



Notice of a meeting of Audit, Compliance and Governance Committee

Wednesday, 20 April 2022
6.00 pm
Council Chamber - Municipal Offices

Membership	
Councillors:	David Willingham (Vice-Chair), Matt Babbage, Flo Clucas, John Payne, Richard Pineger, Jo Stafford and Paul McCloskey (Chair)

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

Important Notice

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Agenda

1.		APOLOGIES	
2.		DECLARATIONS OF INTEREST	
3.		MINUTES OF THE LAST MEETING To approve minutes of the meeting held on 12 January 2022.	(Pages 5 - 10)
4.		PUBLIC AND MEMBER QUESTIONS These must be received no later than 12 noon on the fourth working day before the date of the meeting	
5.		AUDIT PROGRESS REPORT AND SECTOR UPDATES Alex Walling, Grant Thornton	(Pages 11 - 28)
6.		EXTERNAL AUDIT PLAN TO 31 MARCH 2022 Alex Walling, Grant Thornton	(Pages 29 - 56)

7.		PROPOSED INTERNAL AUDIT PLAN 2022-23 Lucy Cater, Assistant Director, SWAP Internal Audit Services	(Pages 57 - 76)
8.		INTERNAL AUDIT PROGRESS REPORT Lucy Cater, Assistant Director, SWAP Internal Audit Services	(Pages 77 - 100)
9.		COUNTER FRAUD AND ENFORCEMENT UNIT REPORT Emma Cathcart, Head of Service, Counter Fraud and Enforcement Unit	(Pages 101 - 108)
10.		ANNUAL REVIEW OF CODE OF CORPORATE GOVERNANCE Darren Knight, Executive Director People and Change	(Pages 109 - 130)
11.		ANNUAL GOVERNANCE STATEMENT Ann Wolstencroft, Programme and Governance Manager	(Pages 131 - 150)
12.		APPROVAL OF REFRESHED WHISTLE-BLOWING POLICY Emma Cathcart, Head of Service, Counter Fraud and Enforcement Unit	(Pages 151 - 168)
13.		INFORMING THE EXTERNAL AUDIT RISK ASSESSMENT 2021/22 Gemma Bell, Head of Property, Finance and Assets	(Pages 169 - 206)
14.		REVIEW OF 2020/21 ACCOUNTING POLICIES Gemma Bell, Head of Property, Finance and Assets	(Pages 207 - 232)
15.		WORK PROGRAMME	(Pages 233 - 234)
16.		ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION	
17.		LOCAL GOVERNMENT ACT 1972 - EXEMPT INFORMATION The committee is recommended to approve the following resolution:- "That in accordance with Section 100A(4) Local Government Act 1972 the public be excluded from the meeting for the remaining agenda items as it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public are present there will be disclosed to them exempt information as defined in paragraph ?, Part (1) Schedule (12A) Local Government Act 1972, namely: Paragraph 3: Information relating to the financial or business affairs of any particular person (including the authority holding that information);	

		Paragraph 7: Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.	
18.		EXEMPT MINUTES Exempt minutes of the meeting held on 12 January 2022.	(Pages 235 - 236)
19.		DATE OF NEXT MEETING Wednesday 13 July	

Contact Officer: Democratic Services, 01242 264130

Email: democratic.services@cheltenham.gov.uk

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Audit, Compliance and Governance Committee

Wednesday, 12th January, 2022
6.30 - 8.00 pm

Attendees	
Councillors:	Guy Maughfling (Chair), David Willingham (Vice-Chair), Matt Babbage, John Payne, Richard Pineger and Jo Stafford
Also in attendance:	Barrie Morris, Paul Jones, Gemma Bell, Darren Knight, Lucy Cater, Jaina Mistry and John Chorlton (PUBLICA)

Minutes

1. APOLOGIES

Apologies were received from Cllr Clucas.

2. DECLARATIONS OF INTEREST

There were none.

3. MINUTES OF THE LAST MEETING

RESOLVED THAT the minutes of the meeting held on 22nd September 2021 be approved and signed as a correct record.

4. PUBLIC AND MEMBER QUESTIONS

There were none.

5. AUDIT COMMITTEE UP-DATE

Barrie Morris (BM) of Grant Thornton informed Members that the financial statements were completed and signed off on 29th October 2021 under delegated arrangements agreed by the Committee. The final version would be introduced later in the meeting, with any changes highlighted in blue, and the Auditor's Annual Report was also an agenda item. The certification of the Housing Benefits subsidy claim was progressing well and would be complete by the end of January 2022, and he would also be meeting with finance colleagues to consider the lessons learnt from 2020-21 and identify any improvement methods. He confirmed that the audit deliverables are all completed and results of financial reporting and Quality Assurance Department (QAD) reviews show significant improvement in the quality of the audit work, though there is still room for improvement.

He drew Members' attention to the final audit fees on Page 9 of the report which, due to a number of variations in the Audit Plan and other changes, increased from £38k to £64k, though this increase has been offset by £27k from central government and the PSAA. The rest of the paper is a sector update, for information.

He also introduced Alex Walling who will be taking over as the new engagement lead later in the year, supported by Sam Harding.

In response to a member's question, BM explained that the breakdown of fees for 2020-21 is accurate, based on detailed time records and individual activities. The final fees are subject to confirmation by the PSAA, and need to be agreed by the S151 officer and Head of Finance.

There were no other questions.

RESOLVED THAT the Audit Committee Update be noted.

6. AUDITOR'S ANNUAL REPORT

BM pointed out that changes to the National Audit Office (NAO) code in 2021 mean that a more in-depth review of value for money arrangements is required, with key recommendations on any significant weaknesses. He confirmed that that the detailed report concludes that overall arrangements across each area are strong, when compared with other councils - a number of improvements recommendations have been identified, but no key recommendations required.

Members thanked Grant Thornton for the detailed and well-presented report.

A member expressed concern at some of the improvement recommendations – such as staff not following the business continuity plan, and issues with data policy – and asked if this is a consequence of increased scrutiny or just issues arising from the last audit, and whether it is the intention to revisit the improvements in subsequent audits to see how things have changed. BM confirmed that the new code of practice required a more comprehensive and detailed commentary, that the improvement recommendations would be followed through as a first action for next year. He added that CBC's risk arrangements and management procedures are very strong, and the recommendation is only concerned with formalisation around the monitoring of the risk register.

In response to a member's question, the Director of Finance confirmed business continuity plans across all service areas were updated in the first quarter of 2020. He added that the Council's business continuity plan worked well in the short-term during the floods in 2007, but Covid 19 warranted a different, more agile response, and all processes were mobilised quickly. The business continuity plan will be updated, using the experience of the first month of the pandemic to reflect on the reality facing the Council.

A member made the point that in order to make good recommendations, Members would benefit from training in risk awareness, risk assessment and corporate risks. He also referred to the data quality plan, saying that apart from having a plan, there must be an efficient and coherent way to expunge bad data and correct any errors.

Regarding borrowing and finance, a member asked if Grant Thornton consider the sensitivity of the market and, for example, what would happen if interest rates increase by 1%? BM confirmed that Grant Thornton look at all the Council's arrangements and different types of borrowing, and have concluded positively on this.

RESOLVED THAT the Auditor's Annual Report be noted.

7. AUDIT FINDINGS REPORT 2020-21

BM had referred to this under Agenda Item 5.

RESOLVED THAT the Audit Findings Report 2020-21 be noted.

8. FINAL STATEMENT OF ACCOUNTS 2020/21

The Head of Property, Finance and Assets confirmed that, following the September meeting, the approved accounts were signed off on 29th October and presented today. She thanked BM and the team at Grant Thornton, and CBC finance team for their hard work.

There were no questions from Members.

RESOLVED THAT the approval of the final Statement of Accounts for the year ending 31st March 2021 be noted.

9. INTERNAL AUDIT PROGRESS REPORT

Lucy Cater (LC) of SWAP advised Members that the quarterly update gave an idea of the work undertaken since the last meeting, following up recommendations. She invited Members to email her or Jaina Mistry with any items for next year's audit plan.

A member suggested that although he is not aware of any concerns with the licensing service and considers it is well run, it should be looked at from an audit point of view, to identify any possible improvements. He was invited to email the SWAP team.

A member thanked the team for their report, saying his only issue concerned the assigning of the assurance opinion. For example, procurement and planning enforcement are both recorded as 'reasonable', but this seems slightly over-generous and will discourage managers of those departments from being more productive in dealing with the issues – a lower rating would provide more emphasis. LC confirmed that there were issues with business continuity arrangements but these are being addressed, hence the higher score; and planning enforcement has a number of issues requiring work, which will be followed up.

In the Member's view, there were concerns about planning enforcement across the town, and it was suggested that a planning enforcement officer address a future ACG meeting and/or brief all Members. Democratic Services will follow up on this with the planning enforcement team regarding this. It was also suggested that Members would find a briefing from Building Control useful as well, in view of concerns in their own words and the failures and lack of accountability surrounding Grenfell Tower.

RESOLVED THAT the progress report be noted.

10. FUTURE PROVISION OF EXTERNAL AUDIT FROM 2023/24

The Head of Property, Finance and Assets advised Members that that PSAA has been responsible for the appointment of audit firms and setting of fees for local government and police since 2018, and the first contact period is due to end on 31st March 2023. The PSAA requires confirmation that councils want to opt in for a second period. The full Council needs to take the decision before 11th March, and the officer recommendation is to opt in for the reasons set out in the report.

The Chair informed Members that he feels very strongly that this recommendation should be followed, for the value for money and continuity aspects referred to. A member noted the PSAA returned a surplus fund of £5.6m in August 2021, showing it is well managed and will have saved the Council money during that period. Another member agreed, but asked if councils have any input or influence as to who their auditors should be. BM advised that there would need to be sound and compelling reasons why a council did not want to go with the audit firm provided, but that there is always the opportunity to reject or change during the contract term. He said that about 98% councils go through PSAA, and that auditors are audited by the National Audit Office.

RESOLVED THAT

this council be recommended to opt in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors from 1st April 2023.

11. WORK PROGRAMME

Members had no comments to make. The Director of Finance advised that the response on whistle-blowing, raised in Grant Thornton's report, would not be ready by the end of March but would be brought to the April meeting.

RESOLVED THAT Members accept the work programme as stated.

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

There was none.

13. DATE OF NEXT MEETING

20th April 2022.

**14. LOCAL GOVERNMENT ACT 1972 - EXEMPT INFORMATION
RESOLVED THAT**

"in accordance with Section 100A(4) Local Government Act 1972 the public be excluded from the meeting for the remaining agenda items as it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public are present there will be disclosed to them exempt information as defined in paragraphs 3 & 7, Part (1) Schedule (12A) Local Government Act 1972, namely:

Paragraph 3; Information relating to the financial or business affairs of any particular person (including the authority holding that information)

Paragraph 7; Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

15. IT SECURITY UP-DATE

The Chief Technology Officer's report, covering activity over the last 12 months over the four partner councils, had been circulated.

RESOLVED THAT the report be noted.

Guy Maughfling
Chairman

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Cheltenham Borough Council Audit Progress Report and Sector Update

Year ending 31 March 2022

March 2022



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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 Council 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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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

<https://www.grantthornton.co.uk/en/services/public-sector-services/>

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 March 2022

Financial Statements Audit

We undertook our initial planning for the 2021/22 audit in February 2022, and interim audit in February and March. We expect to begin our work on your draft financial statements in late June.

Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how the Council makes material estimates for the financial statements
- Early work on emerging accounting issues

The results of our work to date are included in this report.

A detailed audit plan, setting out our proposed approach to the audit of the Council's 2021/22 financial statements is included within the Committee papers.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by November 2022.

The Accounts and Audit (Amendment) Regulations 2021 push back the date by which principal authorities need to publish their draft financial statements to the first working day of August. The Department for Levelling Up, Communities and Housing (DLUHC) states that they intend, subject to consultation, to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts.

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. We anticipate issuing our Auditor's Annual Report in January 2023.

Progress at March 2022 (cont.)

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2020/21 claim began in November. The Council have asked for and DWP have granted the Council an extension to the deadline of 11 March 2022 for this work.

We also certify the Council's annual Pooling of Housing Capital Receipts return in accordance with procedures agreed with the Department for Levelling Up, Communities and Housing ("DLUCH"). The deadline for completion and reporting of the certification work for the 2020/21 return was 4 February 2022. We submitted our return to DLUCH on 9 February.

Meetings

We met with Finance Officers in February as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. A member of your finance team attended our Accounts Workshop in February 2022, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth 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 the period 2018/19 to 2021/22 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.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2021/22 Deliverables	Planned Date	Status
Audit Plan 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 2021/22 financial statements and the Auditor's Annual Report on the Council's Value for Money arrangements.	April 2022	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	April 2022	Complete
Audit Findings Report The Audit Findings Report will be reported to the November Audit Compliance and Governance Committee.	November 2022	Not yet due
Auditors Report This includes the opinion on your financial statements.	November 2022	Not yet due
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.	December 2022	Not yet due

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2020/21 Audit-related Deliverables	Planned Date	Status
Housing Benefit Subsidy – certification This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.	28 February 2022	Ongoing
Pooling of housing capital receipts - certification This is the report we submit to the Department for Levelling Up, Communities and Housing (“DLUCH”). based upon the mandated agreed upon procedures we are required to perform.	4 February 2022	Completed
Certificate We have not yet closed the 2020/21 audit and issued the certificate. In order to finalise the audit, the procedures in respect of the Whole of Government accounts need to be completed. Central guidance to local authorities has not yet been issued. We expect the Council will remain below the threshold and no additional procedures will be required.	To be confirmed	

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
Internal audit	We have reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	<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"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
Review of information technology controls	<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 controls were observed to have been implemented in accordance with our documented understanding.</p>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.

	Work performed	Conclusions and recommendations
Walkthrough testing	<p>We are undertaking 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. These areas include management override of controls, valuation of property, plant and equipment (including Council Dwellings), valuation of investment properties and valuation of the pension fund net liability.</p> <p>We will also review the internal audit reports on the controls operating at the Council's shared service providers.</p> <p>Our work completed to date has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work completed to date has not identified any weaknesses which impact on our audit approach.</p> <p>The work in this area is still ongoing.</p>
Journal entry controls	<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>	<p>Our work completed has not identified any weaknesses which impact on our audit approach.</p>
Shared service arrangements	<p>Audit team have documented the nature of services and relevant contractual terms with Public Group (Support) Limited. No issues have been noted in respect of this work.</p>	<p>Our work completed has not identified any weaknesses which impact on our audit approach.</p>
Early substantive testing	<p>No early substantive testing to be performed.</p>	

Sector Update

Authorities 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

Levelling up White Paper – Department for Levelling Up, Communities and Housing (“DLUCH”)

On 2 February the Department for Levelling Up, Communities and Housing (“DLUCH”) published its Levelling Up White Paper.

The paper states “Levelling up requires a focused, long-term plan of action and a clear framework to identify and act upon the drivers of spatial disparity. Evidence from a range of disciplines tells us these drivers can be encapsulated in six “capitals”:

- Physical capital – infrastructure, machines and housing.
- Human capital – the skills, health and experience of the workforce.
- Intangible capital – innovation, ideas and patents.
- Financial capital – resources supporting the financing of companies.
- Social capital – the strength of communities, relationships and trust.
- Institutional capital – local leadership, capacity and capability.”

The paper also states “This new policy regime is based on five mutually reinforcing pillars.” These are set out and explained as:

- 1) The UK Government is setting clear and ambitious medium-term missions to provide consistency and clarity over levelling up policy objectives.
- 2) Central government decision-making will be fundamentally reoriented to align policies with the levelling up agenda and hardwire spatial considerations across Whitehall.

- 3) The UK Government will empower decision-makers in local areas by providing leaders and businesses with the tools they need.
- 4) The UK Government will transform its approach to data and evaluation to improve local decision-making.
- 5) The UK Government will create a new regime to oversee its levelling up missions, establishing a statutory duty to publish an annual report analysing progress and a new external Levelling Up Advisory Council.

[Levelling Up the United Kingdom - GOV.UK](https://www.gov.uk/levelling-up)
(www.gov.uk)



Grant Thornton – reaction to Levelling up White Paper

On 2 February the Department for Levelling Up, Communities and Housing (“DLUCH”) published its Levelling Up White Paper.

Commenting on the release of the government’s Levelling up White Paper plans, Phil Woolley, Head of Public Sector Consulting, Grant Thornton UK LLP, said:

“The publication of today’s White Paper plans is a welcome first step and it is reassuring to see the government recognise the need for systemic changes in order to deliver its central aim of Levelling up. The ‘12 missions’ can be seen as an attempt to consolidate existing elements of government activity behind a singular banner and now provides a clearer picture of the levelling up opportunity.

“Following a decade of successful regional devolution and mayors, the White Paper marks the next stage of the country’s devolution journey. With government now offering a clear framework of devolved powers and accountability, local leaders will need to embrace the opportunity and collaborate across the public and private sector to ensure they negotiate and then deliver the best deal for their communities. Grant Thornton’s Levelling Up Index shows that the economies of the 10 worst performing local authorities in England are on average over five times smaller than their best performing counterparts - highlighting the scale of the challenge ahead.

