 3. Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Publica Group (Support) Limited	No	Analytical procedures at group level	None	Analytical review performed by Grant Thornton UK LLP.
UBICO	No	Analytical procedures at group level	None	Analytical review performed by Grant Thornton UK LLP.

**Audit scope**

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component’s financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

## 4. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The revenue cycle includes fraudulent transactions (rebutted)</b>	<b>Group and Authority</b>	<p>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>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Cheltenham Borough Council, mean that all forms of fraud are seen as unacceptable</li> </ul>	Therefore we do not consider this to be a significant risk for Cheltenham Borough Council or the group
<b>Management over-ride of controls</b>	<b>Group and Authority</b>	<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>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions</li> </ul>

# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of land and buildings</b>	<b>Group and Authority</b>	<p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£363 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. The Authority also has investment properties which must be valued annually at 31 March.</p> <p>We therefore identified valuation of land and buildings, including investment properties and surplus assets, as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• write to the valuer to confirm the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Authority's valuer's report and the assumptions that underpin the valuation.</li> <li>• test revaluations made during the year to see if they had been input correctly into the group's asset register</li> <li>• evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul>
<b>Valuation of the pension fund net liability</b>	<b>Group and Authority</b>	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£58 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtain assurances from the auditor of Gloucestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>

## 5. Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)</b>	<b>Group and Authority</b>	<p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p> <p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements.</li> <li>Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC <a href="#">Local Authority Leasing Briefings</a>.</li> </ul>

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

## 6. Other matters

### Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
  - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

### Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

### Going concern

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 group's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption a material uncertainties, and evaluate the disclosures in the financial statements.

# 7. Materiality

## The concept of 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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

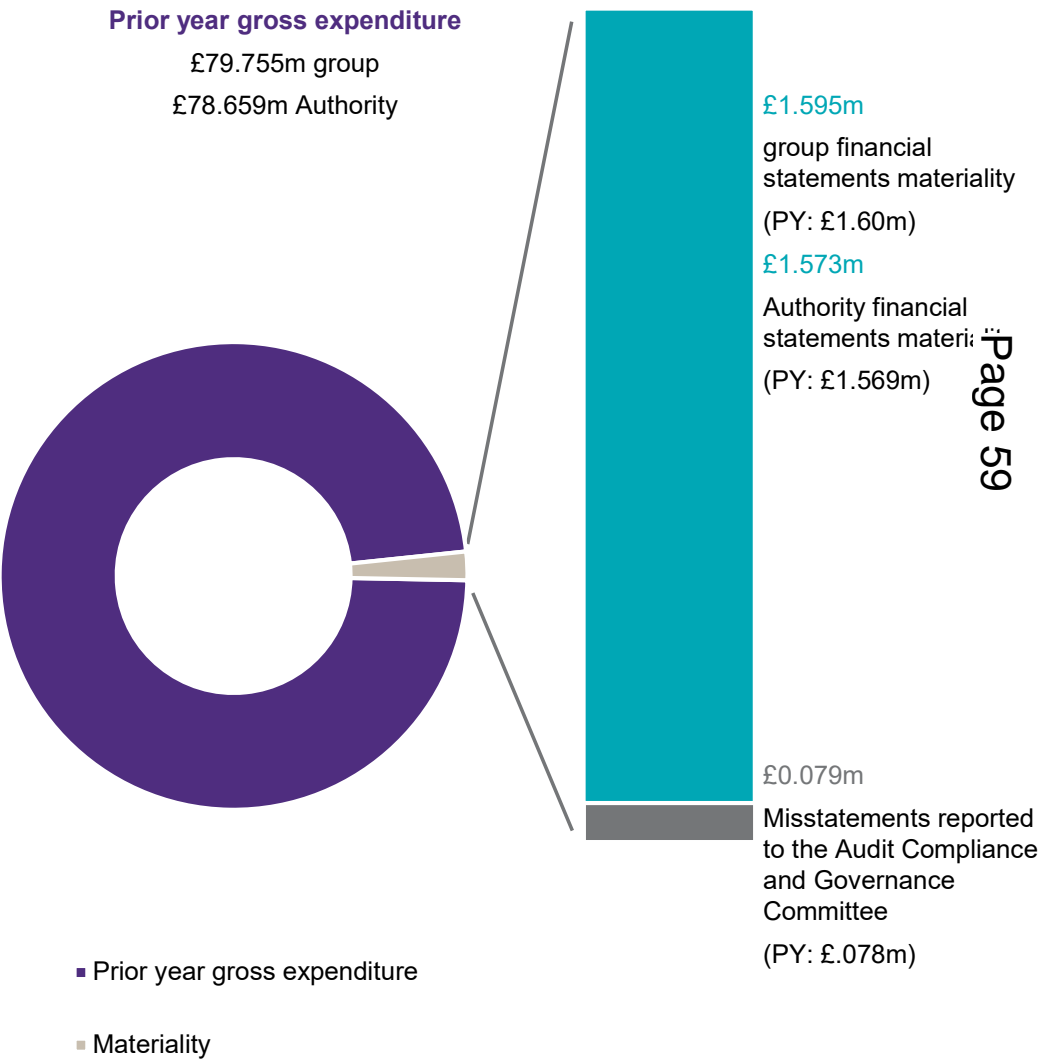
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.595m (PY £1.60m) for the group and £1.573m (PY £1.569m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £12k for senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the Audit Compliance and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', 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. In the context of the group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.079m (PY £0.078m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Compliance and Governance Committee to assist it in fulfilling its governance responsibilities.



# 8. Value for Money arrangements

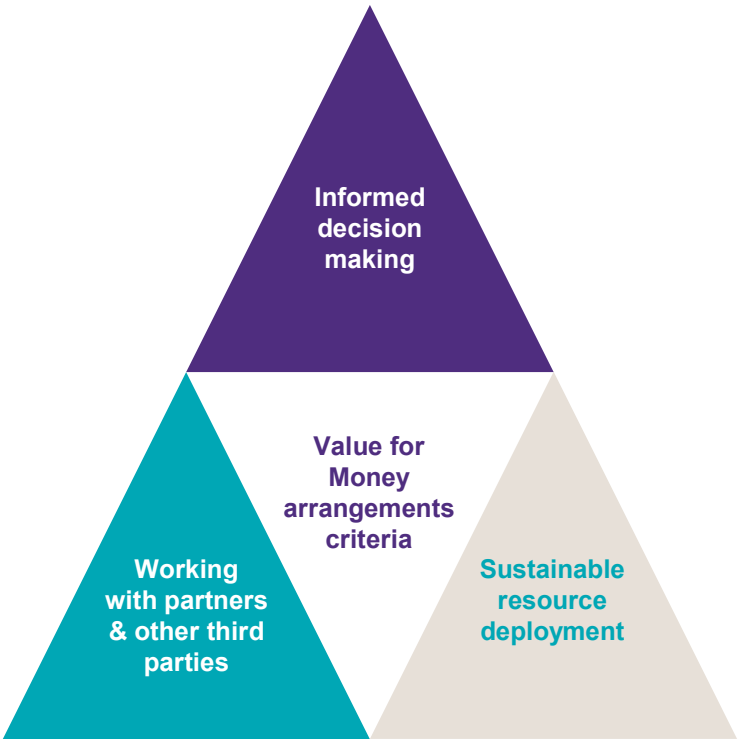
## Background to our VFM approach

The NAO issued its 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 Authority has proper arrangements in place to secure value for money.