“To level up, these areas would need to grow their economies by £12billion, increase employment rates by 6 percentage points, create 1,700 new businesses a year and increase average weekly pay by £200. It is too early to determine whether the measures announced today will be sufficient, but it is a start. Success will ultimately depend on the ability and willingness of local and national government to translate these new frameworks into meaningful change in people’s lives.

“The Spending Review offers the next opportunity for government to show its commitment by realigning departmental objectives behind these new goals.”

Government response to MHCLG Select Committee report on Local Authority financial sustainability & the section 114 regime – MHCLG

Government has published a response to the Housing, Communities & Local Government (HCLG) Committee report on local authority financial sustainability and the section 114 regime, published in July.

The HCLG report states “In recent years, the financial sustainability of local government has faced successive challenges, including increased demand for services, especially social care, changes to the level of funding equalisation between councils and, most recently, the COVID-19 pandemic. In some instances, councils have been in such acute financial trouble that they have approached the Ministry of Housing, Communities and Local Government for financial assistance; three of these—Northamptonshire in 2018, Croydon in late 2020 and Slough in July 2021—issued section 114 notices, essentially declaring they had run out of money. Our inquiry has sought to identify the most serious threats facing local councils’ finances. In light of the various factors we consider in the report, including the somewhat delayed Fairer Funding Review, renewed discussion about property taxes and the need to reform funding for social care, the time is right to consider a more radical review of local government finances—and our report makes various recommendations about how this should be done. We also consider what happened at Croydon—which prompted us to look at the section 114 regime—in the annex to our report.”

The report includes sections on:

- Social Care
- Funding
- COVID-19
- Local authority commercial investment
- Audit and control

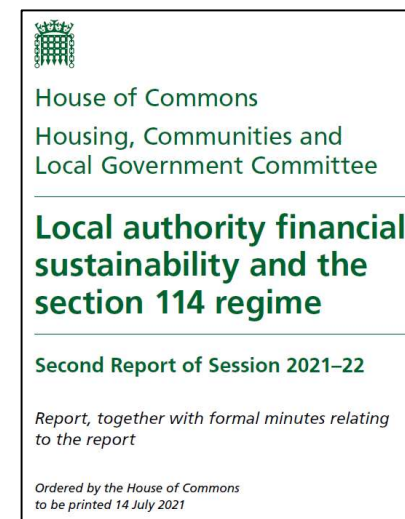
The report made 13 recommendations, and the Government response to these was published in October. The response notes “Moving forward, we will work to provide the sector with a sustainable financial footing, enabling it to deliver vital frontline service and support other government priorities. We will also take stock, including of the impact of the pandemic on local authority resources and service pressures, to determine any future reforms.”

The initial report can be found here:

<https://committees.parliament.uk/publications/6777/documents/72117/default/>

Government response can be found here:

<https://www.gov.uk/government/publications/local-authority-financial-sustainability-and-the-section-114-regime>



Public Accounts Committee (PAC) – Local auditor reporting on local government in England & government response

The PAC inquiry examined the timeliness of auditor reporting on English local public bodies' financial statements covering 2019-20. The National Audit Office (NAO) report, on which this inquiry is based, found that “delays in the delivery of audit opinions beyond the deadlines for publishing local authority accounts, alongside concerns about audit quality and doubts over audit firms' willingness to continue to audit local public bodies, highlight that the situation needs urgent attention.”

The PAC report found “Without urgent action from government, the audit system for local authorities in England may soon reach breaking point. With approximately £100 billion of local government spending requiring audit each year, the Ministry of Housing, Communities & Local Government (the Department) has become increasingly complacent in its oversight of a local audit market now entirely reliant upon only eight firms, two of which are responsible for up to 70% of local authority audits. This has not been helped by the growing complexity of local authority accounts, with audit firms now asked to carry out more work in each audit, comply with new regulatory demands and adapt to the new multifaceted landscape in which local authorities operate, while also struggling to hire and retain experienced auditors.”

Key conclusions were:

- The marked decline in the timeliness of external audit undermines accountability and hampers effective decision-making.
- There is a pressing risk of market collapse due to an over reliance on a small number of audit firms and significant barriers to entry.
- The commercial attractiveness to audit firms of auditing local authorities has declined.

- The rapidly diminishing pool of suitably qualified and experienced staff increases the risks to the timely completion of quality audits.
- We are not convinced that the recently announced new local audit arrangements will meet the pressing need for effective system leadership now.
- Unless local authority accounts are useful, relevant and understandable they will not aid accountability.

The report made recommendations in each of these areas. The government response was published on 28 October.

The PAC report and response can be found here:

[Timeliness of local auditor reporting on local government in England - Committees - UK Parliament](#)



House of Commons
Committee of Public Accounts

**Local auditor reporting
on local government in
England**

Eleventh Report of Session 2021–22

Emergency consultation on 2021/22 reporting requirements – CIPFA

On 4 February CIPFA released an emergency four week consultation on time limited changes to the Code to help alleviate delays to the publication of audited financial statements. This explores two possible changes that might be made as an update to the 2021/22 code and to the agreed position in the 2022/23 code.

The decision to launch the consultation came after the Department for Levelling up, Housing and Communities (DLUHC) asked CIPFA to consider amendments to the Code of Practice on Local Authority Accounting, after just 9% of local audits for 2020-21 were published on time.

After considering a wide range of options CIPFA LASAAC decided to explore two approaches:

- 1) An adaptation to the code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation
- 2) Deferring the implementation of IFRS 16 Leases for a further year and reversing the planned changes to the 2022/23 code to implement that standard.

CIPFA Chief Executive Rob Whiteman said: “DLUHC is understandably concerned about this growing crisis – and CIPFA shares this concern. We are committed to supporting CIPFA LASAAC in its exploration of the options that may improve timeliness issues, without significantly impacting accountability. But this is a difficult issue, and we need feedback from stakeholders on whether and how this might work.”

CIPFA said that the changes do not represent the best form of financial reporting for local authorities, but are a “temporary expedient to help improve an unacceptable situation”.

The consultation closed on Thursday 3 March. Any updates to the Code are subject to oversight by the Financial Reporting Advisory Board before implementation.

The consultation can be found here:

<https://www.cipfa.org/policy-and-guidance/consultations/emergency-proposals-for-update-of-202122-and-202223-codes>

Summary of the Grant Thornton response

Property, Plant & Equipment Valuations

In principle we are very supportive of changes to the measurement basis for operational property, plant and equipment. However our view is that it is too late to effect change for the 2021/22 reporting cycle. Our response highlighted a number of difficulties with this approach, including the risk that some assets then fall outside of the requirement to be revalued every five years as a minimum, and the challenge of consistent application of indexation. The proposed amendments to the Code do not appear to override the requirement that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period, which stems from IAS 16:31. If the financial reporting requirements are not sufficiently tightly defined and auditors therefore cannot obtain sufficient and appropriate audit evidence to support this requirement, there is a risk that audit opinions could be modified as a result.

Deferral of IFRS 16 - Leases

The removal of the requirement for disclosure (based upon IAS 8) in 2021/22 is not likely to have a significant impact in terms of freeing up auditor time and audit work covering the disclosures in 2022/23 would then be required in the 2022/23 audit. Savings to preparer time and effort would depend on what progress has already been made in preparing for the imminent implementation of IFRS 16.

Prudential Code and Treasury Management Code – CIPFA

On 20 December CIPFA published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code).

CIPFA commented “These two statutory and professional codes are important regulatory elements of the capital finance framework in which local authorities operate. Local authorities are required by regulation to ‘have regard to’ their provisions. These two codes have been published a principles-based consultation from February to April, which was followed by a second consultation on the detailed changes to the code from September to mid-November.

The updated Prudential Code includes some substantive changes. Most notably, the provisions in Code which present the approach to borrowing in advance of need in order to profit from additional sums borrowed have been strengthened. Additionally, the relevant parts of Code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for-yield as the primary purpose of the investment or represent an unnecessary risk to public funds.”

The updated Prudential Code removes the "advance of need" terminology and emphasises the legislative basis for borrowing, namely that a local authority can borrow and invest for any legislative function and/or for the prudent management of their financial affairs.

The examples listed in the Code of legitimate prudential borrowing are:

- Financing capital expenditure primarily related to the delivery of a local authority’s functions;
- Temporary management of cash flow within the context of a balanced budget;
- Securing affordability by removing exposure to future interest rate rise or
- Refinancing current borrowing, including replacing internal borrowing, manage risk or reflect changing cash flow circumstances.



Good practice in annual reporting – NAO

The National Audit Office (NAO) has published this guide which sets out good practice principles for annual reporting with examples from public sector organisations

The NAO comment that the guide sets out “good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable.”

The NAO further comment “The best annual reports we have seen use these principles to tell the “story” of the organisation. It is important that stakeholders, including the public and Parliament, are able to hold an organisation to account. To do this effectively, stakeholders need to properly understand the organisation’s strategy, key risks that might get in the way of delivering this strategy and the effectiveness of their management, and the amount of taxpayers’ money that has been spent to deliver the outcomes the organisation seeks to achieve.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

Although the guide does not include any local authority examples, those included, and the underlying principles, are equally relevant to all public facing organisations.



The guide can be found here:

[Good practice in annual reporting - National Audit Office \(NAO\) Report](#)



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Cheltenham Borough Council audit plan

Year ending 31 March 2022

Cheltenham Borough Council
April 2022



Contents



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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 Council 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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Key matters

Factors

Audit Quality

On 29 October 2021, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year.

Grant Thornton are one of seven firms which currently deliver local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year the FRC looked at nine of our audits. Further detail is included on pages 4 and 5.

Value for Money

Under the 2020 Audit Code of Practice, we are required to undertake sufficient work to satisfy ourselves that the Council "has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources."

Our initial risk assessment has built on our understanding of your arrangements taking into account any findings from previous years' work on value for money. We will report our findings against the following reporting criteria:

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

Infrastructure Assets

The CIPFA Code of Practice on Local Authority Accounting prescribes the accounting treatment and disclosure requirements for infrastructure assets and requires these to be reported in the Balance Sheet at depreciated historical cost (i.e. historic cost less accumulated depreciation and impairment.)

Nationally, this has become an area of regulator interest, with CIPFA and the NAO also reviewing this issue.

There is a risk that where authorities have incurred expenditure on the replacement or enhancement of existing infrastructure assets, they may not readily be able to identify the original assets being replaced or enhanced.

This could result in an overstatement of both gross book values and accumulated depreciation, and potentially also net book values where assets lives have not been assessed regularly and on an appropriate basis.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, and will be agreed with the Director of Finance.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- Recommendations agreed in respect of matters identified through previous audit work, either on the financial statements or in respect of work on arrangements to secure VFM, will be followed up as part of our audit review.
- We will keep our risk assessment under continuous review, Where appropriate, we will update our risk assessment to reflect emerging risks or findings and report this to the Council.
- We will be alert to the emerging guidance in this area.
- As Cheltenham Borough Council has material infrastructure assets (£14m gross book value at 31 March 2021), we will work with management to understand how the Council is accounting for these assets.

Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: [FRC AQR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

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Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Significant improvements from the Financial Reporting Council's (FRC) quality inspection (cont.)

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits an society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Cheltenham Borough Council ('the Council') 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 agreed 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 Cheltenham Borough Council. We draw your attention to both of these documents.

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 Council 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 we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

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 Council 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 Council is fulfilling these responsibilities.

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

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of Cheltenham Borough Homes Ltd and Gloucestershire Airport Ltd.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls;
- Valuation of land and buildings, council houses and investment property; and
- Valuation of the pension fund net liability

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.

Materiality

We have determined planning materiality to be £1.505m (PY 1.635m) for the group and £1.483m (PY £1.566m) for the Council, which equates to 2% of your prior year gross expenditure. 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 £74,200 (PY £78,000).

Value for Money arrangements

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our Auditor's Annual Report.

Introduction and headlines cont.



Audit logistics

Our interim visit will take place in March and our final visit will take place in July to September. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fees for the 2021/22 audit are being discussed with PSAA and will be communicated to the Council's management and TCWG separately. The fee for the audit, is subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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..

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?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Cheltenham Borough Council	Yes	Audit of the financial information of the component using component materiality	<ul style="list-style-type: none"> • Risk of management override • Pension net liability valuation • Valuation of property plant and equipment including investment properties 	Full scope audit performed by Grant Thornton UK LLP
Cheltenham Borough Homes Ltd	Yes	Audit of the financial information of the component using component materiality	<ul style="list-style-type: none"> • Risk of management override • Pension net liability valuation • Valuation of property plant and equipment including investment properties 	<p>Full scope audit performed by component auditors.</p> <p>The nature, time and extent of our involvement in the work of 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>
Gloucestershire Airport Ltd	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 risks of material misstatement of the group financial statements
- Analytical procedures at group level

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
Management over-ride of controls	Council	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>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management override of controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Risk of fraud in revenue recognition	Council	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. 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 Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Cheltenham Borough Council, mean that all forms of fraud are seen as unacceptable 	

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Group and Council	<p>The Council's pension fund net liability as reflected in its balance sheet as a 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 (£51 million on the Council's balance sheet), and the sensitivity of the estimate to changes in key assumptions.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • 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; • 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 • 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.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Council	<p>The Council 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 (£137 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out; • enquire of the valuer how climate change implications have been factored into the valuations; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuations; • test on a sample basis revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluate the assumptions made by management for assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Investment Properties	Council	The Council also has investment properties and surplus assets which must be valued annually at 31 March.	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess; completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation; and • test revaluations made during the year to see if they had been input correctly into the group's asset register.
Valuation of Council dwellings	Group and Council	The Council undertakes a full valuation every five years with a desk top valuation in the intervening years.	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess; completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation; and • test revaluations made during the year to see if they had been input correctly into the group's asset register.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We identified 2 recommendations in our 2020/21 audit in relation to the Council's estimation process for valuation of land and buildings, and the valuation of heritage assets.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit, Compliance and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have made enquiries of managements in respect of fraud and compliance with laws and regulations this will be presented at Audit, Compliance and Governance Committee.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

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 to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set 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 legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - 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.

Materiality

The concept of materiality

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 Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.505m (PY £1.635m) for the group and £1.483m (PY £1.566m) for the Council, which equates to 2% of your forecast 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 £7,800 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.

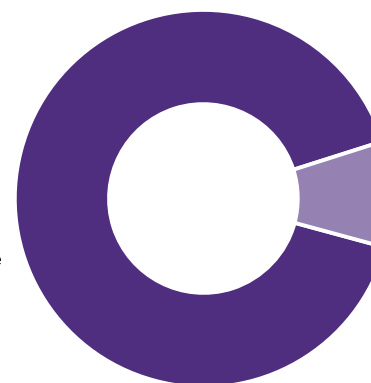
Matters we will report to the Audit, Compliance and Governance Committee

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, Compliance and Governance 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 Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £74,200 (PY £78,000).

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.

Prior year gross operating costs

£75,289m group
(PY: £75.289m)
£74.165 m Council
(PY: £75.289m)



■ Prior year gross operating costs

Materiality

£1.505m
group financial
statements
materiality
(PY: £1.635m)
£1.483m
Council financial
statements
materiality
(PY: £1.566m)



£74,200
Misstatements
reported to the
Audit, Compliance
and Governance
Committee
(PY: £78,000)

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Business World	Financial reporting	Streamlined ITGC design assessment

Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office (NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our Auditor's Annual Report.



Audit logistics and team



Alex Walling, Key Audit Partner

Responsible for overall quality control; accounts opinions; final authorisation of reports; attendance at Audit, Compliance and Governance Committee.



Sam Harding, Audit Manager

Responsible for the overall management of the audit; consideration of VFM work; quality assurance of audit work and outputs.



Ellie Nicholls, Audit Incharge

Ellie's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively and efficiently, and is also involved in supervising and co-ordinating the audit team.

Audited body responsibilities

Where audited bodies 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 audits. Where the elapsed time to complete an audit exceeds that 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 agreed timetable 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 items for testing
- 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.

Audit fees

PSAA awarded a contract of audit for Cheltenham Borough Council to begin with effect from 2018/19. The fee agreed in the contract was £38,043. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

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, as detailed on page 14 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2021/22, as set out below further discussions are ongoing on the level of fee, which are being discussed with the Director of Finance.

	Actual Fee 2019/20	Actual Fee 2020/21	Proposed fee 2021/22
Cheltenham Borough Council Audit (2019/20 includes £4,000 of valuation experts external to Grant Thornton)	£60,929	£59,543	£TBC
Total audit fees (excluding VAT)	£60,929	£59,543	£TBC

Assumptions

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

- prepare a good quality set of financial statements, 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 \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and 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 (Revised 2019) 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams and component audit firms providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified. 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 Council's policy on the allotment of non-audit work to your auditors. 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.

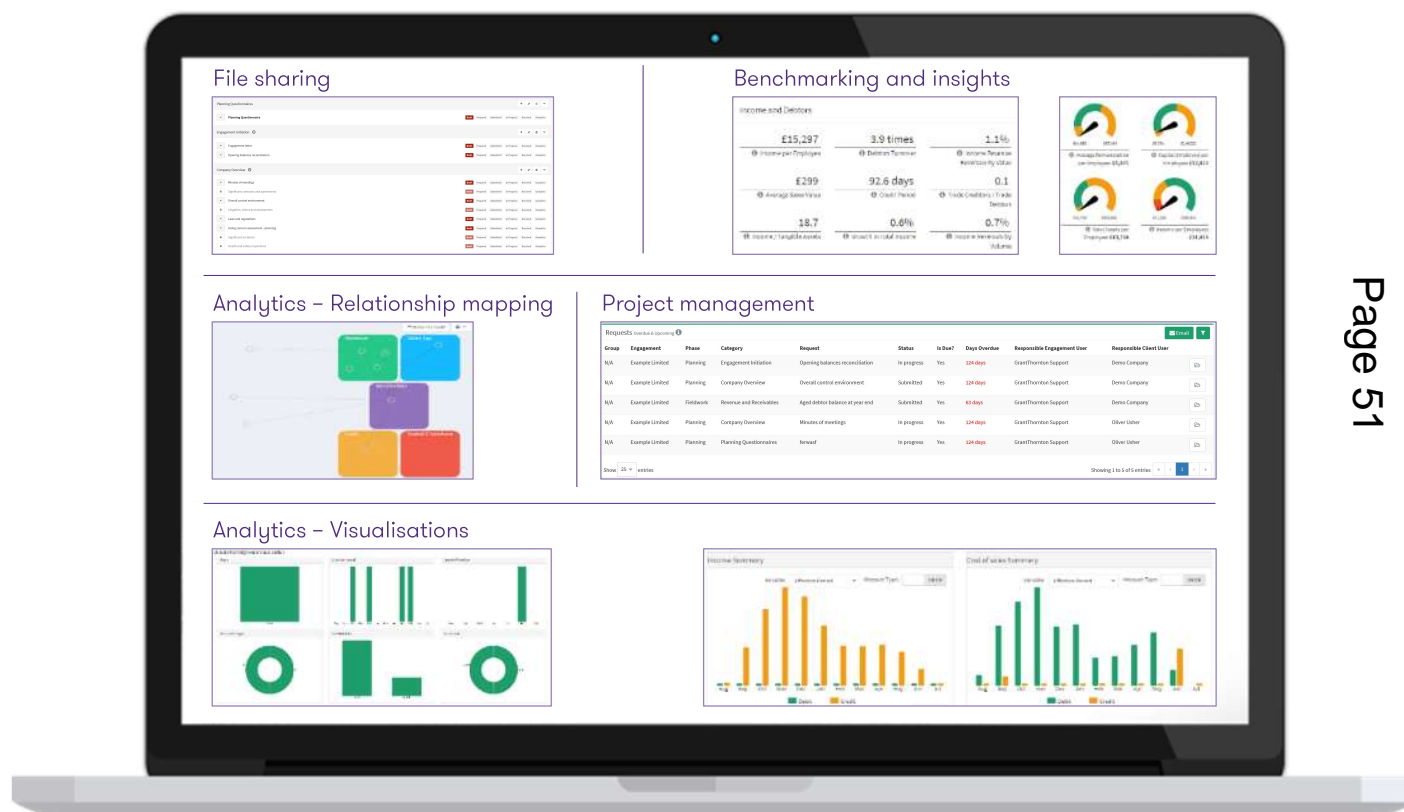
None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Capital receipts grant	6,000	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 £6,000 in comparison to the total fee for the audit 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.
Certification of Housing Benefit subsidy	28,923	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 £28,923 in comparison to the total fee for the audit 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.

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



Project management

- Facilitates oversight of requests
- Access to a live request list at all times



Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix 1: Progress against prior year audit recommendations

We identified the following issues in our 2020/21 audit of the group's financial statements, which resulted in 6 recommendations being reported in our 2020/21 Audit Findings Report. We are following up on the implementation of our recommendations as part of our audit procedures.

Issue and risk previously communicated

Update on actions taken to address the issue

It was identified that the total value of heritage assets was not covered by the insurance certificate. Insurance cover held is £650k less than the value of these assets.

Should the whole portfolio be damaged or destroyed, the Council would have insufficient insurance cover to replace these assets.

We would as such recommend that management review the coverage on an annual basis to ensure that sufficient insurance cover is held.

This is being followed up as part of our audit work.

There were some issues evidencing older balances, this was identified in grant testing; particularly where grants are being carried as receipts in advance or released from receipts in advance during the year.

We were advised that this has largely been the case where there have been changes in staffing and information has been lost with members of staff leaving the Council.

There is a risk that balances relating to prior periods are incorrectly carried forward or released into the incorrect reporting period if there is not sufficient record keeping.

We would recommend that a review of balances carried forward as at 31 March 2021 is undertaken to ensure that management are fully aware of what these balances relate to and investigate where there is any uncertainty around transactions.

Going forward, it would be beneficial to ensure that sufficient records are kept where balances are carried forward into new reporting periods. This will enable information is not lost with staff changes.

This is being followed up as part of our audit work.

Appendix 1: Progress against prior year audit recommendations

Issue and risk previously communicated

Update on actions taken to address the issue

Our testing identified 17 journals that had a blank description, these were selected for testing as this is a weakness in a key control. There is a risk that inappropriate journals could be posted to the ledger to conceal fraudulent activity.

This is being followed up as part of our audit work.

We would recommend that all journals are posted with a description, and this is considered as part of the review process. Further training may be necessary for journal posted to ensure the finance team is aware of the important of this key control.

The Council has incorrectly included capital receipts within its annual charge for MRP which has reduced the amount charged to revenue in the year. This is contrary to the regulations which prescribe the use of capital receipts. Consequently, the annual charge of MRP to the revenue account is understated for the year.

This is being followed up as part of our audit work.

The Council needs to revisit its approach for charging MRP so that it does not include capital receipts in lieu of charges to the revenue account.

Appendix 1: Progress against prior year audit recommendations

Issue and risk previously communicated

Our testing on the valuation of property, plant and equipment and investment properties identified several errors in relation to source data as detailed within 'key judgments and estimates' from page 13.

The Council had difficulty providing evidence to support the floor areas of some assets and properties we selected for testing. We would expect the Council to maintain up to date records of property data, such as floor areas.

Where these were not available, we have used Valuation Office Agency data and Energy Performance Certificate's to corroborate the floor areas.

We would deem the lack of up-to-date property information to be a weakness in evidence. In one case, the Council was unable to evidence why a car park was valued at £227k. This car park is non-revenue generating and is recognised in the fixed asset register as part of another building asset. We have noted that this is an isolated issue and no other assets hold a car park that have been valued in this way. We do not deem this to be an error, but an amount for which we cannot obtain sufficient and appropriate evidence and are reporting this as such.

We were also unable to corroborate the fact that management have challenged the valuer on the valuations they produced. As the estimates in the Statement of Accounts are the responsibility of management, not the valuer, we would expect there to be some documentation of the challenges raised.

Update on actions taken to address the issue

This is being followed up as part of our audit work.

The Council has incorrectly included capital receipts within its annual charge for MRP which has reduced the amount charged to revenue in the year. This is contrary to the regulations which prescribe the use of capital receipts. Consequently, the annual charge of MRP to the revenue account is understated for the year.

The Council needs to revisit its approach for charging MRP so that it does not include capital receipts in lieu of charges to the revenue account.

This is being followed up as part of our audit work.



Cheltenham Borough Council
Audit, Compliance and Governance Committee – 20th April 2022
Proposed 2022/23 Internal Audit Plan
Internal Audit Charter

Accountable member	Councillor Peter Jeffries, Cabinet Member for Finance and Assets
Accountable officer	Paul Jones, Executive Director – Finance and Assets
Ward(s) affected	All
Key/Significant Decision	No
Executive summary	<p>The Council must ensure that it has sound systems of internal control which facilitate effective management of all the Council's functions. The work planned by SWAP Internal Audit Services, the Council's Internal Audit service, is one of the control assurance sources to the Audit, Compliance and Governance Committee and Senior Leadership Team and which supports the work of the external auditor. The work is also a key component of the Council's governance framework and as assurance source supporting the Annual Governance Statement, which forms part of the statutory accounting standards.</p> <p>Following CIPFA's guidance on Audit Committee, the Committee this evening should "formally approve (but not direct) the Internal Audit plan".</p> <p>The Internal Audit Charter is a requirement of the arrangement between Cheltenham Borough Council and SWAP Internal Audit Services (SWAP). The charter ensures compliance with good practice as set out in the International Professional Practices Framework of the Institute of Internal Auditors and the Public Sector Internal Audit Standards (PSIAS).</p>
Recommendations	<p>The Audit, Compliance and Governance Committee approves the Proposed 2022/23 Internal Audit Plan</p> <p>The Audit, Compliance and Governance Committee approves the Internal Audit Charter</p>
Financial implications	<p>There are no financial implications arising from the report</p> <p>Contact officer: Gemma Bell, Head of Finance (Deputy Section 151 Officer)</p> <p>Gemma.Bell@cheltenham.gov.uk, 07341 780601</p>
Legal implications	<p>None specific arising from the report recommendation</p> <p>Contact officer: One Legal</p> <p>legal.services@tewkesbury.gov.uk, 01684 272012</p>
HR implications (including learning and organisational development)	<p>The HR implications are as detailed in the Internal Audit Plan. HR will work closely with Internal Audit in respect of the areas of coverage as detailed in Financial Management and People and Asset Management in order to meet the actions required.</p> <p>Contact officer: Julie McCarthy, HR Manager – Operations</p> <p>Julie.McCarthy@publicagroup.uk, 01242 264355</p>

Key risks	<p>The audit plan derived from consultation with Corporate Management Team, Executive Leadership Team, Audit, Compliance and Governance Committee, the Internal Audit Team and through reference to relevant policy, strategy and protocol documents including the risk register. The plan is designed to capture key and emerging risks that this Council faces over the year and therefore the plan will remain as flexible as possible to ensure internal audit resources remain focussed and valued.</p> <p>Internal Audit activity is needed each year to satisfy assurance requirements. For example, Internal Audit review key financial systems annually because the external auditors may rely on this in their own work on final accounts. In addition, the requirement for the Council to review its system of internal control and governance procedures means that assurance is required on systems and procedures relating to the compilation of the Annual Governance Statement. If this work is not completed by Internal Audit additional fees from External Audit may be incurred.</p> <p>Furthermore, Internal Audit is a statutory function under the Accounts and Audit (England) Regulations 2015. <i>“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.”</i></p> <p>The risk of failure to deliver core elements of the plan will be mitigated through the Partnership Board monitoring process. The representative from Cheltenham Borough Council is Paul Jones, Executive Director – Assets and Finance (Section 151 Officer)</p> <p>Furthermore, Audit, Compliance and Governance Committee will continue to receive quarterly reports through 2022/23 from Internal Audit detailing the work undertaken in relation to the plan.</p> <p>Without an approved charter there is a risk that SWAP will not have:</p> <ul style="list-style-type: none"> • The support of management and the Council • Direct access and freedom to support senior management including the Chief Executive and the Audit, Compliance and Governance Committee • Access to any records, personnel or physical property of the Council for audit work
Corporate and community plan Implications	<p><i>“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.” (Chartered Institute of Internal Auditing UK and Ireland).</i></p> <p>Therefore, the internal audit activity impacts on corporate and community plans.</p>
Environmental and climate change implications	<p>Relevant to particular audit assignments and will be identified within individual reports.</p>
Property/Asset Implications	<p>There are no specific Property/Asset Implications arising from the content of the report</p> <p>Contact officer: Gemma Bell, Head of Finance (Deputy Section 151 Officer)</p> <p>Gemma.Bell@cheltenham.gov.uk, 07341 780601</p>

1. Background

- 1.1 The environment in which Cheltenham BC and other Local Authorities now operates has presented significant drivers for change. The continual effort to meet the organisational objectives within a constrained budget has resulted in core systems coming under review for change. Internal Audit needs to be responding to the changing environment and the areas where the organisation now requires assurances. This reinforces the requirement for Internal Audit to follow a more flexible and risk based plan.

2. Reasons for recommendations

- 2.1 The primary role of Internal Audit is to provide assurance that the Council's systems constitute a proper administration of its affairs. To this end, Internal Audit carries out a programme of audits that is agreed annually with Corporate Management Team and Executive Leadership Team and is approved by the Audit, Compliance and Governance Committee.
- 2.2 The requirements of the Public Sector Internal Audit Standards (PSIAS) and changes within the local authorities, SWAP Internal Audit Services, as the Internal Audit provider, needs to respond to the changing environment and the areas where the organisation now requires assurances. This reinforces the requirement for Internal Audit to follow a more flexible and risk based plan.
- 2.3 The core financial systems delivered to the Council by Publica Group are covered within the Core Financials, this will cover Publica and client-side activities providing;
- Assurance to the client (Cheltenham Borough Council) over the controls, and system controls, operated by Publica Officers, for each financial module (system control testing)
 - Periodic assurance over the other services provided by Publica
 - The required support to the External Auditor
- 2.4 A summary of the Proposed Internal Audit Plan for 2022/23 is included at Appendix 1. This lists the risk based assurance and consultancy work planned for the year. Counter fraud related audit work has not been included in this audit plan.
- 2.5 The Plan outlines a programme of work for 2022/23 as developed throughout January and February 2022 but due to the pace of change within Local Authorities, it is becoming increasingly difficult to accurately predict longer-term key organisational risks. Our approach to internal audit planning recognises this through a strategic 12 month rolling plan, whereby we have prepared an agile, risk assessed work plan containing key areas of coverage. This approach will ensure we are auditing the right areas, with the correct scope, at the right time.

3. Consultation and Feedback

- 3.1 The plan has been developed following consultation with and feedback from Corporate Management Team, Executive Leadership Team, the Internal Audit Team and the Audit, Compliance and Governance Committee.

4. Performance management – monitoring and review

The performance of SWAP Internal Audit Services is monitored by both the Audit, Compliance and Governance Committee and the Audit Partnership Board as detailed in the Internal Audit Charter.

- 5.1** The Audit Charter (Appendix 2) demonstrates how the Internal Audit service will operate, and forms part of the requirements of the Public Sector Internal Audit Standards (PSIAS).
- 5.2** The Charter provides guidance on authority, accountability, customer care (quality control), independence, reporting, responsibility and audit standards

Report author	Lucy Cater, Assistant Director, SWAP Internal Audit Services lucy.cater@swapaudit.co.uk 01285 623340
Appendices	1. SWAP Internal Audit Plan 2022/23 2. Internal Audit Charter

Cheltenham Borough Council

Proposed Internal Audit Plan 2022/23

Internal Audit Planning 2021/22

The internal audit plan represents a summary of the proposed audit coverage that the internal audit team will deliver throughout the 2022/23 financial year.

Introduction and Objective of the Audit Plan

Internal audit provides an independent and objective opinion on the Authority's risk management, governance, and control environment by evaluating its effectiveness.

Prior to the start of each financial year, SWAP, in conjunction with senior management, put together a proposed plan of audit work. The objective of our planning process and subsequent plan is to put us in a position to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.

The outcomes of each of the audits in our planned programme of work, will provide senior management and Members with assurance that the current risks faced by the Authority in these areas are adequately controlled and managed.

When reviewing the proposed internal audit plan (as set out in Appendix 1), key questions to consider include:

- Are the areas selected for coverage this coming year appropriate?
- Does the internal audit plan cover the organisation's key risks as they are recognised by the Senior Management Team and Audit, Compliance and Governance Committee?
- Is sufficient assurance being received within our annual plan to monitor the organisation's risk profile effectively?

Internal Audit Planning 2022/23

The proposed 2022/23 plan presented in Appendix 1 provides coverage of the Authority's key corporate objectives and risks as well as core areas of recommended coverage.

Internal audit is only one source of assurance and should be considered as such.

Update to Approach

Due to the pace of change within Local Authorities, it is becoming increasingly difficult to accurately predict longer-term key organisational risks. Our approach to internal audit planning recognises this through a strategic 12 month rolling plan, whereby we have prepared an agile, risk assessed work plan containing key areas of coverage. This approach will ensure we are auditing the right areas, with the correct scope, at the right time.

We will revisit and adjust our programme of work on at least a quarterly basis to ensure alignment with the changing risk profile of the organisation's operations, systems and controls and with regard to sector risks. The regular input of Senior Management and review of the Authority's risk register will be considered in this process. Our 2022/23 audit plan will contain an element of contingency in order that the plan can remain flexible and respond to new and emerging risks as and when they are identified and may include unannounced activity.

The proposed audit plan at Appendix 1 provides coverage of the Authority's key corporate objectives and risks, as well as our core areas of recommended audit activity.

Internal audit coverage can never be absolute and responsibility for risk management, governance and internal control arrangements will always remain fully with management. Internal audit cannot provide complete assurance over any area, and equally cannot provide any guarantee against material errors, loss or fraud.