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:



## Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.

### Medium Term Financial Strategy

The Council have been required to deliver substantial savings since 2010/11, and forecast continued significant savings requirements going forward. The current MTFS indicates that the Council reflect a funding gap for the period 2021/22 to 2023/24 of £2.616m. It also indicates that the Council proposes to fund a gap of £1.084m with £0.826m of savings plans and additional income, with the residual gap to be funded from the Budget Strategy (Support) Reserve during 2020/21, and also includes a number of unidentified savings over the period to 2023/24.

We will review the latest version of the Authority’s medium term financial strategy, We will review the assumptions that underpin the MTFP including proposed savings, to ensure that these are appropriate.

The Authority have also implemented a capital investment strategy designed to deliver income to support medium term finances. We will review the monitoring arrangements of commercial investments to ensure that these are in line with the business plan.

Page 60

## 9. Audit logistics & team



### Barrie Morris, Key Audit Partner

Barrie leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

### Aditi Chandramouli, Audit Manager

Aditi plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues.

### Jade Brockett, Audit Incharge

Jade's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively and efficiently. Jade supervises and co-ordinates the on-site audit team.

### Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds the agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

### Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

# 10. Audit fees

## Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Director of Finance and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
<b>Council Audit</b>	£49,406	£42,543	£45,543
<b>Total audit fees (excluding VAT)</b>	<b>£49,406</b>	<b>£42,543</b>	<b>£45,543</b>

Page 62

### Assumptions:

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

### Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

# Audit fee variations – Further analysis

## Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	38,043	
Raising the bar	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	1,750	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	1,750	We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
New standards/developments	£1,500	We will undertake additional work in relation to new standards arising in 2019/20, which relates to IFRS 16 – Leases.
<b>Revised scale fee (to be approved by PSAA)</b>	<b>45,543</b>	

# 11. Independence & non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with 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.

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 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

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

Service	£	Threats	Safeguards
<b>Audit related:</b>			
Agreed upon procedures on the Authority's Housing Benefits claim	19,906	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 £19,906 in comparison to the total fee for the audit of £45,543 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 all mitigate the perceived self-interest threat to an acceptable level.
Agreed upon procedures on the Authority's pooling of housing capital receipts return	To be agreed	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 due to the fee for this work in comparison to the total fee for the audit of £45,543 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 all mitigate the perceived self-interest threat to an acceptable level.

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 Compliance and Governance 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.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

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# Appendices

**A.    Audit Quality – national context**

# Appendix A: Audit Quality – national context

## What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

## Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets Authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

## What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

## What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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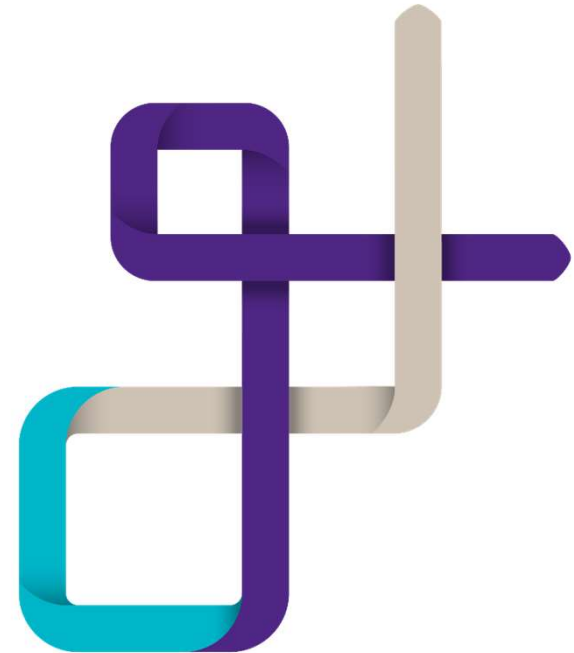


# External Audit Plan update

*Year ending 31 March 2020*

Cheltenham Borough Council  
20 April 2020

Page 69



# Introduction & headlines

## Purpose

This document provides an update to the planned scope and timing of the statutory audit of Cheltenham Borough Council ('the Authority') as reported in our Audit Plan dated 11<sup>th</sup> March 2020, for those charged with governance.

## The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan on 11<sup>th</sup> March 2020, recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

## Impact on our audit and VfM work

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020, however we will liaise with management to agree appropriate timescales. We continue to be responsible for forming and expressing an opinion on Cheltenham Borough Council's financial statements and VfM arrangements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally, it has been confirmed since our Audit Plan was issued that the implementation of IFRS 16 has been delayed for the public sector until 2020/21.

## Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf.
- Reviewed the materiality levels we determined for the audit. We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19.

## Changes to our VfM approach

We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.

## Conclusion

We will ensure any further changes in our audit and VfM approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

## Significant risks identified – Covid – 19 pandemic

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Covid – 19	<p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> <li>• Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li> <li>• Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>• Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>• Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach</li> <li>• Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise</li> <li>• Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic.</li> <li>• Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely</li> <li>• Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances</li> <li>• Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment</li> <li>• Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence</li> </ul>

# Independence & non-audit services

## Auditor independence

Auditor independence Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

In this context, we disclose the following to you that a member of our wider public sector assurance team is due to take up a post of employment within Publica Group (Support) Ltd in May 2020 as Deputy Chief Financial Officer to Cotswold District Council, with further responsibilities as Chief Accountant in Publica Group (Support) Ltd. This individual does not work on this audit engagement so we consider that this fact has had no bearing on our audit judgement or independence. We have safeguarded the perceived threat to independence by ensuring the member of staff is not involved with the audit, with assurance received from the Chief Financial Officer (Section 151 Officer) that once working at Publica, the individual will not:

- have access to view or amend the Cheltenham Borough Council general ledger
- instruct staff on any transactions which affect the Cheltenham Borough Council accounts.
- prepare or have any input into the Financial Statements for Cheltenham Borough Council
- have line management responsibility for any members of staff who are based in Cheltenham

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Councils Ethical Standard and we as a firm, and each covered person, confirm that we are independent 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 2017 and PSAA's Terms Appointment which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

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

Service	£	Threats	Safeguards
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Agreed upon procedures on the Authority's Housing Benefits claim	19,906	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 £19,906 in comparison to the total fee for the audit of £45,543 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 all mitigate the perceived self-interest threat to an acceptable level.
Agreed upon procedures on the Authority's pooling of housing capital receipts return	To be agreed	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 due to the fee for this work in comparison to the total fee for the audit of £45,543 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 all mitigate the perceived self-interest threat to an acceptable level.

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 Compliance and Governance 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.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

# Audit Progress Report and Sector Update

Cheltenham Borough Council  
Year ending 31 March 2020

13 July 2020



# Contents

Section	Page
Introduction	3
Progress at July 2020	4
Audit Deliverables	6
Results of Interim Audit Work	7
Sector Update	8

# Introduction



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This paper provides the Audit, Compliance and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit, Compliance and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk)

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at July 2020

## Financial Statements Audit

We began our planning for the 2019/20 audit in January 2020, and completed our interim audit in March 2020. Our interim fieldwork included:

- Updating our review of the Council's control environment
- Updating our understanding of financial systems
- Early work on emerging accounting issues
- Early substantive testing

We have provided an update on the interim audit later in this report.