Internal Audit Planning 2022/23

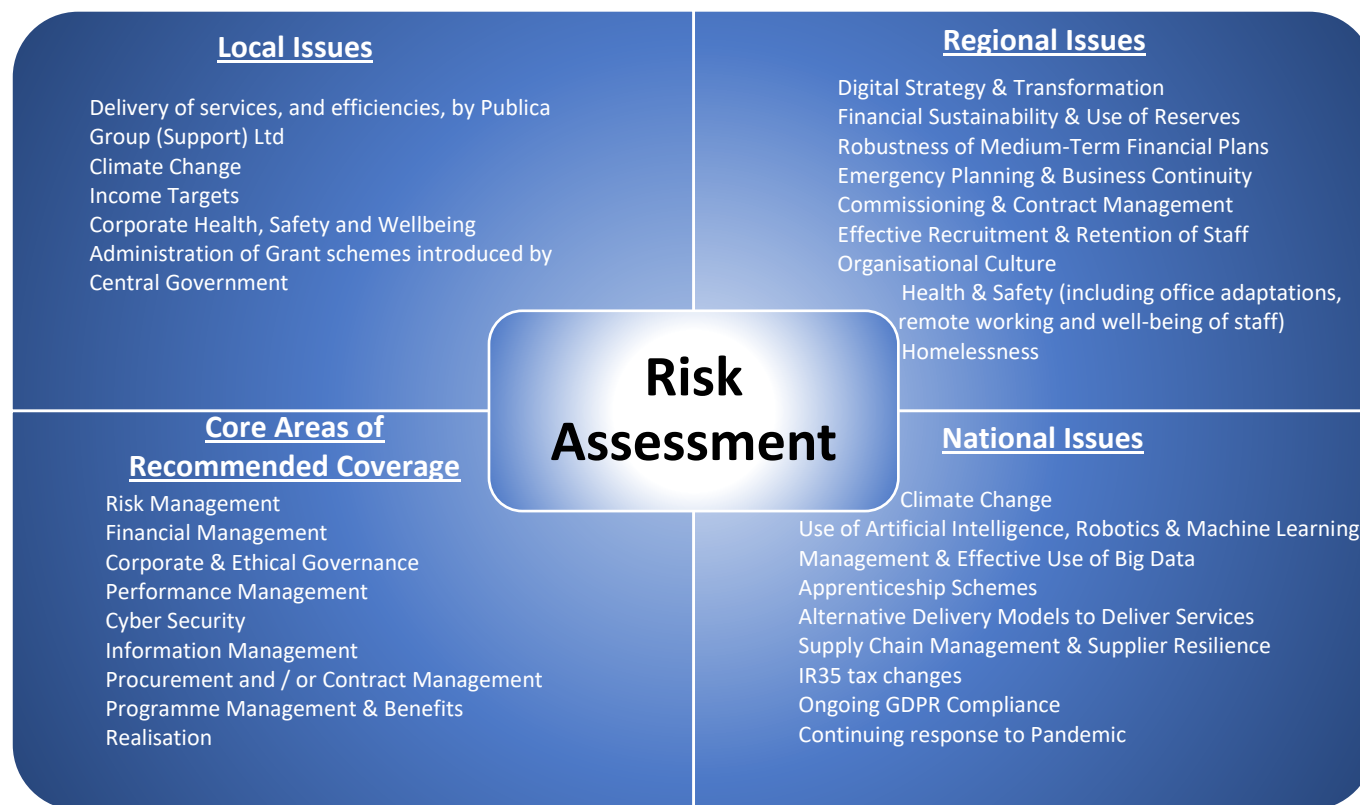
Our documented risk assessment helps to ensure that sufficient and appropriate areas are identified for consideration in our internal audit programme of work.

As above, it is the responsibility of the Authority's Senior Leadership Team, and the Audit, Compliance and Governance Committee to ensure that, with consideration of our risk assessment, the overall programme of work throughout the year contains sufficient and appropriate coverage.

Internal Audit Risk Assessment (updated)

Our 2022/23 internal audit programme of work is based on a documented risk assessment, which SWAP will revisit regularly, but at least annually. The input of senior management as well as review of the Authority's risk register has been considered in this process.

Below we have set out a summary of the outcomes of the risk assessment for Cheltenham Borough Council



It should be noted that the audit titles and high-level scopes included below are only indicative at this stage for planning our resources. At the start of each audit, an initial discussion will be held to agree the specific Terms of Engagement for the piece of work, which includes the objective and scope for the review.

Areas of Coverage and Brief Scope	Responsible Officer
Core Audit Areas	
Core Financials – Publica Controls (where applicable) and Transactional Testing <i>A review of the controls operating within Publica, and the Council, in respect of the Core Financial systems:</i> <ul style="list-style-type: none"> • Payroll • Accounts Payable (Creditors) – to include regular check of potential duplicate payments and reporting to AP service for investigation. Approvals on BW • Accounts Receivable (Debtors) • Treasury Management (Cash Flow Forecasting) and Bank Reconciliations • Main Accounting, Capital Accounting and Budgetary Control – Review to assess how Asset Management, Investment and Capital Strategies support the Medium Term Financial Plan (MTFP) including reporting mechanisms • Management and Monitoring of Contracts – following 2021/22 audit new annual review of a sample of Council Contracts to ensure compliance with Council's legislation / strategy 	Executive Director – Finance and Assets
Human Resources <i>A review of an element of the services provided by Human Resources (HR)</i>	Executive Director – People and Change
Other Publica Area <i>Review to be undertaken of either Procurement / Health and Safety / Insurance</i>	Executive Director – Finance and Assets
Revenues and Benefits <i>A review of the controls operating in respect of:</i> <ul style="list-style-type: none"> • Council Tax • National Non-Domestic Rates • Housing Benefit and Council Tax Support – HB Overpayment Recovery <i>Scope to be confirmed</i>	Executive Director – Finance and Assets
ICT Audits <i>Audits to be discussed and confirmed with the Chief Technology Officer and ICT Audit and Compliance Manager</i>	Executive Director – People and Change
Risk Management <i>To review a specific element of the Council's Risk Management process</i>	Executive Director – People and Change

Performance Management <i>A review of an element of Performance Management</i> <i>Scope to be confirmed</i>	Executive Director – People and Change
Regulatory Services <i>A review of either Licensing / Building Control / Environmental Health – service area to be confirmed</i> <i>A review of an element of Planning e.g. application processing, appeals, income allocation</i> <i>Area and scope to be confirmed</i>	Executive Director – People and Change / Place and Growth
Proposed Audit Areas	
Business Grant Post Payment Assurance <i>Post payment assurance on business grants applied for, and paid after March 2021, including Omicron Scheme</i>	
Covid Additional Relief Fund (CARF) <i>Review requested to assess scheme introduced by Central Government and administered by the Council</i>	
Council Tax £150 Rebate <i>Review to assess scheme introduced by Central Government and administered by the Council</i>	
Climate Change <i>Review to assess what business areas are doing to support the Council's commitment to the Climate Emergency</i>	
Carbon Reduction <i>Review to assess how carbon data is measured ensuring the Council continues to meet its commitment to carbon reduction</i>	
Changes to Prudential Code and Treasury Management Strategy <i>Audit to ensure strategies and / or policies have been updated to reflect changes made in the Prudential Code</i>	
Procurement Strategy <i>Review to ensure procurement of new contracts is in accordance with the updated, and approved, strategy</i>	
Contract Waivers <i>Audit to assess if contract waivers are being requested and approved in accordance with strategy / policy</i>	
Cyber Programme Governance <i>Review of the governance arrangements with the partner appointed to deliver the cyber programme. To include review of governance arrangements identified within the contract and to ensure transition risks have been mitigated against when delivery is transferred to contractor, where do responsibilities lie?</i>	
Grant Income	

<i>Audit to assess the effectiveness of the management of grant income by Service Managers. To include communications with the Finance Service and the allocation of income</i>	
Staff Welfare <i>Assessment of the support in place for staff welfare, during and after Covid-19, and emerging world events which may impact staff wellbeing</i>	
Stock Control <i>Review of stock control procedure at Cemetery and Crematorium – control weakness identified by CFEU</i>	
Rolling Audit Areas	
Leisure and Culture Facilities <i>Review to determine how the Council ensures the leisure service provider(s) are adhering to statutory Health and Safety regulations. Review to test requested confirmations for tests such as fixed wire testing, fire alarm systems and emergency lighting tests</i>	
Property Related Health and Safety <i>Review to assess the Health and Safety arrangements at the Council's properties (excl. housing stock, as this is managed by CBH) including compliance with Fixed Wire, Emergency Lighting and PAT testing</i>	
Use of Third-Party Workers <i>Review of the recruitment and on-going personnel management of agency / contractor / temporary / third-party workers who work at / on behalf of the Council. Are HR related considerations, processes and controls robust enough within individual service areas?</i>	
Will consider, during the year, and in discussion with the CFO and / or CEO, any further areas (not included above) that would benefit from an Internal Audit Review. The Audit Plan will be updated as appropriate	
Further requested assurance / advisory / support work	
Other Audit Involvement	
Management	

Preparation of IA Monitoring Reports and preparation and attendance at Audit, Compliance and Governance Committee. Annual Audit Planning. Attendance at Governance and Risk Groups. High level programme monitoring. Liaison meetings with CFOs and Management Teams

Follow-Up Audits

Follow-Up of Previous Year's Agreed Actions

Follow-Up audit of all High Priority Agreed Actions

Programmes and Projects

IA support to programmes and projects as appropriate

Grant Certification

Review (income and expenditure) and certification of Grants received by the Council ensuring funding requirements have been met (to include Disabled Facilities Grants)

Working with the Counter Fraud and Enforcement Unit

Provision to ensure collaborative working with the CFEU and to ensure control weaknesses, identified during CFEU activity, are being actioned. Regular liaison meetings

Contingency

Provision for new work based on emerging risks and Investigations

Cheltenham Borough Council

Internal Audit Charter 2022/23

The Internal Audit Charter

Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within Cheltenham Borough Council (CBC), and to outline the scope of internal audit work.

Provision of Internal Audit Services

Internal Audit is provided by SWAP Internal Audit Services (SWAP). This Charter forms part of the legal agreement between SWAP partners and should be read in conjunction with the Service Agreement and other key documents including the Data Sharing Protocol.

The budget for the provision of the internal audit service is determined by CBC, in conjunction with the SWAP Members Meeting. General financial provisions are laid down in the legal agreement, including the level of financial contribution, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment which is reviewed each year by the S151 Officer in consultation with the Chief Executive of SWAP.

Role of Internal Audit

The Accounts and Audit (England) Regulations, 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 the public sector internal auditing standards or guidance.”*

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Organisation’s operations. It helps CBC accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities of Management, the Audit, Compliance and Governance Committee and of Internal Audit

Management¹

Management is responsible for ensuring SWAP has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Council’s Chief Executive and the Audit, Compliance and Governance Committee.

Management is responsible for establishing (including the tracking and implementation of Internal Audit recommendations) and maintaining internal controls, including proper accounting records and other management information and is also responsible for the appropriate and effective management of risk.

¹ In this instance Management refers to the Senior Management Team

Audit, Compliance and Governance Committee²

The Audit, Compliance and Governance Committee is responsible for approving the scope of internal audit work, receiving communications from the SWAP Assistant Director (as Chief Audit Executive³) on the progress and outcomes of work undertaken, reviewing the independence, objectivity, performance, professionalism and effectiveness of the Internal Audit function, and obtaining reassurance from the SWAP Assistant Director as to whether there are any limitations on scope or resources.

Internal Audit

The SWAP Assistant Director is responsible for determining the scope, except where specified by statute, of internal audit work and for recommending action to be taken on the outcome of, or findings from, their work designed to provide assurance and add value.

Internal audit is responsible for operating under policies established by management in line with good practice. A range of SWAP policies exist to underpin staff and service development, including to seek out and implement new innovative audit techniques and increase technological solutions to ensure provision of an efficient and effective service and consolidate the role of Trusted Advisor.

Internal audit is responsible for conducting its work in accordance with the mandatory elements of 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) and the CIPFA Local Government Application Note. SWAP has been independently assessed and found to conform with the Standards.

Internal Audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. Members of SWAP who have transferred in to the department from other areas in Cheltenham Borough Council and / or Publica Group (Support) Ltd will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

Relationship with the External Auditors/Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

Status of Internal Audit in the Organisation

*The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

The Chief Executive for SWAP and Assistant Director also report to the Section 151 Officer, and to the Audit, Compliance and Governance Committee as set out below.

² In this instance Audit, Compliance and Governance Committee relates to "The Board" referred to in the PSIAS.

³ PSIAS refers to the 'chief audit executive'.

The Assistant Director is the first and primary contact point for the organisation on matters relating to the Audit, Compliance and Governance Committee, including the provision of periodic reports, as per company policy. The Assistant Director is also responsible for design, development and delivery of audit plans, subject to agreement of CBC.

Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of the organisation.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information used for operational and strategic decision making, and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management and communication of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls regarding the objectives of the organisation and its services;
- reviewing systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the organisation complies;
- reviewing, as appropriate, the means of safeguarding and verifying assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether they are being carried out as planned, with performance and accountabilities established;
- reviewing the operations of the organisation in support of their anti-fraud and corruption policy (and investigating where necessary), ethical expectations and corporate, social and environmental values and responsibilities; and
- at the request of management, internal audit may provide consultancy services (e.g. data analytics, benchmarking, strategic/project reviews/investigations etc) provided that:
 - independence is not compromised;
 - necessary skills exist to conduct the assignment, or which can be obtained without undue cost or delay;
 - the assignment scope is clearly defined and management can resource the work; and
 - there is clarity that the activity being undertaken is not internal audit work although the outcomes may contribute to the annual opinion.

Planning and Reporting

SWAP will submit an internal audit plan to Management and the Audit, Compliance and Governance Committee for approval, setting out the recommended scope of work and which will be developed with reference to current and emerging risks. The plan will be reviewed quarterly to ensure it remains relevant and adequately resourced.

SWAP will carry out the work as agreed, report the outcomes and findings both during and on completion of reviews, and make recommendations on action to be taken to the appropriate officers and copied to the S151 Officer. SWAP will present a regular summary of their work to Management and the Audit, Compliance and Governance Committee, including assessing the organisation's implementation of previous recommendations along with any significant, persistent and outstanding issues.

Internal audit reporting will normally comprise a brief presentation to relevant officers and accompanied by an appropriately detailed written report, with the format tailored as necessary to the nature of the work.

The Assistant Director will submit an annual report to Management and the Audit, Compliance and Governance Committee providing an overall opinion of the status of risk and internal control within CBC based upon, and limited to, internal audit activity conducted during the year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and Assistant Director (Chief Audit Executive) have the unreserved right to report directly to the Leader of the Council, the Chair of the Audit, Compliance and Governance Committee, the Chief Executive Officer and the External Audit Manager.

Revised, March 2022

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Cheltenham Borough Council

Audit, Compliance and Governance Committee – 20th April 2022

Internal Audit Progress Report

Accountable member	Councillor Peter Jeffries, Cabinet Member for Finance and Assets
Accountable officer	Paul Jones, Executive Director – Finance and Assets
Ward(s) affected	All
Key/Significant Decision	No
Executive summary	<p>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 (SWAP), the Council's internal audit service, is one of the control assurance sources available to the Audit, Compliance and Governance Committee, the Executive Leadership Team and Corporate Management Team and supports the work of the external auditor.</p> <p>The Annual Internal Audit Opinion presented to the Audit, Compliance and Governance Committee provides an overall assurance opinion at the end of the financial year. This Internal Audit Progress Report, however, is designed to give the Audit, Compliance and Governance Committee the opportunity to comment on the work completed by the partnership and provide 'through the year' comment and assurances on the control environment.</p>
Recommendations	The Audit, Compliance and Governance Committee considers the progress report and makes comment on its content as necessary
Financial implications	<p>There are no financial implications arising from the report</p> <p>Contact officer: Gemma Bell, Head of Finance (Deputy Section 151 Officer) Gemma.Bell@cheltenham.gov.uk, 07341 780601</p>
Legal implications	<p>None specific arising from the report recommendation</p> <p>Contact officer: One Legal legal.services@tewkesbury.gov.uk, 01684 272012</p>
HR implications (including learning and organisational development)	<p>There are no specific HR implications arising from the content of the report. The HR Team continue to work closely with CBC and SWAP to ensure that any HR related recommendations from audits are actioned.</p> <p>Contact officer: Julie McCarthy, HR Manager - Operations Julie.mccarthy@publicagroup.uk, 01242 264355</p>
Key risks	That weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives, if recommendations are not implemented.
Corporate and	<i>"Internal Auditing is an independent, objective assurance and consulting</i>

community plan Implications	<p><i>activity designed to assess, monitor and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes." (Chartered Institute of Internal Auditing UK and Ireland).</i></p> <p>Therefore, the internal audit activity impacts on corporate and community plans.</p>
Environmental and climate change implications	<p>Relevant to particular audit assignments and will be identified within individual reports.</p>
Property/Asset Implications	<p>There are no specific Property/Asset Implications arising from the content of the report</p> <p>Contact officer: Gemma Bell, Head of Finance (Deputy Section 151 Officer)</p> <p>Gemma.Bell@cheltenham.gov.uk, 07341 780601</p>

1. Background

- 1.1** The Audit Plan for 2021/22 was approved by this Committee on 21st April 2021. The role and responsibilities of Internal Audit reflect that it is there to help the organisation to achieve its objectives, part of the plan has been aligned to elements of this strategy. However, to inform the audit plan we have also reviewed other key documents, such as the Medium-Term Financial Strategy, change programme agendas and updates to the business plan, many of which contain risk assessments
- 1.2** In order to satisfy the requirements of the Public Sector Internal Audit Standards (PSIAS) and to reflect changes within the Council, SWAP needs to focus upon areas where the organisation now requires assurance. This reinforces the requirement for Internal Audit to follow a more flexible and risk-based plan.
- 1.3** There is also a benefit to supporting the work of the External Auditor (Grant Thornton). This is in the form of financial and governance audits to support such activities as value for money.

2. Reasons for recommendations

- 2.1** This report highlights the work completed by Internal Audit and provides comment on the assurances provided by this work.

3. Internal Audit Output

- 3.1** The Internal Audit Service is provided to this Council through SWAP Internal Audit Services (SWAP). SWAP is a locally authority-controlled company.
- 3.2** The SWAP report attached at **Appendix 1**, sets out the work undertaken by SWAP for the Council since the Committee's last meeting. It follows the risk-based auditing principles, and, therefore, this is an opportunity for the Committee to be aware of emerging issues which have resulted in SWAP involvement.
- 3.3** Officers from SWAP will be in attendance at the Committee meeting and will be available to address Members' questions.

Report author	Lucy Cater, Assistant Director, SWAP Internal Audit Services lucy.cater@swapaudit.co.uk 01285 623340
Appendices	1. Internal Audit Progress Report

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Cheltenham Borough Council

Report of Internal Audit Activity

April 2022

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Contents

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- Appendices:

Appendix A – Internal Audit Definitions

Appendix B – Audit Plan Progress

Appendix C – Summary of Audit Assignments

Appendix D – High Priority Findings and Agreed Actions

Appendix E – Summary of Agreed Actions

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

- **No**
- **Limited**
- **Reasonable**
- **Substantial**

Audit Framework Definitions

Control Assurance Definitions

No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Non-Opinion – 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 prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

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



Audit Framework Definitions

Categorisation of Recommendations

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

	Categorisation of Recommendations
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.

Definitions of Risk

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

Audit Type	Audit Area	Status	Opinion	No of Rec	Priority			Comments
					1	2	3	
					2020/21 Audits in Draft / In Progress at Annual Opinion			
Key Financial Control	Payroll	Final Report	Low Substantial	0				Reported in September
ICT	Systems Admin	Final Report	Medium Reasonable	2		2		Reported in September
ICT	Data Recovery Capabilities	Final Report	Low Substantial	1			1	Reported in September

Audit Type	Audit Area	Status	Opinion	No of Rec	Priority			Comments
					1	2	3	
2021/22 Audit Plan								
Operational	Accounts Payable	In Progress		0				Quarterly review of payments made. See Appendix C
Governance	Governance of Programmes and Projects	Final Report	High Reasonable	2		2		Reported in September
Operational	Procurement Cards	In Progress						
Operational	Election Expenses – Treatment of VAT	In Progress						
Follow-Up	Planning Enforcement	Final Report	Medium Reasonable	3		2	1	Reported in January
Operational	Procurement (Contract Management and Monitoring)	Final Report	Medium Substantial	1			1	Reported in January
Operational	Emergency Planning	Final Report	Low Reasonable	4	1	2	1	Reported in January
Operational	Publica Performance Information	Draft Report						
Governance	Risk Management	In Progress						
Governance	Governance and Monitoring of Strategic Partnerships	Final Report	High Reasonable	3		3		See Appendix C
Key Financial Control	Revenues and Benefits							
	• Council Tax and National Non-Domestic Rates	Final Report	Medium Substantial	-				Reported in January
	• Housing and Council Tax Benefits							
Key Financial Control	Core Financials							

Audit Type	Audit Area	Status	Opinion	No of Rec	Priority			Comments
					1	2	3	
	• Accounts Payable							Quarterly review of payments made. See Appendix C
	• Main Accounting and Accounts Receivable	In Progress						
	• Payroll	Final Report	High Substantial	-				See Appendix C
	• Treasury Management and Bank Reconciliation	Final Report	High Substantial	-				Reported in January
Key Financial Control	Human Resources							
Operational	Business Grant Funding – Post Payment Assurance	Final Report	High Substantial	-				Reported in January
Key Financial Control	Other Support Service provided by Publica • Procurement (Compliance with Strategy)							Rolling audit. Now planned for 2022/23 following adoption of updated Procurement Strategy.
ICT	Vulnerability Management	In Progress						
ICT	Accounts with Admin Privileges	In Progress						
ICT	Software and Hardware Assets							
Grant Certification	Disabled Facilities Grants	Complete						
Grant Certification	Restart Grants	Complete						
Follow-Up	Follow-Up of Agreed Actions (not included in an audit above)	On Going						
Other Audit Involvement	Working with the Counter Fraud Unit	On Going						

Audit Type	Audit Area	Status	Opinion	No of Rec	Priority			Comments
					1	2	3	
Other Audit Involvement	Management of the IA Function and Client Support	On Going						
Other Audit Involvement	Contingency – Provision for New Work based on emerging risks							

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

Monitoring the Performance of Strategic Commissioned Services – Final Report – March 2022

Audit Objective

To establish and review the governance framework processes and structures in place between the Council and Commissioned Service Providers

Assurance Opinion



There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Number of Agreed Actions

Priority	Number
Priority 1	0
Priority 2	3
Priority 3	0
Total	3

Risks Reviewed

An inadequate governance structure and culture leads to a lack of direction, poor management and monitoring, inadequate decision making and a lack of transparency, which will impact on the organisations ability to deliver its corporate partnership objectives.

Assessment

Medium

Key Findings



The Risk Register in Clearview includes a relationship risk relating to Publica and several Ubico risks, but there is no risk relating to the Internal Audit service provided by SWAP. Given the diverse nature of the strategic commissioned service providers reviewed, each facing different issues, we would expect to find a Risk, outlining controls, specific to each provider either in the Corporate or Service Risk Registers.



The Corporate Risk Register was reported to Overview and Scrutiny Committee in September 2012. We can find no recent Agendas with risk reporting for the Audit, Compliance and Governance Committee who, amongst other things, has Risk Management as one of its remits.



Where the Member's Section 151 Officer, who has statutory responsibility for the provision of Internal Audit, is no longer serving on the SWAP Board, it was agreed by the SWAP Board that they could continue to receive the 'non-confidential' reports to provide them with necessary assurance such as the Financial Status of the Partnership; this is not happening.

Audit Scope

The scope of this audit, although touching on the arrangements in place for each Strategic Commissioned Service provider, focussed on the governance arrangements in place to assure the Member (Owner) Organisations.

Three Strategic Commissioned Service providers were reviewed as part of this audit:

- Publica
- Ubico
- SWAP

Summary Conclusion

The Governance over Strategic Commissioned Service providers is essential if the Council Owners are to be assured that they are receiving a quality service that represents value for money. From this review we can offer reasonable assurance that effective measures are in place through regular Officer/Member meetings and reporting through to the appropriate Council Committees. We have found that each of the providers fulfil their obligations outlined in their Agreements and Articles of Association.

The relationship with Strategic Commissioned Service providers, apart from SWAP, works differently for CBC than it does for the other Partner Councils. Each Provider has an assigned Director who acts as Service Commissioner and has the support of other staff who deal with the day to day operational issues, only escalating significant matters to the Director. This arrangement works well for CBC.

Accounts Payable – Continuous Auditing Analysis – March 2022

Audit Objective

The objective of the continuous review is to:

- Identify potential duplicate payments, summarise, and present to the AP team for remedial action,
- Review payments made on 'Sundry Supplier' codes to ensure genuine 'one-off' payments.

Audit Scope

1. Duplicate payments – review covers a period of 2 years, checking for potential duplicate payments for the Council and between Councils and/or Publica and/or CBH. Findings have been summarised and reported to AP for further review and correction where necessary. Findings have been followed-up during the subsequent review.

2. Sundry Suppliers – review covers current quarter, checking for numerous payments made to a supplier. Where examples of these are identified they have been reported to AP for further review and where appropriate the creation of a specific supplier record on AP will be required.

Testing / Findings	Q1 (Aug 21)	Q2 (Nov 21)	Q3(Feb 22)	Q4
Duplicate Payments				
Number of Duplicate Payments identified (paid twice including HRA expenditure)	6	1	2	
Value of Duplicate Payments identified (paid twice including HRA expenditure)	£3,614.64	£150.00	£2273.60	
Number of Payments recovered either by Credit Note or Refund request from previous quarter	n/a	0	5	
Value of Payments outstanding from previous quarter	n/a	£3,614.64	£1689.84	
Number of Duplicate Payments identified (paid by CBC and CBH)	3	0	1	
Value of Duplicate Payments identified (paid by CBC and CBH)	£2,116.18	£0	£388.12	
Number of Payments recovered either by Credit Note or Refund request from previous quarter	n/a	2	1	
Value of Payments outstanding from previous quarter	n/a	£1,112.54	£0	
Sundry Suppliers				
Number of supplier(s) appearing more than once under the Sundry Supplier Record	1	1	0	
Number of payments made to supplier(s) who appear more than once under the Sundry Supplier Record	2	2	0	
Supplier record created on BW	0	0	0	

For Information

This continuous report will be included within the annual AP audit report and will support the annual assurance score.

Payroll – March 2022

Audit Objective

To provide assurance payroll deductions and payments to 3rd parties are made in accordance with agreed processes and are appropriate and timely.

Assurance Opinion



A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Number of Actions

Priority	Number
Priority 1	0
Priority 2	0
Priority 3	0
Total	0

Risks Reviewed

Errors in deductions/payment and unreconciled items could lead to inaccurate financial data being submitted to government bodies, which may result in financial penalties and / or reputational damage.

Assessment

Low

Key Findings



This year's review specifically focussed on payments and deductions made via the payroll. Previous reviews have also been used to inform this assurance opinion.

CBC's Payroll suspense accounts have consistently balanced to zero at year end. Deductions from employees, payments to HMRC and to third parties can be traced through Business World.

Detailed payroll guidance and procedure documentation is available to all payroll team members. Checklists are used as guidance and to record when payroll processes are complete. Payroll tasks can be added and removed monthly, depending on requirements. Completed checklists are retained and changes can be tracked.

HMRC Real Time Information (RTI) reporting is in place enabling tax codes to be updated directly with HMRC prior to a payroll run. Off payroll employees are set up on the payroll system so tax can be paid as per the IR35 regulations.



Outstanding agreed actions from previous audits are now complete.

Audit Scope

This work addressed the above objective and reviewed the controls operating in the following areas:

- Review of suspense and/or holding accounts.
- Deductions from payroll
- Payments to HMRC and third parties.
- Payments to HMRC, pensions, etc made properly/timely.
- Progress on previously agreed actions.

Discussions were held with the Payroll Team Leader and payroll team. Most of the Information obtained has been provided by the payroll team. The payroll system and publicly available information has also been used.

Additional Information

We confirm Payroll procedures are in place to administer IR35 regulations for "off-payroll" employees. Control to determine these employees' rests with hiring managers; CBC may wish to consider whether the "off-payroll" employee process operating within service areas is effective.

High Priority Findings and Agreed Actions

APPENDIX D

Audit Name	Priority	Finding	Agreed Action(s)	Due Date / Rev Date	Responsible Officer	Update April 2022
Monitoring the Performance of Commissioned Strategic Services 46754	2	Given the diverse nature of the strategic commissioned service providers reviewed, each facing different issues, we would expect to find a Risk, outlining controls, specific to each provider either in the Corporate or Service Risk Registers. Risks relating to all strategic commissioned service providers should be reviewed on an annual basis to ensure that the status of the provider hasn't changed.	The S151 Officer should ensure that the Corporate Risk Register or Service Risk Register includes an individual risk for each of its Strategic Commissioned Service providers, separately and that these are reviewed at least on an annual basis.	Jun 2022	Executive Director – Finance and Property (S151 Officer)	
Monitoring the Performance of Commissioned Strategic Services 46708	2	The Council needs to be clear on which Committee is responsible for Risk Management and ensure that the Committee receive regular assurance on the effectiveness of Risk Management.	The Section 151 Officer should clarify whether responsibility for Risk Management rests with the Over and Scrutiny Committee or the Audit, Compliance and Governance Committee (which currently has Risk Management in its remit) and then ensure that regular Risk Management updates are presented.	Jun 2022	Executive Director – Finance and Property (S151 Officer)	
Monitoring the Performance of Commissioned Strategic Services	2	Where the Member's Section 151 Officer, who has statutory responsibility for the provision of Internal Audit, is no longer serving on the SWAP Board, it was agreed by the SWAP Board that they could continue to receive the 'non-confidential' reports to provide them with necessary assurance such as the Financial Status of the Partnership; this is not happening.	As agreed by the SWAP Board, the Section 151 Officer should ensure that they receive SWAP Board papers with the exception of those deemed 'confidential'.	Jun 2022	Executive Director – Finance and Property (S151 Officer)	

High Priority Recommendation Follow-Up

APPENDIX D

Audit Name	Priority	Finding	Agreed Action(s)	Due Date / Rev Date	Responsible Officer	Update April 2022
Planning Enforcement Follow-Up 44904	2	Enforcement performance monitoring is not recorded.	<p>The Enforcement Manager advised the recording of one-to-ones in the conversation section of the L&D system is being trialled. The officer is hoping to have this action fully implemented by the end of October 2021.</p> <p>Review of the Enforcement Notices Issued spreadsheet can confirm the total number of Enforcement Notices issued are recorded against properties accordingly.</p>	Nov 2021	Senior Enforcement & Compliance Officer	<p>Information has been provided demonstrating the recording of one-to-ones in the conversation section of the L&D system. Data was also provided demonstrating that details of the action taken on each enforcement case is recorded within the Uniform system.</p> <p>A live demonstration of the one-to-one process and Uniform recording process was also shared.</p> <p>Agree Action implemented and closed.</p>
Planning Enforcement Follow-Up 45224	2	Formal Planning Enforcement KPIs are not maintained.	Data quality will be reviewed to determine future KPIs. And that these KPIs will be added into Clearview along with the rationale behind them.	Jan 2022	Enforcement Manager	<p>Work is in progress.</p> <p>We will follow up in due course.</p>
Emergency Planning 46219	1	CBC Emergency Planning is not fully resourced	We will liaise with ELT to ensure Emergency Planning roles and on-call roles are adequately resourced.	<p>Jan 2022</p> <p>Jun 2022</p>	DEPLO	<p>Partially Implemented</p> <p>Evidence supplied to support 5 duty officers have been appointed and training has been provided, and a duty officer rota will commence from 21/02/22.</p> <p>The DEPLO advised loggists haven't been appointed yet due to a training availability delay - the training is specialised and provided by the county council's civil protection team.</p> <p>Revised Implementation Date</p>

High Priority Recommendation Follow-Up

APPENDIX D

Audit Name	Priority	Finding	Agreed Action(s)	Due Date / Rev Date	Responsible Officer	Update April 2022
Emergency Planning 46173	2	Some Gold Commanders have not undertaken training in the last 3 years.	We will; <ul style="list-style-type: none"> • Ensure all officers undertake training every 3 years as per the ERP. • Introduce a cycle of awareness sessions for Members. 	Mar 2022 Jun 2022	DEPLO	Partially implemented. The CEO and a Director completed gold training 24.01.22. The DEPLO confirmed others are on a waiting list but they cannot progress until new training dates are announced by LRF. The work plan states 'CBC staff to attend LRF/ other training as appropriate' by March 2022. And evidence supports a briefing is due to be given at an informal cabinet meeting in July. Revised Implementation Date
Emergency Planning 46171	2	No guidance for the use of Emergency Response WhatsApp groups.	We will liaise with the Counter Fraud Unit and ensure the Social Media Policy and guidance for WhatsApp use is provided to all emergency response officers. This guidance will ensure officers share information relating to emergency incidents securely, and chats are removed from personal devices when necessary.	Jan 2022 Jun 2022	DEPLO	Guidance to be drafted by CFEU
Procurement (Contract Management and Monitoring) 46226	2	Two versions of the Contract Rules were published on the Council's website and an out of date version was published on the staff intranet. The version within the Constitution does not include the 'Invitation to Tender' section. The section also refers to paragraph 11.3, but there is no paragraph 11.3.	The Head of Finance will ensure the correct version of Contract Rules are published in the Constitution and on the staff intranet.	Mar 2022	Chief Executive Officer	