We have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements, which was initially taken to the March 2020 Committee, but is included again within this agenda due to the previous Committee being cancelled due to the Covid-19 pandemic. We subsequently issued an audit plan addendum, which is also included within the agenda for this meeting

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by September 2020

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "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".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by September 2020

The NAO has consulted on a new Code of Audit Practice and published a draft version. Subject to Parliamentary approval the new Code will come into force no later than 1 April 2020 and includes significant changes to the auditor's Value for Money work. Please see page 9 for more details.

# Progress at July 2020 (cont.)

## Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018 and 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee through the paper included in the January 2020 Committee agenda. As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

As a result of the Covid-19 pandemic, we have identified that there is an increased risk to the valuation of investment properties. Consequently, we have needed to engage the use of an auditor's expert to provide us with additional assurance over the valuation of your investment properties. This has resulted in an additional charge of £4,000 to be incurred which will need to be passed onto the Council. We have had a full discussion about this approach with your s151 officer, who has agreed to the additional charge, subject to the Committee's approval and, subsequently, PSAA approval. The revised proposed fees are set out below

<b>Revised scale fee (approved by PSAA)</b>	<b>£45,543</b>	<b>As communicated in January 2020 Audit, Compliance and Governance Committee</b>
<b>Use of auditor's external expert</b>	<b>£4,000</b>	<b>As a result of the Covid-19 pandemic, we have identified that there is an increased risk to the valuation of investment properties</b>
<b>Total fees (subject to PSAA approval)</b>	<b>£49,543</b>	

# Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2019/20	April 2019	Complete, audit fee update taken to January 2020 Committee
<b>Audit Plan</b> We are required to issue a detailed audit plan to the Audit Compliance and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.	March 2020	Complete, and on this agenda
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	July 2020	Complete, and on this agenda
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the September Audit Compliance and Governance Committee.	September 2020	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	September 2020	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	October 2020	Not yet due

# Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> </ul>	Our work has not identified any material weaknesses which are likely to adversely impact on the Council's financial statements.
<b>Review of information technology controls</b>	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	Our work has not identified any material weaknesses which are likely to adversely impact on the Council's financial statements.
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a significant risk of material misstatement to the financial statements. Some walkthroughs will be undertaken post year end once the processes have been completed for 2019-20. This relates to areas such as valuation of land and buildings and the pension liability.</p>	Our work has not identified any weaknesses which impact on our audit approach. We will update members on the results of additional walkthroughs in our Audit Findings Report when we have completed our audit.
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p>	Our work has not identified any material weaknesses which are likely to adversely impact on the Council's financial statements.
<b>Early substantive testing</b>	<p>We have undertaken early substantive testing on the following areas:</p> <ul style="list-style-type: none"> <li>• Operating expenditure Months 1-10</li> <li>• Fees and charges Months 1-10</li> <li>• Capital additions Months 1-10</li> <li>• Payroll analytical review Months 1 – 11</li> </ul>	Our testing in these areas are in progress and we will report any findings arising from the interim and final substantive work as part of the Audit Findings Report when we have completed our audit.

# Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local  
government

# National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. ‘Relevant authorities’ are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

## Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO consulted on potential changes to the Code in two stages:

**Stage 1** involved engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO stated that they considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this informed the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

**Stage 2** of the consultation involved consulting on the draft text of the new Code. To support stage 2, the NAO published a consultation document, which highlighted the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. The draft Code includes three specific criteria that auditors must consider:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

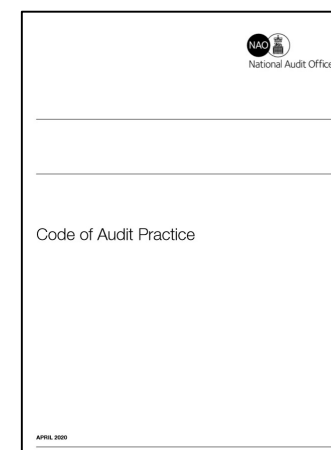
The auditor will be required to provide a commentary on the arrangements in place to secure value for money. Where significant weaknesses are identified the auditor should make recommendations setting out

- Their judgement on the nature of the weakness identified
- The evidence on which their view is based
- The impact on the local body
- The action the body needs to take to address the weakness

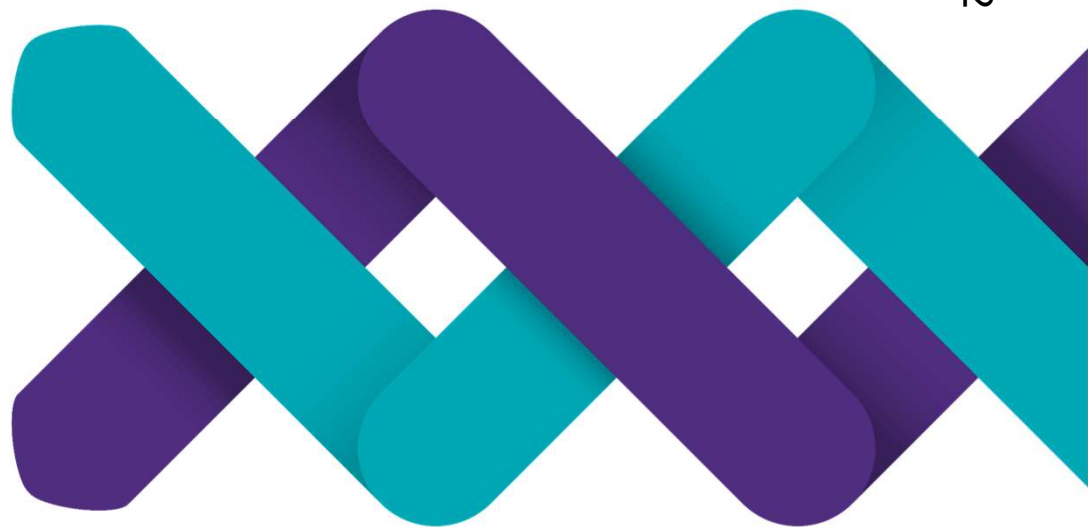
The consultation document and a copy of the new Code can be found on the NAO website. The new Code will apply from audits of local bodies’ 2020-21 financial statements onwards.

Link to NAO webpage for the new Code:

[https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code\\_of\\_audit\\_practice\\_2020.pdf](https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf)



# COVID-19 and local government



# Context

Public services have been at the forefront of the emergency response to the Coronavirus (COVID-19) including local government. Very few local government services have not been impacted by the COVID-19, and councils have also had to create new service lines as part of the emergency response, such as their work in identifying and supporting shielded and other vulnerable citizens, and to redeploy people to new roles and assets to new functions (for example closed leisure centres repurposed as temporary mortuaries and food banks).

Prior to COVID-19 local government has had to adapt to significant reductions in funding during the period of austerity. For example, spending on local services fell by 21% in real terms between 2009-10 and 2017-18. However, underlying this reduction are much larger reductions to some services expenditure. In broad terms, councils managed during austerity by significantly reducing spending on more discretionary services in order to protect statutory services to the most vulnerable people, particularly social care services. In addition, councils have had to place greater reliance on fees and charges income, and to be innovative in the generation of new income source, including a more commercial approach, a trend which is changing as authorities seek to balance social outcomes with financial sustainability.