High Priority Recommendation Follow-Up

APPENDIX D

Audit Name	Priority	Finding	Agreed Action(s)	Due Date / Rev Date	Responsible Officer	Update April 2022
Systems Admin 45115	2	Previous Recommendations not implemented		Jan 2022	ICT Audit and Compliance Manager	Followed up during the 'Privileged Account Management' Audit.
Systems Admin 45236	2	Some controls not as robust as expected		Jan 2022	ICT Audit and Compliance Manager	Followed up during the 'Privileged Account Management' Audit.
Governance of Programmes and Projects 45816	2	Benefits realisation processes are currently inconsistent. The Business Change Team Leader advised Clearview will be used going forward to inform managers when this needs to be completed. The officer advised service areas should have ownership of tracking outcomes and user experiences; however, this is not clearly stated in the project management guide.	<ul style="list-style-type: none"> We will update principle 4 on the project management guide to state benefits realisation is the responsibility of the service area. ELT will ensure there is ongoing oversight of projects and programmes in Clearview. 	Oct 2021	Executive Director of People & Change	<p>Principle 4 of the PM guide has now been updated.</p> <p>From the 12th January the Leadership Team will be reviewing a corporate project a week via Clearview with the lead PM. Action notes relating to the Clearview project update from Leadership Team meeting provided for meeting on 19/01/22.</p> <p>Agreed Action Complete and Closed</p>
Accounts Payable 45450	2	Amendments to supplier accounts cannot be monitored.	We will contact Publica Business World On System Support & Maintenance to investigate how we can monitor amendments made to supplier accounts, and we will monitor account amendments weekly.	Sept 2021	AP Team Leader	This will be followed up during the annual Accounts Payable audit.
Asset Management 44678	2	Reconciliation between the Uniform system and the Council's finance system is not completed as per the Financial Rules.	Work with finance to implement a process whereby income recorded in Uniform is reconciled with the Business World system in accordance with the financial rules.	May 2021 Mar 2022	Head of Finance	Work is in progress, the Head of Finance is aware of this and has agreed to a revised implementation date

High Priority Recommendation Follow-Up

APPENDIX D

Audit Name	Priority	Finding	Agreed Action(s)	Due Date / Rev Date	Responsible Officer	Update April 2022
ICT Incident Management 44560	2	As part of the Information Security framework of policies, the Incident Management Policy is out of date and requires review, update, and approval. Update of the policies has been impacted by the Covid-19 pandemic, and the need for a review is recognised by the ICT Audit & Compliance Manager.	ICT Audit and Compliance Manager will review and update all ICT Security Policies following the completion of the Cyber Security audit report. The aim to have drafted policies by April 2021 for circulation to all network users.	April 2021 Mar 2022	ICT Audit and Compliance Manager	The refresh and update of all ICT Policies is in progress and will be subject to consultation. Revised implementation date
ICT Incident Management 44562	2	There is a lack of detailed standard operating procedural documentation. Incident management investigation is currently based on a high-level process flow-chart denoted in the Incident Management policy; however, this lacks detailed information on how to conduct an incident investigation.	We have now commenced with documenting our cyber incident and investigation managements procedures	Jan 2022	ICT Audit and Compliance Manager	Ongoing The ICT Audit and Compliance Manager is working with the Security Engineer on an incident playbook that define the procedures and steps to be taken during an incident investigation. On target for completion by January 2022. Will be reviewed in the Vulnerability Management audit
Property Use of Contractors 42058	2	We recommend i. that process documents and associated procedures, aligned with CBC's Contract and Financial Rules, are documented and put in place so that a consistent approach to tasks can be followed and undertaken within the team as soon as possible. ii. A review of the service design should be undertaken to ensure that appropriate and effective processes and structures are in place.	Develop flow charts and sub processes to be agreed and signed off by section 151 officer. Started and talked already with Director and Publica Procurement to produce report on options going forward for strategic procurement of building related needs.	Mar 2020 Oct 2021	Senior Building Surveyor Head of Finance	Evidence has been received and confirms this agreed action has now been implemented. Agreed Action Complete and Closed

High Priority Recommendation Follow-Up

APPENDIX D

Audit Name	Priority	Finding	Agreed Action(s)	Due Date / Rev Date	Responsible Officer	Update April 2022
Property Use of Contractors 42057	2	<p>We recommend:</p> <ul style="list-style-type: none"> i. that unless specialist skills are required to complete specific works, only approved framework contractors are used for general building works. ii. that the progress of updating the contractor framework is pursued and if necessary escalated through Publica/One Legal Client Officers and Senior Management to ensure focus on this requirement is maintained. 	<p>Now using only framework contractors or obtaining waivers for non-specialist works.</p> <p>Additional frameworks are being pursued through One Legal for use of the GCC framework and Publica Procurement for additional frameworks.</p>	<p>Mar 2020</p> <p>Oct 2021</p>	<p>Senior Building Surveyor</p> <p>Head of Finance</p>	<p>Evidence has been received and confirms this agreed action has now been implemented.</p> <p>Agreed Action Complete and Closed</p>

Summary of all Agreed Actions from April 2019 and Progress against them

CBC ONLY	Priority			
	1	2	3	Total
TOTAL in Audit Period (From 4/19)	1	23	15	39
Open and current	0	3	0	3
Open and Outstanding/Overdue Subject to follow up	0	0	0	0
Open with date extended	1	5	3	9
Closed	0	15	12	27

PUB ONLY	Priority			
	1	2	3	Total
TOTAL in Audit Period (From 4/19)	0	14	16	30
Open and current	0	2	1	3
Open and Outstanding/Overdue Subject to follow up	0	2	2	4
Open with date extended	0	4	5	9
Closed	0	6	8	14

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Cheltenham Borough Council

Audit, Compliance and Governance Committee – 20 April 2022

Counter Fraud and Enforcement Unit Report

Accountable Member	Cabinet Member Finance and Assets, Councillor Peter Jeffries
Accountable Officer	Paul Jones Executive Director Finance and Assets Paul.Jones@cheltenham.gov.uk
Ward(s) affected	All indirectly
Key/Significant Decision	No
Executive summary	<p>The purpose of the report is to provide the Audit, Compliance and Governance Committee with assurance over the counter fraud activities of the Council. The Counter Fraud and Enforcement Unit will continue to provide Audit, Compliance and Governance Committee with direct updates biannually.</p> <p>Work plans are presented detailing progress and results for consideration and comment as the body charged with governance in this area.</p> <p>The report also provides the annual update in relation to the Regulation of Investigatory Powers Act 2000 (RIPA), the Investigatory Powers Act 2016 (IPA) and the Council's existing authorisation arrangements.</p>
Recommendations	<p>That the Audit, Compliance and Governance Committee:</p> <p>a) Notes the report and the work plan at Appendix 2 and makes comment as necessary.</p>
Financial implications	<p>The report details financial savings generated by the Counter Fraud and Enforcement Unit.</p> <p>Contact Officer: Paul Jones, Executive Director Finance and Assets Paul.Jones@cheltenham.gov.uk</p>
Legal implications	<p>In general terms, the existence and application of an effective fraud risk management regime assists the Council in effective financial governance which is less susceptible to legal challenge.</p> <p>The Authority is also required to ensure that it complies with the Regulation of Investigatory Powers Act 2000, the Investigatory Powers Act 2016 and any other relevant/statutory legislation regarding investigations. Any authorisations for directed/covert surveillance or the acquisition of communications data undertaken should be recorded appropriately in the Central Register.</p> <p>Contact officer: One Legal Legalservices@onelegal.org.uk</p>
HR implications (including learning and organisational development)	<p>The HR team continue to work closely with the Counter Fraud and Enforcement Unit on all internal investigations.</p> <p>The promotion of effective counter fraud controls and a zero tolerance approach</p>

	<p>to internal misconduct a positive work environment.</p> <p>Contact officer: Clare Jones, , HR Business Partner Clare.Jones @publicagroup.uk 01242 264355</p>
Key risks	<p>The Council is required to proactively tackle fraudulent activity in relation to the abuse of public funds. The Counter Fraud and Enforcement Unit provides assurance in this area.</p> <p>Failure to undertake such activity would accordingly not be compliant and expose the authority to greater risk of fraud and/or corruption.</p> <p>If the Council does not have effective counter fraud and corruption controls it risks both assets and reputation.</p> <p>The RIPA and IPA Policies demonstrate the Council's consideration of necessity, proportionality and public interest when deciding on surveillance activity or the decision to obtain personal communication data. The application of the Policies and Procedures, to govern surveillance and the obtaining of personal communications data, minimises the risk that an individual's human rights will be breached. Furthermore it protects the Council from allegations of the same.</p>
Corporate and community plan Implications	<p>In administering its responsibilities; this Council has a duty to prevent fraud and corruption, whether it is attempted by someone outside or within the Council such as another organisation, a resident, an employee or Councillor.</p> <p>The Council is committed to an effective counter fraud and corruption culture, by promoting high ethical standards and encouraging the prevention and detection of fraudulent activities, thus supporting corporate and community plans.</p>
Environmental and climate change implications	N/A
Property/Asset Implications	<p>There are no property implications associated with this report.</p> <p>Contact officer: Gemma Bell, Head of Finance and Property Gemma.Bell@cheltenham.gov.uk</p>

1. COUNTER FRAUD AND ENFORCEMENT UNIT REPORT

- 1.1. The Counter Fraud Partnership, which includes Cheltenham Borough Council was the subject of a recent service review. One of the agreed proposals was that the name of the Unit be changed to the 'Counter Fraud and Enforcement Unit' (CFEU) to better reflect delivery. This will give colleagues, clients and members of the public a clearer indication of the remit of the team.
- 1.2. The Audit, Compliance and Governance Committee oversees the Council's counter fraud arrangements and it is therefore appropriate for the Committee to be updated in relation to such activity.
- 1.3. Work plans have been agreed with the Executive Director Finance and Assets and the Council's Management. The Audit, Compliance and Governance Committee, as the body charged with governance in this area, is presented with a copy of the work plan for information.
- 1.4. Attached at Appendix 2 is a copy of the work plan for 2021/2022.
- 1.5. The CFEU has been supporting work streams related to the Business Grant Schemes. Most recently the team assisted with the mandatory pre-payment verification checks for the 519 applicants who applied for the Omicron Hospitality and Leisure Grant and the related Additional Restrictions Grant. The CFEU are also continuing with the work streams relating to the

- 1.6.** All Local Authorities participate in the Cabinet Office's National Fraud Initiative, which is a data matching exercise to help prevent and detect fraud nationwide. The use of data by the Cabinet Office in a data matching exercise is carried out with statutory authority under Part 6 of the Local Audit and Accountability Act 2014. It does not require the consent of the individuals concerned under Data Protection Legislation.
- 81 matches have been received via the Cabinet Office's National Fraud Initiative which has collated and compared business grant data nationwide in relation to the original schemes paid during the first lockdown. These matches have been reviewed by the CFEU: 73 required no further action and 8 cases are pending further enquiries. The matches relating to the grant schemes paid between November 2020 and April 2021 are expected in April 2022.
 - The team have reviewed 1,621 matches relating to single person discount anomalies. 110 accounts were referred to the Revenues Team requiring amendments. 68 accounts have been updated so far resulting in £42,594 increased revenue. 1027 additional matches relating to this year's data upload have now been received and the team have commenced the review.
 - The team have reviewed 191 matches relating to the Council Tax Reduction Scheme and Housing Benefit claims. 18 referrals have been made to the Department for Work and Pensions.
- 1.7.** In addition to the work carried out under the annual work plans attached at Appendix 2, as a dedicated investigatory support service, the CFEU undertakes a wide range of enforcement work according to the requirements of each Council. This includes criminal investigation and prosecution support for enforcement teams, investigations into staff/member fraud and corruption, or tenancy and housing fraud investigation work.
- 1.8.** During 2021 / 2022:
- The team has received 26 referrals from across the Council and closed 28 cases. This excludes any Council Tax Reduction Scheme referrals.
 - Single Point of Contact for Department for Work and Pensions (DWP) referrals - 41 Local Authority Information Exchange Forms have been received and 29 cases have been referred to DWP for action.
 - Undertaking the investigation of alleged fraud and abuse in relation to the Council Tax Reduction Scheme (Council Tax Support). 42 cases have been referred and 29 cases were closed. This resulted in 1 Criminal Sanction (Penalty £482) and £3,909 of recoverable Council Tax Support being calculated.
 - 3 disciplinary investigations were referred by the HR Team, in all three cases, the employees resigned prior to the conclusion of the investigation.
 - Work with Cheltenham Borough Homes 2021/2022:
 - 188 referrals received requesting checks for homelessness, right to buy, succession or housing applications. In relation to right to buy applications, additional checks have been introduced to ensure that any resultant benefit issues are addressed.
 - 51 referrals have been made relating to housing and tenancy fraud such as abandonment, illegal succession, subletting, false housing applications, right to buy fraud.
 - One case of Housing Application Fraud was successfully prosecuted in absence. The defendant received a Fine of £180 and was ordered to pay costs of £30. In addition, a Caution was issued to a member of the family for assisting with the fraudulent application.
 - 3 cases resulting in the termination of tenancy and return of the property, 1 case resulting in the withdrawal of a right to buy application and 1 case resulting in the withdrawal of a housing application. Loss avoidance figure £347,450.

- The CFEU received an interim referral, the employee resigned during the investigation.

2. REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) / INVESTIGATORY POWERS ACT 2016

- 2.1.** The Council's Policies are based on the legislative requirements of these Acts and the Codes of Practice relating to directed surveillance and the acquisition of communications data.
- 2.2.** The Policies were reviewed and presented to the Audit, Compliance and Governance Committee in January 2020; these were adopted by Cabinet in February 2020.
- 2.3.** The RIPA Surveillance and Covert Human Intelligence Source Policy was recently updated to reflect the new Covert Human Intelligence Sources (Criminal Conduct) Act 2021 which makes provision for those acting as covert agents to commit crime whilst undertaking their duties does not apply to the Council.
- 2.4.** The Use of the Internet and Social Media in Investigations and Enforcement Policy was drafted and presented to Audit, Compliance and Governance Committee in September 2021 and adopted by Cabinet in November 2021.
- 2.5.** The Council must have a Senior Responsible Officer and Authorising Officers to approve any applications for surveillance or the use of a Covert Human Intelligence Source, before the Court is approached. The Senior Responsible Officer is the Chief Executive, Gareth Edmundson and the Authorising Officers are the Executive Director People and Change, Darren Knight and the Director of Environment, Mike Redman.
- 2.6.** All applications for communications data are made online via the National Anti-Fraud Network (NAFN) which acts as the single point of contact for Councils. There is a requirement for the Council to nominate a Designated Senior Officer who will confirm to NAFN that the Council is aware of any request and approves its submission. This role is undertaken by the Counter Fraud Unit Manager and the Deputy Counter Fraud Unit Manager.
- 2.7.** The CFEU delivered refresher training to all enforcement staff and the Authorising Officers.
- 2.8.** There have been no RIPA applications made by the Council during 2021/2022, there was one application for communications data submitted. There have been six Non-RIPA applications made during 2021/2022 which relate to overt activity.
- 2.9.** The Council takes responsibility for ensuring its procedures relating to surveillance and the acquisition of communications data are continuously improved and all activity is recorded.