COVID-19 has had a further significant impact on local government finances, which is the result of three main factors:

- increase in expenditure in managing the emergency response, such as purchase of PPE, provision of food and medical supplies to shielded citizens, and increased costs in relation to adult social care;
- lost income due to closed services, such as leisure centres, and the reduction in other sources of income from other sources, such as car parking, business rates and council tax; and
- the non-delivery of savings plans.

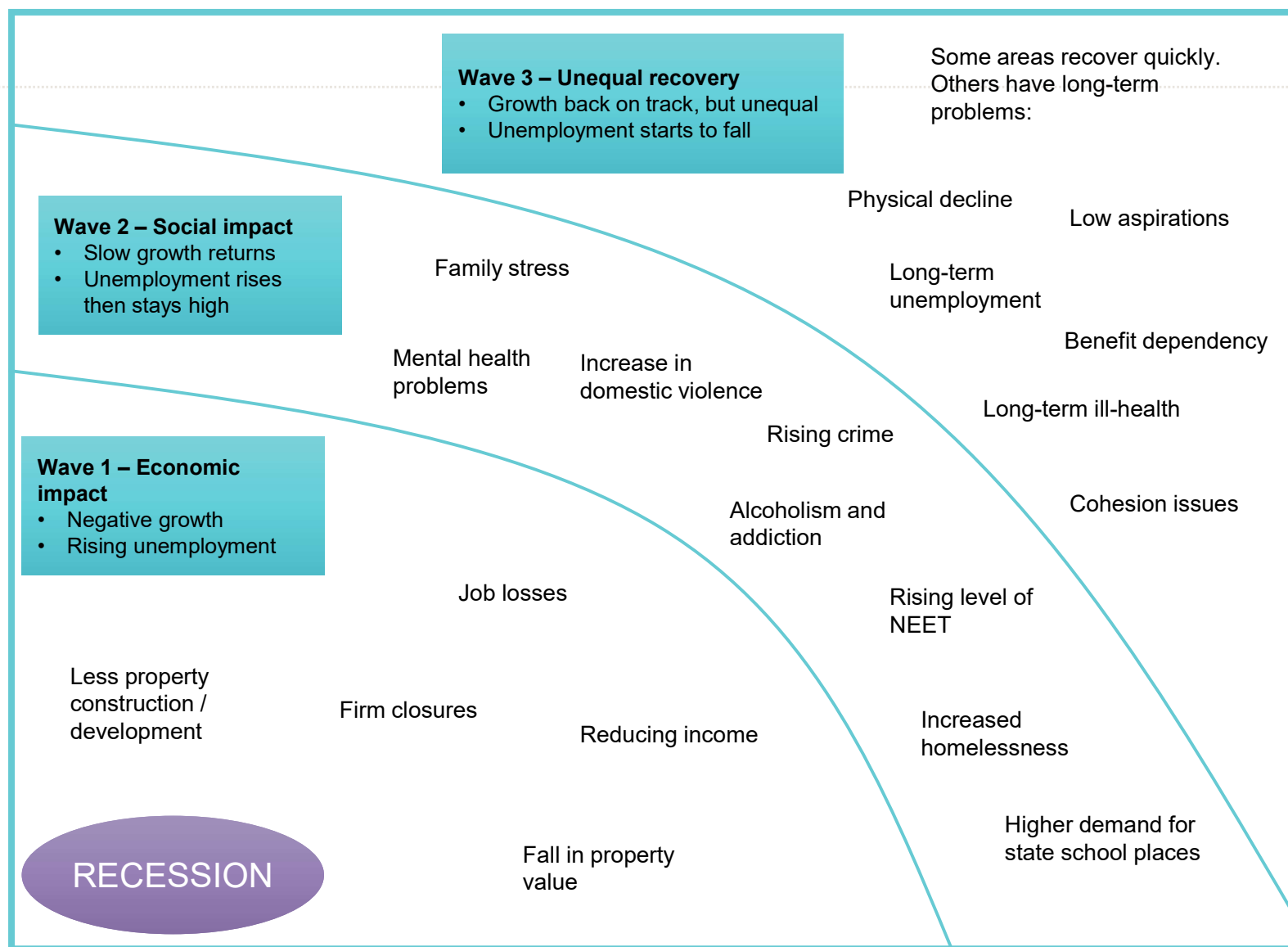
Whilst central government has made significant additional funding contributions to local government in recognition of the financial consequences of COVID-19, the total funding gap for councils in England is currently estimated to be £6billion by the LGA, with the sector still in the process of determining the longer term financial impact. The tranches of government funding provided so far have generally focussed on alleviating the financial pressures created by COVID-19 related spend, and so have had limited benefit for lost income such as that relating to leisure services.

This stark financial context has significant implications for the sector as councils start to move from the emergency response stage to the recovery planning stage of COVID-19. The key risks we will need to consider:

- how they stand up closed services such as leisure centres, the impact of COVID-19 on future demand, and the operational challenges of service delivery with on-going social distancing rules;
- how service delivery may need to change as a result of learning from COVID-19 and how long-lasting cultural and behavioural changes will impact on their operating models;
- the impact on local markets such as social care and transport, and the financial consequences of market and supply chain failure;
- how the economic impact of COVID-19 will impact on service need and on the demand for income generating services; and
- whether certain services will need to reduce or cease to manage the funding gap
- exploration of opportunities for more radical change that may have arisen from COVID-19, such as building on the large-scale transfer of care that has taken place and the opportunities regarding reablement, and broader integration with health.

Understanding the various scenarios, their financial implications, and the resources available to deliver them will be critical over the short to medium term.