Report author	Emma Cathcart Head of Service, Counter Fraud and Enforcement Unit 01285 623356 Emma.Cathcart@cotswold.gov.uk
Appendices	1. Risk Assessment 2. Work Plan 2021/2022

Risk Assessment

Appendix 1

The risk				Original risk score (Impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likelihood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
1	The authority suffers material loss and reputational damage due to fraud	Executive Director Finance and Assets	December 2014	3	3	9	Reduce	Maintain a Counter Fraud Team to reduce the likelihood of the risk materialising and also to help recover losses, thus reducing the impact.	Ongoing	Chief Finance Officer	
2	Without dedicated specialist staff in place, the Council may be unable to take effective and efficient measures to counter fraud, potentially resulting in authority suffering material losses due to fraud and error	Executive Director Finance and Assets	September 2016	3	4	12		Retain a specialist Counter Fraud Unit to tackle the misuse of public funds on behalf of the Council.	Ongoing	Chief Financial Officer	
Explanatory notes Impact – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical) Likelihood – how likely is it that the risk will occur on a scale of 1-6 (1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability) Control - Either: Reduce / Accept / Transfer to 3rd party / Close											

Area of Work	Task
Governance	Delivery of two reports for Audit, Compliance and Governance Committee
Governance	Fighting Fraud & Corruption Locally - Checklist Compliance
Governance	Government Functional Standard 013: Counter Fraud - Compliance
Policy	Counter Fraud and Anti-Corruption Policy
Policy	Corporate Enforcement Policy
Policy	CTAX, CTRS & HB Penalty and Prosecution Policy
Policy	Proceeds of Crime & Anti-Money Laundering Policy
Policy	Whistle-Blowing Policy
Policy	RIPA (Surveillance & CHIS)
Policy	IPA (Acquisition of Communications Data)
Policy	Use of the Internet and Social Media in Investigations and Enforcement
Bribery and Corruption	Assessment Template Review
Bribery and Corruption	Policy and Procedure: Staff Declarations of Interest / Conflicts of Interest
Bribery and Corruption	Review of the Gifts and Hospitality Policy and Procedure
Serious and Organised Crime	Checklist Review
Serious and Organised Crime	Proactive Fraud Drive - transient / cash businesses
Statutory / Regulatory	Collation and Publication of Fraud Transparency Data
Statutory / Regulatory	RIPA / IPA - Annual Report to Members / Advisory / Inspection SPoC
Strategy : Detection	Housing Waiting List review
Strategy : Detection	National Fraud Initiative Match Reviews - Revenues / Benefits
Strategy : Detection	Procurement - Supplier Payment Review

Area of Work	Task
Strategy : Detection	Business Grants - Assurance and Enforcement Activities
Strategy : Detection	NNDR Empty Premises / CTAX LTE Property Visits
Strategy : Detection	SMI Review (sample 20)
Strategy : Detection	Holiday / Airbnb Review
Strategy : Prevention	Development / Review of Fraud Response Plan
Strategy : Prevention	Development of Fraud Awareness Literature (staff)
Strategy : Prevention	Development of Right to Buy Debt Recovery Process
Strategy : Prevention	Development of Service Specific Fraud Risk Register
Strategy : Prevention	Training Members / Staff - Fraud Awareness / RIPA & IPA / CPIA, PACE, Disclosure Training
Strategy : Prevention	Review of HR Recruitment and Vetting Policy and Procedures

RIPA = Regulation of Investigatory Powers Act 2000

IPA = Investigatory Powers Act 2016

CPIA = Criminal Procedure and Investigations Act 1996

PACE = Police and Criminal Evidence Act 1984

Cheltenham Borough Council

Audit, Compliance & Governance Committee – 20 April 2022

Local Code of Corporate Governance

Accountable member:	Cllr Rowena Hay, Leader of the Council
Accountable officer:	Darren Knight, Executive Director - People & Change
Accountable scrutiny committee:	Audit, Compliance & Governance Committee
Ward(s) affected:	All
Key Decision:	No
Executive summary:	<p>The council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.</p> <p>In discharging this accountability, members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal.</p> <p>The council has adopted the Local Code of Corporate Governance to ensure that these arrangements are in place and effective. The Local Code of Corporate Governance has been reviewed and presented to the committee for consideration and approval.</p>
Recommendations:	<ol style="list-style-type: none"> 1. Consider and approve the Local Code of Corporate Governance 2. Following approval of the Code, the Council's Governance Manager reviews the Council's compliance through the Annual Governance Statement (AGS).

Financial implications	<p>None.</p> <p>Contact officer: Gemma Bell</p> <p>E-mail: gemma.bell@cheltenham.gov.uk</p> <p>Tel no: 01242 264365</p>
Legal implications	<p>None.</p> <p>Contact officer: One Legal</p> <p>E-mail: legal.services@teWKesbury.gov.uk</p> <p>Tel no: 01684 272012</p>

HR implications (including learning and organisational development)	<p>None.</p> <p>Contact officer: Clare Jones</p> <p>E-mail: clare.jones@publicagroup.uk</p> <p>Tel no: 01242 264355</p>
Key risks	As outlined in Appendix 1
Corporate and community plan Implications	None.
Environmental and climate change implications	None.

1. Background

- 1.1 Cheltenham Borough Council is committed to the principles of good corporate governance and confirms its ongoing commitment and intentions through the development, adoption, monitoring and maintenance of its code of corporate governance. The Council recognises that achieving high standards of corporate governance encourages stakeholders to have confidence in us and allows the Council to undertake its community leadership role.
- 1.2 The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 1.3 In discharging this accountability, members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal.
- 1.4 The Council has adopted the Local Code of Corporate Governance to ensure that these arrangements are in place and effective. The Code of Corporate Governance was last reviewed in 2020/2021. The Local Code of Corporate Governance has been reviewed and presented to the committee for consideration and approval.

2. Local Code of Corporate Governance:

- 2.1 The Council's Code of Corporate Governance is based upon the CIPFA/SOLACE publication entitled *"Delivering Good Governance in Local Government; Framework 2016 Edition"*. This revised framework emphasises the importance of considering the long term and the links between governance and public financial management.
- 2.2 Appendix 2 is the Council's Local Code of Corporate Governance, which is to be reviewed and for approval by the Audit, Compliance & Governance Committee.

3. How the Local Code of Corporate Governance links to the Annual Governance Statement:

- 3.1 Local authorities are required to prepare a governance statement in order to report publicly on the extent to which they comply with their own code of governance on an annual basis, including how

they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the effectiveness of the governance and internal control framework.

3.2 The preparation and publication of an Annual Governance Statement in accordance with the framework fulfils the statutory requirement in England, Scotland, Northern Ireland and Wales for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts.

3.3 This report needs to be read in conjunction with the draft Annual Governance Statement for 2021/2022.

4. Monitoring:

4.1 Compliance with the Council's Code of Corporate Governance and any national guidance is carried out through an annual assurance test. The results of this test are monitored by the corporate governance group which is chaired by the Executive Director - People and Change and reported to the senior leadership team, the Audit, Governance and Compliance committee and council through the Annual Governance Statement. The Local Code of Corporate Governance will be reviewed periodically.

Report author:	Darren Knight, Executive Director - People & Change Tel: 01242 264387 e-mail address: darren.knight@cheltenham.gov.uk
Appendices:	1. Risk Assessment 2. Local Code of Corporate Governance
Background information:	Background reading available from CIPFA: https://www.cipfa.org/policy-and-guidance/publications/d/delivering-good-governance-in-local-government-guidance-notes-for-english-authorities-2016-edition

The risk				Original risk score (impact x likelihood)			Managing risk					
Risk ref.	Risk description	Risk Owner	Date raised	I	L	Score	Control	Action	Deadline	Responsible Officer	Transferred to risk register	
1	The Council needs to have mechanisms in place to ensure good governance to ensure decision making is transparent, legally correct and ensuring value for money for the taxpayer.	Cabinet Member for Corporate Services	March 2022	5	1	5	Reduce	Local Code of Corporate Governance Risk Management Policy Corporate Governance Officer Group Annual Governance Statement The review of Governance by the Audit, Compliance & Governance Committee	Ongoing	ED People & Change	April 2022	



Cheltenham Borough Council

Local Code of Corporate Governance

**Achieving intended outcomes, while acting
in the public interest at all times**

Document Control	
Created by:	Darren Knight, Executive Director - People & Change
Approved by:	Audit Committee
Approved date:	April 2021
Document Status:	Approved
Review date	April 2022
Published on website:	Yes

Delivering Good Governance:

Delivering Good Governance in Local Government; Framework, published by CIPFA in association with SOLACE, sets the standard for local authority governance in the UK. The concept underpinning the framework is to support local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The purpose of the Framework is to assist authorities individually in reviewing and accounting for their own unique approach, with the overall aim to ensure that:

- Resources are directed in accordance with agreed policy and according to priorities
- There is sound and inclusive decision making
- There is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities

Governance is a term used to describe the arrangements (including political, economic, social, environmental, administrative, legal and other arrangements) put in place to ensure that the intended outcomes for stakeholders are defined and achieved. Good governance enables the Council to effectively achieve its intended outcomes, whilst acting in the public interest at all times.

‘The International Framework: Good Governance in the Public Sector’ defines ‘governance’ as ***“comprising the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved”***.

Effective governance in the public sector encourages improved decision making and efficient use of resources. Effective governance is characterised by robust scrutiny, which provides important pressures for improving public sector performance and tackling corruption. Effective governance can improve management which leads to better service delivery and ultimately, better outcomes

The Delivering Good Governance in Local Government; Framework, sets out seven core principles of governance as detailed in the diagram below. Cheltenham Borough Council is committed to these principles of good governance and confirms this through the adoption, monitoring and development of the document – The Council’s Local Code of Corporate Governance.

Our Local Code is underpinned by the Delivering Good Governance in Local Government; Framework and is comprised of policies, procedures, behaviours and values by which the Council is controlled and governed. These key governance areas and how the Council provides assurance that is complying with these are set out in more detail within its Governance Assurance Framework.

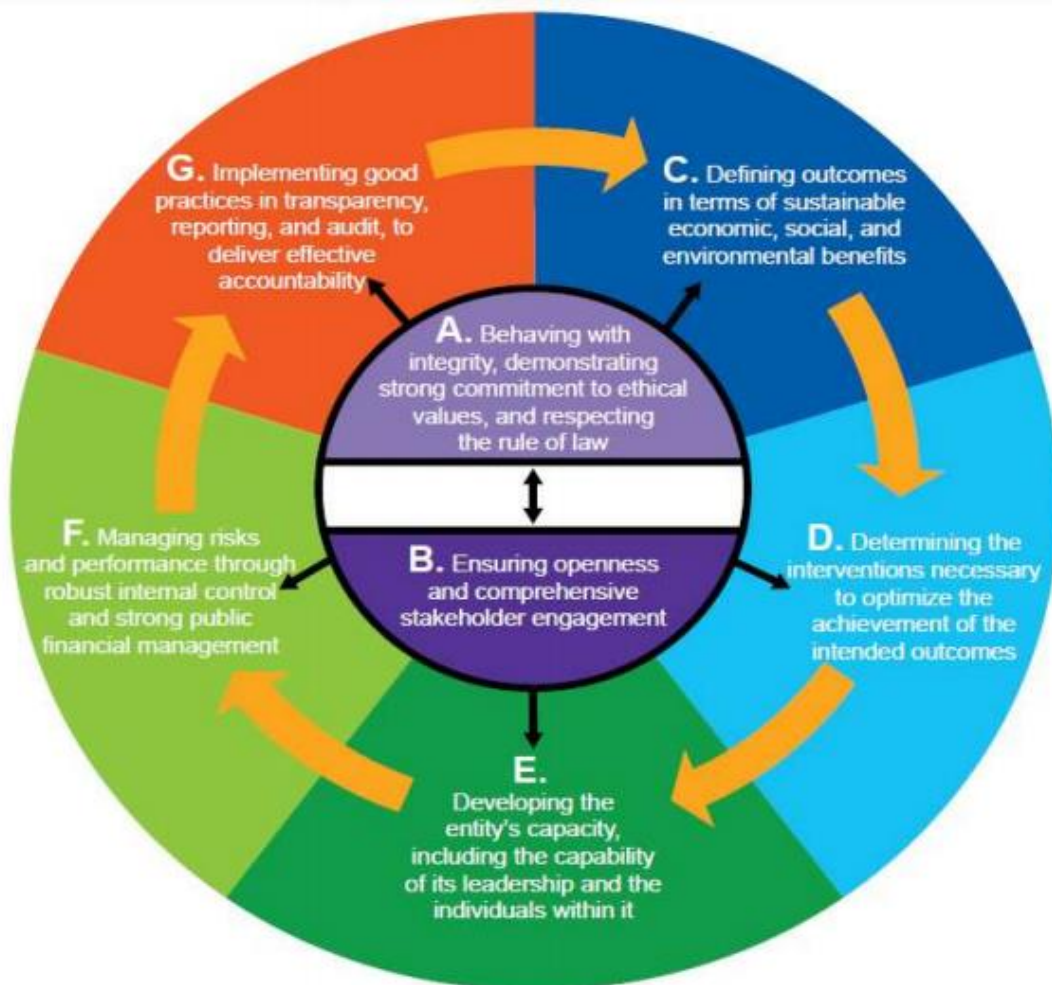
The Council recognises that establishing and maintaining a culture of good governance is as important as putting in place a framework of policies and procedures. The Council expects members and officers to uphold the highest standards of conduct and behaviour and to act with openness, integrity and accountability in carrying out their duties.

Core Principles:

There are seven principles of good governance as set out in the framework which are:

- A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
- B. Ensuring openness and comprehensive stakeholder engagement
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes
- E. Developing the capacity of the entity, including the capability of its leadership and the individuals within it
- F. Managing risks and performance through robust internal control and strong public financial management
- G. Implementing good practices in transparency, reporting and audit to deliver effective accountability

The diagram below, taken from the International Framework: Good Governance in the Public Sector (CIPFA/IFAC) (the 'International Framework'), illustrates the various principles of good governance in the public sector and how they relate to each other. Achieving the intended outcomes while acting in the public interest at all times.



This diagram illustrates how the various principles for good governance in the public sector relate to each other. Principle A and B permeate the implementation of Principles C to G. Further information regarding each of the above principles and the behaviours and actions that demonstrate good governance in practice are detailed at Appendix A.

The council has adopted the Local Code of Corporate Governance to ensure that these arrangements are in place and effective. This code was last reviewed in 2016/2017. Approving the Council's Local Code of Corporate Governance is the responsibility of the Audit, Compliance & Governance Committee.

How the Local Code of Corporate Governance links to the Annual Governance Statement:

Local authorities are required to prepare a governance statement in order to report publicly on the extent to which they comply with their own code of governance on an annual basis, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the effectiveness of the governance and internal control framework.

The preparation and publication of an Annual Governance Statement in accordance with the Framework fulfils the statutory requirement in England, Scotland, Northern Ireland and Wales for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts.

On an annual basis, the Chief Executive and Leader of the Council will publish an Annual Governance Statement which will:

- Assess how the Council has complied with this Code of Corporate Governance
- Provide an opinion on the effectiveness of the Council's arrangements
- Provide details of how continual improvement in the systems of governance will be achieved.

Appendix A

Principles	Sub-Principles	Behaviour and actions that demonstrate good governance in practice:
Acting in the public interest that requires a commitment to and effective arrangements for:		
A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of the law Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and respect the rule of the law.	Behaving with integrity	<ul style="list-style-type: none"> Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles) Leading by example and using the above standard operating principles or values as a framework for decision making and other actions Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively
	Demonstrating strong commitment to ethical values	<ul style="list-style-type: none"> Seeking to establish, monitor and maintain the organisation's ethical standards and performance Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values Ensuring that external providers of services on behalf of the Council are required to act with integrity and in compliance with ethical standards expected by the organisation
	Respecting the rule of the law	<ul style="list-style-type: none"> Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders Dealing with breaches of legal and regulatory provisions effectively Ensuring corruption and misuse of power are dealt with effectively

Principles	Sub-Principles	Behaviour and actions that demonstrate good governance in practice:
Acting in the public interest that requires a commitment to and effective arrangements for:		
B. Ensuring openness and comprehensive stakeholder engagement Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens, and service users, as well as institutional stakeholders. NB: Institutional stakeholders are the other organisations that local government needs to work with to improve services and outcomes (such as commercial partners and suppliers as well as other public or third sector organisations) or organisations to which they are accountable.	Openness	<ul style="list-style-type: none"> Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear Using formal and informal consultation and engagement to determine the most appropriate and effective interventions / courses of action
	Engaging comprehensively with institutional stakeholders	<ul style="list-style-type: none"> Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcome for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively Ensuring that partnerships are based on: <ul style="list-style-type: none"> ✓ trust ✓ A shared commitment to change ✓ A culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit
	Engaging with individual citizens and service users effectively	<ul style="list-style-type: none"> Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs Implementing effective feedback mechanisms in order to demonstrate how

		<p>views have been taken into account</p> <ul style="list-style-type: none"> • Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity • Taking account of the impact of decisions on future generations of tax payers and service users
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Principles	Sub-Principles	Behaviour and actions that demonstrate good governance in practice:
Acting in the public interest that requires a commitment to and effective arrangements for:		
C. Defining outcomes in terms of sustainable, economic, social and environmental benefits The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.	Defining outcomes	<ul style="list-style-type: none"> • Having a clear vision, which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation's overall strategy, planning or other decisions • Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer • Delivering defined outcomes on a sustainable basis within the resources that will be available • Identifying and managing risks to the achievement of outcomes • Managing service users' expectations effectively with regard to determining priorities and make the best use of resources available
	Sustainable, economic, social and environmental benefits	<ul style="list-style-type: none"> • Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decisions about service provision • Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints • Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs • Ensuring fair access to services

Principles	Sub-Principles	Behaviour and actions that demonstrate good governance in practice:
Acting in the public interest that requires a commitment to and effective arrangements for:		
D. Determining the interventions the necessary to optimise the achievement of the intended outcomes Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.	Determining interventions	<ul style="list-style-type: none"> Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts
	Planning interventions	<ul style="list-style-type: none"> Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered Considering and monitoring risks facing each partner when working collaboratively, including shared risks Ensuring arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured Ensuring capacity exists to generate the information required to review service quality regularly Preparing budgets in accordance with objectives, strategies and the medium term financial plan Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy
	Optimising achievement of intended outcomes	<ul style="list-style-type: none"> Ensuring the medium term financial strategy (MTFS) integrates and balances service priorities, affordability and other resource constraints Ensuring the budgeting process in all-inclusive, taking into account the full cost of operations over the medium and long term Ensuring the MTFS sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while

		optimising resource usage Ensuring the achievement of 'social value' through service planning and commissioning
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Principles	Sub-Principles	Behaviour and actions that demonstrate good governance in practice:
Acting in the public interest that requires a commitment to and effective arrangements for:		
<p>E. Developing the entity's capacity, including the capability of its leadership and the individuals within it</p> <p>Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mind-set, to operate efficiently and effectively and achieve intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.</p>	Developing the entity's capacity	<ul style="list-style-type: none"> • Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness • Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently • Recognising the benefits of partnerships and collaborative working where added value can be achieved • Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources
	Developing the capability of the entity's leadership and other individuals	<ul style="list-style-type: none"> • Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained • Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body • Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority • Developing the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by: <ul style="list-style-type: none"> ✓ Ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged ✓ Ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their