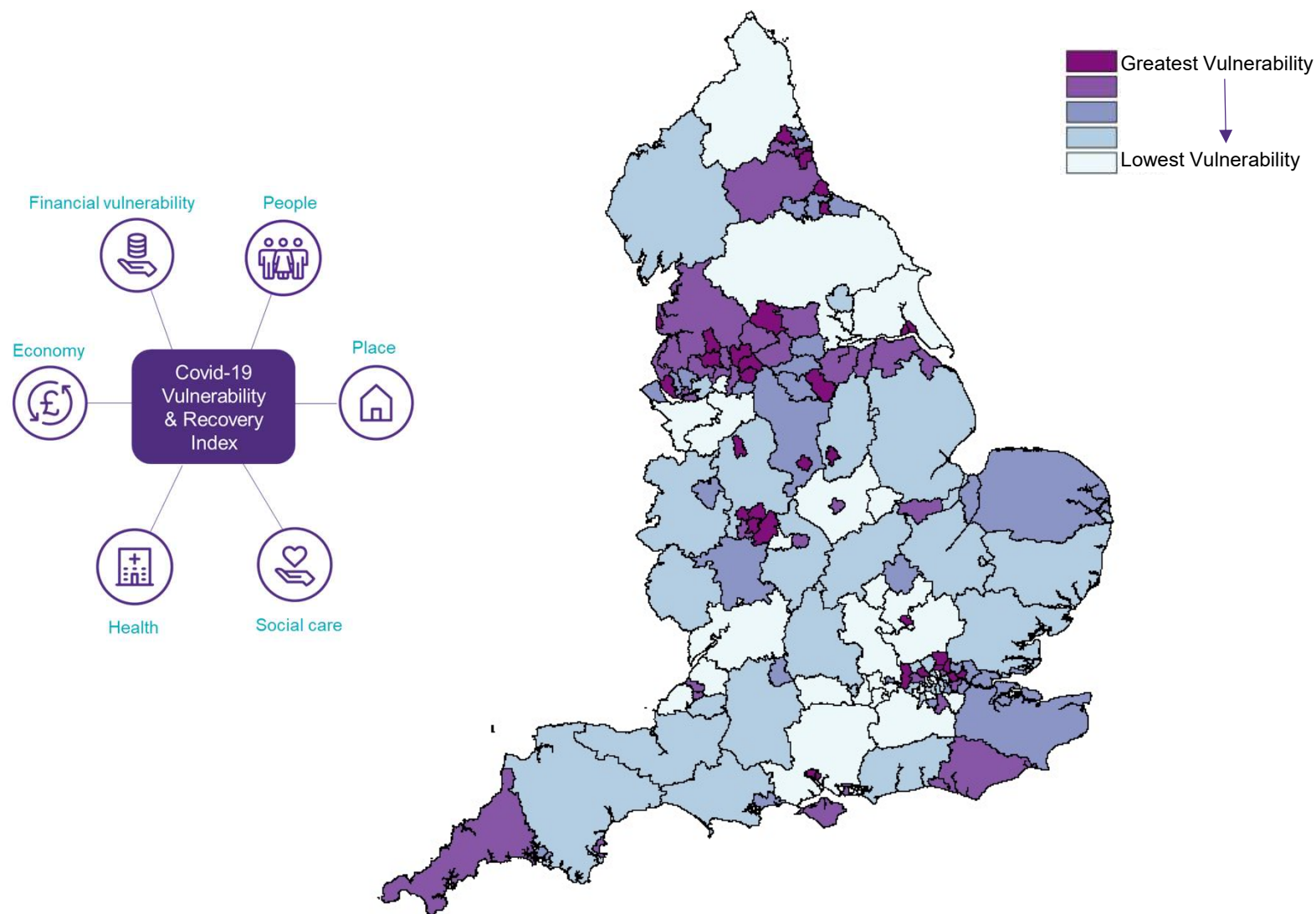
# Can we learn from previous recessions?



Source: Audit Commission







# Covid-19 Vulnerability Index

Overall Index (including Financial Recovery basket)



# Scenarios and hypotheses

## Local authority areas in 12-24 months?

Theme	Reasonable worst case	Reasonable best case
<b>People &amp; community</b> 	<ul style="list-style-type: none"> <li>Multiple lockdowns and ongoing disruption</li> <li>Community dependency and expectation of sustained response</li> <li>Turbulence and activism within the VCS</li> <li>Socio-economic inequality is compounded</li> <li>Failure of leisure and cultural services</li> </ul>	<ul style="list-style-type: none"> <li>Smooth exit from lockdown to a “new normal”</li> <li>Community mobilisation is channelled into ongoing resilience</li> <li>Strengthened VCS relationships and focus</li> <li>Systemic response to inequality is accelerated</li> <li>Leisure and cultural services adapted to social distancing</li> </ul>
<b>Business &amp; economy</b> 	<ul style="list-style-type: none"> <li>16% reduction in GVA for 2020 based on OBR reference scenario</li> <li>Slow / uneven economic recovery and “long tail” on unemployment</li> <li>Central gov / BEIS focus investment on areas furthest behind</li> <li>Loss of tourist &amp; student spend causes unmitigated damage</li> <li>‘V’ shaped recovery results in 2-3 year recovery period</li> </ul>	<ul style="list-style-type: none"> <li>5-10% reduction in GVA</li> <li>Rapid economic recovery with employment levels close behind</li> <li>Central government “back winners” with investment</li> <li>Adaptation allows resumption of tourist and student economy</li> <li>Business base is weighted towards growth sectors</li> </ul>
<b>Health &amp; wellbeing</b> 	<ul style="list-style-type: none"> <li>Increased demand and escalating need due to fallout from lockdown</li> <li>Newly-vulnerable cohorts place strain on the system</li> <li>Unit costs increase further as markets deteriorate and providers fail</li> <li>SEND transport unable to adapt to social distancing</li> <li>Imposed disruption of care system</li> </ul>	<ul style="list-style-type: none"> <li>Positive lifestyle changes and attitudes to care reduce demand</li> <li>Needs of newly vulnerable cohorts met through new service models</li> <li>New investment in prevention and market-shaping manage costs</li> <li>New ways of working leading to stronger staff retention</li> <li>Locally-led reform of health and care system</li> </ul>
<b>Political &amp; regulatory</b> 	<ul style="list-style-type: none"> <li>Local government side-lined by a centralised national recovery effort</li> <li>Unfunded burdens (e.g. enforcement and contact-tracing)</li> <li>Councils in the firing line for mismanaging recovery</li> </ul>	<ul style="list-style-type: none"> <li>Local government empowered as leaders of place-based recovery</li> <li>Devolution and empowerment of localities</li> <li>Councils at the forefront of civic and democratic renewal</li> </ul>
<b>Environment</b> 	<ul style="list-style-type: none"> <li>Opportunity missed to capture and sustain environmental benefits</li> <li>The end of the high street / town centres</li> <li>Emissions and air quality worsened by avoidance of public transport</li> <li>Capital programmes stuck</li> </ul>	<ul style="list-style-type: none"> <li>Ability to invest in transport modal shift and green infrastructure</li> <li>Changed working patterns rejuvenate town centres</li> <li>Sustained impact on emissions due to new behaviours</li> <li>New, shovel-ready infrastructure programmes</li> </ul>
<b>Organisational</b> 	<ul style="list-style-type: none"> <li>Inadequate funding forces fiscal constraint</li> <li>Working practices return to status quo – increased operating costs</li> <li>Imposed structural change within the place</li> <li>Austerity 2</li> <li>Commercial portfolio becomes a liability</li> </ul>	<ul style="list-style-type: none"> <li>Adequate funding enables a programme of targeted investment</li> <li>Learning and adaptation to new operating environment</li> <li>Energised system-wide collaboration and reform</li> <li>Fiscal reform and civic renewal</li> <li>Commercial portfolio reshaped for economic and social gain</li> </ul>

# What strategy is needed in response?

## *From response to recovery*

### **Learn, adapt and prioritise**

- Develop and test hypotheses around impact on place, services, operations, finances
- Design rapid interventions - implement, test and evaluate
- Learning from the response to lock in the good stuff – reflection on operations, services and the system
- Set priorities and principles – what is the Council's purpose in an uncertain context and where will it focus?

## *Mitigating the worst case*

### **Consolidate and build resilience**

- Ensure that emergency management and response structures are resilient for the long haul
- What is the minimum operating model to deliver this?
- Predict and model demand for social care and assess care market vulnerability
- Contingency plans for structural disruption
- Re-evaluate infrastructure pipeline

## *Steering towards the best case*

### **Invest in renewal**

- Programme of priority-based investment framed by recovery and renewal
- Focus on inequality, community resilience, targeted economic stimulus, skills and employment support and adapting public spaces
- Continued system leadership, pushing for positive reform and resilience

# Recovery planning and implementation

Set out below are examples of recovery planning activity that are being considered by councils. This activity needs to align to the Government's recovery strategy, and how this aligns to existing Government priorities such as levelling up, and future proof against covid related government policy shifts.

Recovery planning	Recovery implementation
Recovery planning strategy and framework development	Recovery plan implementation
Risk assessments, research into which parts of the local economy have been most severely hit and which groups of people will need additional support.	Reviews of long term corporate plans/strategies, place vision, service plans, in context of phased lockdown release
Planning for standing up closed services	Place-based leadership – working with other public services, private and third sector to redefine place
Integrating social distancing into the public realm, eg offering supplies of hand sanitiser and masks. Increased need for digital advertising and awareness raising	Redefining front-line services, council as match-maker, convener and incentiviser as well as service deliverer or commissioner. Removal of internal silos (eg supporting vulnerable families)
Review of supply chain vulnerability	More long-term and strategic partnerships and funding models for third sector
Supporting local businesses evolve to a new normal post-COVID-19 world, including more trading on-line	Re-evaluation of vulnerability, including eligibility criteria. Likely to put in place structures that outlast the crisis, such as provisions to help the homeless and those in gig economy jobs
Providing leadership for longer-term investment and delivery, to support economic recovery rather than just focusing on short-term actions	Review and update Local Plan
Reframe capital programme to support economic, social and environmental recovery / sustainability	Reconfiguration of municipal estate and property portfolio and commercial investments
Renewed strategic financial planning and focus on financial management	Emergency planning reviews and learning
Data recognised as core pillar of resilience, barriers to data collaboration and information governance removed/standardised	Long-term financial sustainability planning
Government monitoring regime on additional funding for councils and covid funding administered by councils	Increase in outcomes based procurement and focus on social value
Business cases for new investments or for Government	Significant investment in digital capabilities – channel shift, remote working, etc
HR capacity and welfare, building health and safety checks	



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# Informing the audit risk assessment for Cheltenham Borough Council - 2019/20



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. 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.

# Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	7
Fraud Risk Assessment	8
Laws and Regulations	13
Impact of Laws and Regulations	14
Going Concern	16
Going Concern Considerations	17
Related Parties	21
Accounting Estimates	23
Appendix A Accounting Estimates	25

## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Cheltenham Borough Council's (The Council) external auditors and the Council's Audit, Compliance and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Committee under auditing standards.

## Background

Under International Standards on Auditing (UK) (ISA(UK)) auditors have specific responsibilities to communicate with the Audit, Compliance and Governance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit, Compliance and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Committee and supports the Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit, Compliance and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

## General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	<p>Revenue Outturn- COVID-19 and the associated lockdown has had a significant impact on the financial statements for 2019/20 and is highly likely to continue to do so in 2020/21. This has been managed by the use of reserves in 2019/20 to ensure there is no adverse impact against the net 2019/20 budget. Whilst Cheltenham's allocation of grant from the first tranche of Government funding covered 68% of additional expenditure, the loss of income from fees and charges has had a profound impact on the outturn position.</p> <p>The most significant impact on the 2019/20 income is on car parking fees. The council received income of £4.6m for the year, against the budget of £4.8m, with income being circa £216k less than expected in March 2020, as a direct result of the pandemic and the closure of one of the council's main income generating car parks.</p> <p>The reported overspend of £109,175.16 has been met from general balances. The Council will seek to replenish the general balances and other earmarked reserves from future allocations of government support.</p>
2. 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>The appropriateness of accounting policies are considered annually by the S151 Officer and Public Finance as part of the preparation of the statements of account. These are reviewed by the Audit Compliance and Governance Committee in March each year, who also consider the impact on accounting policies in future years as a result of changes in the CIPFA Code of Practice. The scheduled meeting for 24<sup>th</sup> March 2020 was cancelled due to lockdown. However, Members of that Committee were requested to note the content of these draft accounting policies and make any comments as necessary through a proxy vote.</p> <p>There are no material changes to accounting policies which will impact on the 2019/20 accounts. The change in the International Financial Reporting Standard 16 in relation to leases, to be introduced in 2020/21, is not expected to have a material impact on the 2020/21 financial statements.</p>

## General Enquiries of Management

Question	Management response
3. Is there any use of financial instruments, including derivatives?	No
4. Are you aware of any significant transaction outside the normal course of business?	In August 2019, the council completed its purchase of 112 acres of strategic land allocated for the Golden Valley Development (Cyber Central) in West Cheltenham. The Council's £37.5m investment into this site will enable the rapid growth of the Cyber Tech and innovative industries and is a significant step forward in achieving the council's corporate plan priority of making Cheltenham the UK capital of cyber.

## General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
6. 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.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, 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>The Council's legal provider is One Legal which is a shared service between the Council , Gloucester City Council and Tewkesbury Borough Council.</p> <p>During 2019/20, specialist external legal support was engaged in respect of planning inquiries, property regeneration and property disputes and such advice continues as at April 2020. Details of those solicitors utilised by the Council can be obtained through One Legal.</p> <p>In addition, the Council is involved in a number of group claims the rough the Local Government Association.</p>
9. 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?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Arlingclose, Treasury Management advisors. Ernst & Young, general VAT advice. Arthur J Gallagher Insurance broker advice. Savills property advice.

## Fraud Issue

### Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit, Compliance and Governance Committee and management. Management, with the oversight of the Audit, Compliance and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit, Compliance and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Risk & Assurance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit, Compliance and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit, Compliance and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

## Fraud risk assessment

Question	Management response
<p>1. Have the Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</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 the Executive Leadership Team prior to circulation to Cabinet. All reports to committees require financial, legal, HR and property implications and risks to be identified.</p> <p>The Audit, Compliance and Governance Committee also approves the risk-based annual audit plan which includes possible areas where fraud may be a risk. The Committee also approve the work plans of the Counter Fraud Unit (CFU) which are developed in consultation with Internal Audit and Senior Management based on current fraud trends.</p> <p>The CFU is a permanent shared support service tasked with minimising fraud and abuse of public funds. The CFU directly reports to the Executive Director Finance and Assets (Section 151 Officer) and as such the work plan and any risks identified are linked to financial reporting.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The categories most at risk within a Council are:</p> <p>Assets - housing stock / rental properties.</p> <p>Revenue - streams such as Council tax, Business Rates and rental income.</p> <p>Expenditure - procurement and contract management.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole or within specific departments since 1 April 2019?</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 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 and this is reported fully to Audit and Risk Committee at Cheltenham Borough Homes and in summary to Audit, Compliance and Governance Committee at Cheltenham Borough Council..</p> <p>All Council related instances are reported in full to the Executive Director Finance and Assets (Section 151 Officer) and biannually to the Audit, Compliance and Governance Committee.</p>

## Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>The main areas of abuse relate to fraud associated with benefits to include the Councils Council Tax Reduction Scheme although reviews and verification processes within CBC keep this to a minimum. In addition abuse relating to Council Tax and Business Rates avoidance / evasion affects a main revenue stream.</p> <p>Housing and Tenancy Fraud is a high risk as Cheltenham BC retains a housing stock. Some high risk areas are no longer within the domain of the Council - depot services are managed by Ubico, leisure matters are managed by The Cheltenham Trust.</p> <p>There are low risk internal areas such as mileage expense abuse but this is not significant due to the small geographical area that CBC covers. Recruitment and payroll are also areas which are open to abuse.</p> <p>Procurement fraud, specifically within departments such as Property Services, remains an area susceptible to abuse because of the significantly high levels of expenditure.</p> <p>Regarding external fraud, both Internal Audit and the Counter Fraud Unit have undertaken work around serious and organised crime which is recognised as a significant issue affecting Cheltenham.</p> <p>Cyber related crime remains a significant risk for the Council and this is managed and reported by the ICT Team.</p> <p>It cannot be stated that fraud will not occur, but I would not consider one area being significantly at risk. I would add that there is a current increased risk of fraud across the Council due to the pandemic, especially with the payment of Business and Community Grant payments..</p>

## Fraud risk assessment

Question	Management response
<p>5. What processes do the Council have in place to identify and respond to risks of fraud?</p>	<p>The existence of the CFU as a permanent dedicated service significantly mitigates fraud risk generally. 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. The team undertakes reactive investigation work where a referral is received and where necessary, proactive fraud drives in high risk areas.</p> <p>The CFU have contracts to deliver services to CBH, the ALMO responsible for the stock and more recently The Cheltenham Trust.</p> <p>We have promoted and introduced processes for internal and external reporting for both staff and by members of the public. Whistleblowing is becoming more effective as a result.</p> <p>There are many financial controls around the validity and payment of invoices and we are working with HR re recruitment controls in place to ensure all new employees are vetted properly and that staff recognise fraudulent qualifications</p> <p>Work is developing in relation to gifts and hospitality procedures and conflicts / declarations of interest by staff.</p> <p>The CFU assist with NFI data matching and undertake our own data matching exercises where risk has been identified.</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>

## Fraud risk assessment

Question	Management response
<p>6. How would you assess the overall control environment for the Council, including:</p> <p>the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</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>There remains a separation of duties which are monitored as part of the control audits by the South West Audit Partnership (SWAP). Many of the processes are system controlled, particularly in relation to the financial processes. Officers who are able to authorise are certified by the Director or Service Manager and limits applied to varying level of spend depending on their responsibility and the overall budge.</p> <p>Awareness training on a regular basis reduces the risks associated with internal abuse and fraud. The promotion of integrity and whistleblowing channels also mitigates this.</p> <p>Conflict of interest / declaration of interest processes also help identify those staff who are a potential risk so that appropriate training and management controls can be put in place.</p>

## Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	<p>There is always the potential but we believe appropriate checks and balances are in place within the teams, and through Publica Finance, 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>Reports produced by the CFU are subject to auditable case files held on the case management system. These reports are then scrutinised by Governance staff, Members and Executive Leadership which therefore mitigates the risk of misreporting.</p>
<p>8. How do the Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</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 as are online training modules.</p> <p>The Procurement Team have included statements on all tender / quote documentation detailing the Councils approach to modern slavery, ethical procurement and supporting local businesses.</p> <p>Publicity with regard to identified fraud and error will also be encouraged to act as a deterrent generally.</p> <p>Through the work the CFU have delivered across the Council relating to awareness and through reputation, staff are now approaching the team with more confidence and more regularity. The development of the relationship with HR colleagues also ensures fraud reports come to the CFU for assessment.</p> <p>Reports were made in relation to procurement processes within the Property Services Team which did not prove fraudulent activity but has led to better controls, procurement and contract management processes.</p>

## Fraud risk assessment

Question	Management response
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Contract procurement posts, high level budget controllers/approvers, ICT staff with high level system access, Marketing Teams.</p> <p>Many Local Government staff are susceptible to duress and corruption due to the nature of their duties - housing teams, council tax officers, planning staff; however there must be a level of trust within the organisation to promote a healthy working environment.</p> <p>Conflict of interest / declaration of interest process development to make it a more risk based one - identifying high risk staff and ensuring the correct controls are in place.</p> <p>Better recruitment checks to vet staff and prevent them entering the workplace - prevention is always the best control.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Organisations such as CBH, The Cheltenham Trust, Ubico, and Publica all give rise to fraud risk which may affect the Council.</p> <p>Partnership working with local businesses and contractors - for example in relation to Cyber Central - increases risk.</p> <p>The CFU have contracts with all of the above named organisations to mitigate fraud risk more generally in relation to public funds rather than the Council as an individual body.</p> <p>Transparency, audit and scrutiny practices across these partnerships and more generally Local Government.</p>

## Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit, Compliance and Governance Committee?</p> <p>How does the Audit, Compliance and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The CFU provides biannual updates to Audit, Compliance and Governance Committee. The report includes the future work plan and retrospective findings for comment and consideration.</p> <p>The CFU would work with Executive Leadership team, Governance Group and Internal Audit to manage any internal control recommendations and the outcome would be transparently reported as above.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The CFU 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 and with due consideration to sensitive referral sources.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>None.</p>

## Law and regulations

### Issue

#### Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit, Compliance and Governance Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit, Compliance and Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

## Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on Council's financial statements?</p>	<p>Any significant litigation claims are referred to the council's legal services providers, One Legal who will then advise the relevant officer. The relevant officer will brief ELT / SLT / Members and notify the insurance officer as appropriate.</p> <p>Legal costs will also form part of the quarterly budget monitoring reports. Advice from the Publica Insurance Officer is used to assess level of provision held for excesses. Other liability identified includes MMI write-off provision and contingent liability.</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>2. How is the Audit, Compliance and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Audit Compliance and Governance Committee is advised by the Council's S151 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> <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>

## Impact of laws and regulations

Question	Management response
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?	No.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	No.
5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	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. Service managers report to ELT any known or possible litigation or claims in their service.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.

# Going Concern

## Issue

### Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

## Going concern considerations

Question	Management response
1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for Cheltenham Borough Council? What was the outcome of that assessment?	<p>The Council's Medium Term Financial Strategy (MTFS) was approved by full council in February 2020 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"> <li>Council's current financial position;</li> <li>Council's projected financial position;</li> <li>Council's governance arrangements;</li> <li>Regulatory and control environment applicable to the Council as a local authority.</li> </ul> <p>The Section 151 Officer does not foresee any reason why the statements for 2019/20 will alter that position as the Council has once again delivered services within budget. Clearly COVID-19 will have a profound impact on the sector; and it is for that reason that a detailed report on the Going Concern concept will be considered at the next meeting of the Audit, Compliance and Governance Committee on 22<sup>nd</sup> July 2020.</p> <p>The council has recently undertaken a detailed review of its earmarked reserves and general balances, in light of the additional expenditure and significant loss of income during the first half of 2020/21 as a result of the COVID-19. The challenges ahead and the impact on the council's assessment as a going concern in 2020/21 depends to an extent on support that will be received by central government during the period of the emergency. Government funding of £1.210m has been received to date as a contribution towards the costs incurred to date. More direct government support will be needed, especially to cover income losses. The council will set aside £846k of its general reserve (65%) and £600k of its earmarked reserves (14%) to partially meet these losses if necessary. It will also look to re-prioritise its capital programme and minimum revenue policy if necessary.</p> <p>The council continues to review and report the financial impact of COVID-19. It does not expect to issue a section 114, but is reviewing its levels of spending and evaluating and prioritising plans and ambitions during the period of uncertainty.</p>

## Going concern considerations

Question	Management response
2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Medium Term Financial Plan and the financial information provided to the Audit, Compliance and Governance Committee throughout the year?	<p>Yes, the assumptions in the medium term financial strategy are consistent to the budget and all financial information reported to the Audit, Compliance and Governance Committee and all other relevant committees throughout the year.</p> <p>The financial impact of COVID-19 is monitored and will be reported to Cabinet and the Budget Scrutiny Working Group as part of quarterly budget management reports and other reports as necessary during 2020/21.</p>
3. Are the implications of statutory or policy changes appropriately reflected in the Medium Term Financial Plan, financial forecasts and report on going concern?	Yes.
4. Have there been any significant issues raised with the Audit, Compliance and Governance Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No.
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	<p>No adverse financial indicators or negative cash flow .</p> <p>See question 4 re response to the financial impact of the COVID-19 emergency.</p>

## Going concern considerations

Question	Management response
6. Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	Yes – there are the skills and experience within senior management and staff, supported by learning and development and professional training where relevant.  External specialist advice is obtained where needed, for example in complex property / investment matters.
7. Does the Council have procedures in place to assess their ability to continue as a going concern?	Yes. The Section 151 Officer provides an independent assessment of the overall financial position as part of the budget setting process (Section 25 report).  Public Support Services monitor short and long term cash flows for the council and report to the Section 151 Officer and the Council's Treasury Management Panel on a regular basis.
8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?	See question 4 re the financial impact of the COVID-19 emergency. On cash flows and going concern.

## Going concern considerations

Question	Management response
9. Are arrangements in place to report the going concern assessment to the Audit, Compliance and Governance Committee ?	Yes. An assessment of going concern is reported annually, alongside the annual statement of accounts. This is considered as part of the review and approval of these statements each year.
How has the Audit, Compliance and Governance Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?	Audit, Compliance and Governance Committee also take assurances from the External Auditors reported findings and conclusions from the annual, independent review of the production and accuracy of the statement of accounts, including the statement of going concern.

# Related Parties

## Issue

### Matters in relation to Related Parties

Cheltenham Borough Council are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council
- associates;
- joint ventures;
- an entity that has an interest in the Council that gives it significant influence over the Council
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council perspective but material from a related party viewpoint then Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Related Parties

Question	Management response
1. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships ?	All Members and Senior staff are required to complete a declaration of interest annually, with the responsibility to update on a rolling basis as necessary. These declarations are reviewed by Publica Finance as part of the production of the statement of accounts, and included as a disclosure note. A review of third party related transactions included in the Comprehensive Income and Expenditure Statement is included in this disclosure note in the statements of account.

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

Cheltenham Borough Council apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Council is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit, Compliance and Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

## Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	<p>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.</p> <p>Clearly there may be an impact from COVID-19, although this has been partly mitigated by the discounts and reliefs applied by Central Government in 2020/21.</p>
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	<p>PPE Valuations are performed by the Authority's in house valuer in line with RICS guidance, who has sought independent assessment this year given the complexities and uncertainties surrounding COVID-19. A rolling programme of asset revaluation is in place. The remaining useful life of property assets is estimated by the valuer in line with RICS guidance.</p> <p>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.</p> <p>Where appropriate, information is obtained from the Authority's legal advisors.</p> <p>For pensions, actuarial valuations of pension liabilities and assets are undertaken annually by the actuary in accordance with IAS 19.</p>
3. How is the Audit, Compliance and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	<p>Publica Finance provide detailed explanation of all statements and notes included in the statement of accounts, including arrangements for accounting estimates. These are reviewed and assurances sought and provided at the Audit, Compliance and Governance Committee meeting to approve the statements.</p> <p>Independent assurance is also provided by the external Audit of the accounts and the reported findings of Grant Thornton LLP.</p>

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant & equipment Valuations (including investment properties)	Current value for land/buildings at depreciated replacement cost/existing use value/fair value	Valuations are performed one a 5 year cyclical basis to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.	Yes	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No
Estimated remaining useful lives of PPE	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	See left box	Discussion with the Estates team	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	See above	See above	See above	See above	No
Impairments	Review of all assets undertaken annually	See left.	Discussion with internal asset team as appropriate.	N/A.	No.
Measurement of Financial Instruments	Financial instruments consist of investments and loans. Measured initially at cost and subsequently at amortised cost using the effective interest method.	Knowledge by the Investment team who manages the portfolio in assessing the potential risk in credit losses.	Fund advisers – Arlingclose	The assumptions used are undertaken by Arlingclose as part of the fair value measurement of financial instruments	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are identified through detailed monthly management accounts which flags any potential issues to management.	Each provision is separately reviewed by financial accounts and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.
Bad Debt Provision	Debts are reviewed monthly and any debts that are deemed to be irrecoverable are provided for	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts.	N/A	N/A	No.

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A.	N/A.	No.
Non Adjusting events – events after the balance sheet date	Monthly management accounts prepared would flag any adjusting/non-adjusting events.	See left.	N/A.	N/A.	No.

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Hymans Robertson. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Council responds to queries raised by the administering body, Gloucestershire Pension Fund.	The Council are provided with an actuarial report by Hymans Roberson (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.



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# Audit, Compliance and Governance Committee 2020-21 work plan

Item	Author
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<b>22 July 2020 (Report deadline: 10 July 2020)</b>	
Internal audit opinion (for the previous year)	Internal Audit
Audit Plan plus addendum as presented to last Audit Committee	Grant Thornton
Progress report	Grant Thornton
Informing the audit risk assessment - those charged with governance	Paul Jones
Assessment of the going concern	Paul Jones
<b>23 September 2021 (Report deadline: xxx)</b>	
Internal audit monitoring report	Internal Audit
Counter Fraud update and future work provision	Counter Fraud Unit
Annual audit letter (for the previous year)	Grant Thornton
Annual Review of Risk Management Policy	Ann Wolstencroft
Clearview	Ann Wolstencroft
<b>20 January 2021 (Report deadline: xxx)</b>	
IT Security update	IT (REQUIRED) / Tony Oladejo
Audit committee update	Grant Thornton
Internal audit monitoring report	Internal Audit
Annual governance statement – significant issues action plan	Internal Audit
<b>21 April 2021 (Report deadline: xxx)</b>	
Audit progress report and sector updates	Grant Thornton
External audit plan (for the current year)	Grant Thornton
Annual plan (for the upcoming year)	Internal Audit
Internal audit monitoring report	Internal Audit
Counter Fraud Unit report (inc. RIPA / IPA update)	Counter Fraud Unit
Annual review of Code of Corporate Governance	Darren Knight
Annual Governance Statement	Darren Knight
Annual Review of Risk Management Policy	Ann Wolstencroft
<b>14 July 2021 (Report deadline: xxx)</b>	
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

Audit, Compliance and Governance Committee 2020-21 work plan

Item	Author
Auditing Standards – communicating with the Audit Committee	Paul Jones/Chair
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 (REQUIRED) and Tony Oladejo
Audit committee update	Grant Thornton
Internal audit monitoring report	Internal Audit
Annual governance statement – significant issues action plan	Internal Audit
April	
Audit progress report and sector updates	Grant Thornton
External audit plan (for the current year)	Grant Thornton
Annual plan (for the upcoming year)	Internal Audit
Internal audit monitoring report	Internal Audit
Counter Fraud Unit report (inc. RIPA / IPA update)	Counter Fraud Unit
Annual review of Code of Corporate Governance	Darren Knight
Annual Governance Statement	Darren Knight
Annual Review of Risk Management Policy	Ann Wolstencroft
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
Auditing Standards – communicating with the Audit Committee	Paul Jones/Chair
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

Audit, Compliance and Governance Committee 2020-21 work plan

Item	Author
Annual audit letter (for the previous year)	Grant Thornton

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