		<p>knowledge on a continuing basis</p> <ul style="list-style-type: none"> ✓ Ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external ✓ Ensuring that there are structures in place to encourage public participation ✓ Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections ✓ Holding staff to account through regular performance reviews which take account of training and development needs ✓ Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical mental wellbeing
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Principles	Sub-Principles	Behaviour and actions that demonstrate good governance in practice:
Acting in the public interest that requires a commitment to and effective arrangements for:		
F. Managing risks and performance through robust internal control and strong public financial management Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities. A strong system of financial management is essential for the achievement of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability. It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.	Managing risk	<ul style="list-style-type: none"> • Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making Implementing robust and integrated risk management arrangements and ensuring that they are working effectively • Ensuring that responsibilities for managing individual risks are clearly allocated
	Managing performance	<ul style="list-style-type: none"> • Monitoring service delivery effectively including planning, specification, execution and independent post implementation review • Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook • Ensuring an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible (OR, for a committee system) • Encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making • Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (e.g. financial statements)
	Robust internal control	<ul style="list-style-type: none"> • Aligning the risk management strategy and policies on internal control with achieving objectives • Evaluating and monitoring risk management and internal control on a regular basis • Ensuring effective counter fraud and anti-corruption arrangements are in place • Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor <p style="text-align: right;">✓ Ensuring an audit committee or equivalent group / function, which</p>

		<p>is independent of the executive and accountable to the governing body: provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment</p> <p>✓ That its recommendation are listened to and acted upon commitment from those in authority</p>
	Managing data	<ul style="list-style-type: none"> • Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data • Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies • Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring
	Strong public financial management	<ul style="list-style-type: none"> • Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance • Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and control

Principles	Sub-Principles	Behaviour and actions that demonstrate good governance in practice:
Acting in the public interest that requires a commitment to and effective arrangements for:		
G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.	Implementing good practice in transparency	<ul style="list-style-type: none"> • Writing and communicating reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring they are easy to access and interrogate • Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand
	Implementing good practices in reporting	<ul style="list-style-type: none"> • Reporting at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way • Ensuring members and senior management own the results reports Ensuring robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement) • Ensuring this Framework is applied to jointly managed or shared service organisations as appropriate • Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other, similar organisations
	Assurance and effective accountability	<ul style="list-style-type: none"> • Ensuring that all recommendations for corrective actions made by external audit are acted upon • Ensuring an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon • Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations • Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement • Ensuring when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met

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Cheltenham Borough Council

Audit, Compliance and Governance Committee – 20 April 2021

Draft Annual Governance Statement

Accountable member	Cllr Rowena Hay, Leader of the Council
Accountable officer	Darren Knight, Executive Director - People and Change
Ward(s) affected	All
Key/Significant Decision	No
Executive summary	<p>The Council has a statutory duty to prepare an Annual Governance Statement (AGS) (Appendix 2) to be approved as part of the Annual Statement of Accounts.</p> <p>This draft AGS is for the period 1st April 2021 to 31st March 2022 and indicates how the Council is meeting the requirements of the Accounts and Audit (Amendment) (England) Regulations 2011 and, from 1st April 2015 the Accounts and Audit Regulations 2015 in relation to the publication of a Statement on Annual Governance.</p> <p>The Audit Committee needs to satisfy itself that the draft AGS fairly reflects the arrangements within the Council.</p>
Recommendations	The Audit, Compliance and Governance Committee approves the draft 2021/22 Annual Governance Statement
Financial implications	<p>There are no financial implications arising from the report.</p> <p>Contact officer: Gemma Bell, Head of Finance (Deputy Section 151 Officer) Gemma.Bell@cheltenham.gov.uk, 07341 780601</p>
Legal implications	<p>There are no significant legal implications arising from the report.</p> <p>Contact: One Legal</p> <p>E-mail: legal.servies@onelegal.org.uk</p> <p>Tel no: 01684 272691</p>
HR implications	<p>There are no HR implications arising from the report.</p> <p>Contact officer: Clare Jones, HR Business Partner</p> <p>clare.jones@publicagroup.uk, 01242 264364</p>
Key risks	Refer to the risk assessment at appendix 1
Corporate and community plan Implications	Good governance helps to deliver the Council aspirations to be an excellent, efficient and sustainable Council. It also ensures that risks are identified and managed to protect its assets and workforce.
Environmental and climate change implications	There are no environmental and climate change implications arising from the report. Contact officer: Mike.Redman@cheltenham.gov.uk
Property/Asset Implications	<p>There are no property implications arising from the report.</p> <p>Simon Hodges, Senior Asset Management Surveyor,</p> <p>Simon.Hodges@cheltenham.gov.uk</p>

1. Background

- 1.1 The Council has a statutory duty to prepare an Annual Governance Statement (AGS) to be approved as part of the Annual Statement of Accounts.
- 1.2 This is the first draft of the AGS is for the period 1st April 2021 to 31st March 2022 and indicates how the Council is meeting the requirements of the Accounts and Audit (Amendment) (England) Regulations 2011 and, from 1st April 2015 the Accounts and Audit Regulations 2015 in relation to the publication of a Statement on Annual Governance.
- 1.3 In discharging these responsibilities, the authority is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and including arrangements for the management of risk.
- 1.4 The authority has developed and approved a code of corporate governance, which is consistent with the core principles and sub-principles as set out in the CIPFA/SOLACE “Delivering Good Governance in Local Government: Framework (2016)” (‘the Framework’). This statement explains how the authority has complied with the code and also meets the requirements of Regulation 6(1)(a) of the Accounts and Audit Regulations 2015 (England) which requires the authority to conduct a review at least once a year on the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts.
- 1.5 In addition to this, CIPFA issued its “Statement on the Role of the Chief Finance Officer in Local Government (2015)”. The Annual Governance Statement (AGS) reflects compliance with that Statement for reporting purposes. The Executive Director Finance and Assets is the Statutory Section 151 Officer (S151 Officer) for Cheltenham Borough Council.
- 1.6 The Audit Committee needs to satisfy itself that the AGS fairly reflects the arrangements within the Council.

2. Reasons for recommendations

- 2.1 Once finalised this AGS will form part of the Annual Statement of Accounts. 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

3. Alternative options considered

- 3.1 None.

4. How this initiative contributes to the corporate plan

- 4.1 Good governance and compliance means that the Council continues to operate effectively within

legislative requirements enabling continuity of the corporate plan. It also ensures that risks are identified and managed to protect its assets and workforce.

5. Consultation and feedback

- 5.1 The AGS has been considered by the Executive Director – People and Change, Chief Executive, Leader of the Council and the Corporate Governance Group.

Report author	Contact officer: Ann Wolstencroft, Governance Manager, Ann.Wolstencroft@cheltenham.gov.uk, 01242 264158
Appendices	<ol style="list-style-type: none">1. Risk Assessment2. Draft Annual Governance Statement

Risk Assessment – Appendix 1

Risk Ref	Risk Description	Risk Owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk Response	Controls / Mitigating Actions	Control / Action Owner	Deadline for Controls/ Actions
	If the Council fails to have an effective review of its governance arrangements then there is a risk that it will not maintain its good conduct and high ethical standards.	Darren Knight	4	2	8	Reduce the Risk	<p>Ensure all certificates of assurance are collected from partner organisations and reviewed.</p> <p>Ensure all employee declarations are collected and reviewed annually.</p> <p>Ensure Director statements of assurance are collected and reviewed and</p> <p>Ensure all Audit requirements are in place.</p> <p>Ensure all Counter Fraud requirements are in place</p>	<p>Ann Wolstencroft</p> <p>Ann Wolstencroft</p> <p>Ann Wolstencroft</p> <p>Paul Jones</p> <p>Paul Jones</p>	<p>Annually – to be complete by 30.4.22</p> <p>Annually – to be complete by 30.4.22</p> <p>Annually be compl by 30.4.22</p> <p>Ongoing</p> <p>Ongoing</p>



CHEL TENHAM

BOROUGH COUNCIL

Annual Governance Statement

2021/22

Cheltenham Borough Authority ("the authority") is responsible for ensuring that:

- Its business is conducted in accordance with the law and proper standards;
- Public money is safeguarded and properly accounted for
- Public money is used economically, efficiently and effectively; and
- There is a sound system of governance, incorporating the system of internal control and risk management

The authority has a Best Value duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging these responsibilities, the authority is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and including arrangements for the management of risk.

The authority has developed and approved a code of corporate governance, which is consistent with the core principles and sub-principles as set out in the CIPFA/SOLACE "Delivering Good Governance in Local Government: Framework (2016)" ('the Framework'). This statement explains how the authority has complied with the code and also meets the requirements of Regulation 6(1)(a) of the Accounts and Audit Regulations 2015 (England) which require the authority to conduct a review at least once a year on the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts.

In addition to this, CIPFA issued its "Statement on the Role of the Chief Finance Officer in Local Government (2015)". The Annual Governance Statement (AGS) reflects compliance with that Statement for reporting purposes. The Executive Director Finance and Assets is the Statutory Section 151 Officer (S151 Officer) for Cheltenham Borough Council.

2. Purpose of Governance Framework

The governance framework comprises the systems, processes, culture and values, by which the authority is directed and controlled including activities through which it is held accountable by, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide a reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to:

- Identify and prioritise the risks to the achievement of the authority's policies, aims and objectives;
- Evaluate the likelihood of those risks occurring;
- Assess the impact should those risks occur; and
- Manage the risks efficiently, effectively and economically

The governance framework has been in place at the authority for the year ended 31 March 2021 and up to the date of approval of the Annual Statement of Accounts. It should be noted that any changes to CBC arrangements due to COVID19 and the impact on our governance are recorded in this document.

The key elements of the authority's governance arrangements are outlined in the Local Code of Corporate Governance. The governance framework includes arrangements for:

- Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users;
- Reviewing the authority's vision and its implications for the authority's governance arrangements;
- Measuring the quality of services for users, ensuring that they are delivered in accordance with the authority's objectives and ensuring that they represent the best use of resources;
- Defining and documenting the roles and responsibilities of the executive (Cabinet), non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication;
- Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff;
- Reviewing and updating Financial Rules, Contract Rules, Constitution, Scheme of Delegation and supporting procedure notes / manuals, which clearly define how decisions are taken and the processes and controls required to manage risks;
- Ensuring effective counter fraud and anti-corruption arrangements are developed and maintained;
- Ensuring the authority's financial management arrangements meet the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015);
- Undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities;
- Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful;
- Whistleblowing referrals and for receiving and investigating complaints from the public;
- Identifying the development needs of members and senior officers in relation to their strategic roles, supported by the appropriate training;
- Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation; and
- Incorporating good governance arrangements in respect of partnerships, including shared services and other joint working and reflecting these in the authority's overall governance arrangements.

4. Ongoing Impact of COVID19

Short paragraph about ongoing impact to be added by Gemma Bell

5. Principles Framework

The main areas of the authority's governance framework and the assurance on compliance are set out over the next pages under the headings of the core principles and sub-principles from the CIPFA/SOLACE "Delivering Good Governance in Local Government: Framework (2016).

Governance Principle	Sub-Principle	Assurance on Compliance
Principle A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Behaving with integrity	<ul style="list-style-type: none"> • The political and executive leadership sets the tone for CBC and ensure that the required policies are put into place and monitored. • The Council's Constitution sets out how decisions are made and the procedures that are followed to ensure these are efficient, transparent and accountable to local people. • Statutory Officers' responsibilities are defined in the Constitution and are employed in accordance with statutory guidance. • The Employee Code of Conduct forms part of the Constitution and set out the behaviours expected of employees. • The Members' Code of Conduct forms part of the Constitution and sets out the standards of conduct expected by Members of the Council. • The Protocol for Member/Officer Relations is designed to guide Members and Officers of the Council in their relations with one another to maintain the integrity of local government. • The standards committee is in place to promote and maintain high standards of conduct and to assist Members and Co-opted Members to observe the Code of Conduct.
	Demonstrating strong commitment to ethical values	<ul style="list-style-type: none"> • In accordance with the Localism Act 2011 we have adopted a Code of Conduct for our Councillors that is in keeping with the general principles of public life. All Councillors and co-opted Members undertake that they will observe the Code of Conduct. • The Employee Code of Conduct provides guidance to our employees on the ethical framework within which we seek to conduct its activities; and on the processes that the Council uses to ensure compliance with the highest ethical standards. These standards reflect the Nolan Principles which form the basis of the Members' Code of Conduct. • The Code of Conduct for Members requires declarations at meetings to be made by Members where necessary and these declarations are recorded in the minutes of the meeting. • A register of gifts and hospitality is maintained.

	Respecting the rule of law	<ul style="list-style-type: none"> • The roles and responsibilities of Members and all holders of an office are set out in the authority's Constitution. • Codes of Conduct set out the standards of behaviour that are expected of our Councillors and Officers. Should these standards be breached, they will be dealt with, either through the standards Committee or, in relation to Officers, action taken under our capability and/or disciplinary procedures. • The Whistleblowing Policy adopted by the Council ensures its effectiveness from a safeguarding perspective and to make it easier for staff to raise concerns about malpractice or illegal activity. The Policy contains clear guidance about how to report a concern, who to contact and sources of internal and external support. • Internal audit reviews are designed to ensure services are complying with internal and external policies and procedures / statutory legislation. Where non-compliance is identified, this is reported to management and to Members via the Audit, Compliance and Governance Committee. • CBC work with a Gloucestershire wide Counter Fraud unit to help prevent and detect fraud and corrupt practices, including abuse of position. The service reports to Audit, Compliance and Governance Committee twice a year. • Throughout 2021/22 the Counter Fraud unit has continued to work closely with our Revenues and Benefits team to ensure that all discretionary grant schemes put in place as a result of COVID19 have sufficient pre and post payment checks and controls in place to give assurance that the COVID19 business grants were paid to eligible businesses.
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Governance Principle	Sub-Principle	Assurance on Compliance
Principle B - Ensuring openness and comprehensive stakeholder engagement	Openness	<ul style="list-style-type: none"> • The annual accounts are published in a timely manner and in accordance with specified timescales so that the financial position and performance of the authority is open to public scrutiny. • Committee meetings, agendas and minutes are published in accordance with the Forward Plan and publication of agendas is done in accordance with the Local Government Act 1972. • Council, Cabinet and Committee reports clearly outline their purpose, so the public can understand what the decision is aiming to achieve. • Council, Cabinet and Committee reports address financial, legal, equalities, risk and sustainability implications to allow public scrutiny and aid Members in their decision-making.

		<ul style="list-style-type: none"> • All public meetings that take place in the council chamber are webcast live to the council's YouTube channel. Cabinet and Council meetings remain on this channel for 6 months, while other committees can only be watched live. • Members and the public are able to ask questions at Council, Cabinet and the Overview and Scrutiny Committee. Public questions can be asked at other committee meetings, e.g. Audit, Licensing and Planning. All meetings are held in public unless exempt business is under discussion. • Members of the public are able to speak at Planning Committee. • Overview and Scrutiny committee promotes open and transparent decision-making, democratic accountability and holds the Cabinet to account for its decisions. • Transparency data is published on the website and includes supplier payments, senior management structure charts, annual pay policy statement, and our gender pay gap report for the previous financial year. Where data is not available in the published data sets, instructions are available on how to make a Freedom of Information Request and the procedure that will be followed to answer the request.
	Engaging comprehensively with institutional stakeholders	<ul style="list-style-type: none"> • We engage with large numbers of stakeholders through forums such as Leadership Gloucestershire, Southwest Councils and the Local Government Association. • We have a comprehensive engagement system with statutory stakeholders such as the NHS, Gloucestershire County Council and the Gloucestershire Police. • We engage with further subject based stakeholders particularly around economic development such as the Cheltenham BID, the Cheltenham Economic Recovery Task Force, The Cheltenham Culture Board and the Local Enterprise Partnership (LEP). • As part of the budget setting process consultation takes place through the authority's website and by attendance at meetings of the parish councils and business community by the Executive Director Finance and Assets and Cabinet Member Finance / Leader of the Council. • Engagement with staff happens in a number of ways; whole authority staff sessions, directorate team meetings, monthly managers meetings and one-to-one meetings
	Engaging with individual citizens and service users effectively	<ul style="list-style-type: none"> • Local focus and community group engagement are undertaken by our strategy and engagement team. • Our Solace Partnership comprising of Cheltenham Borough Council, Gloucester City Council and Gloucestershire Constabulary come together with communities to prevent, investigate and tackle anti-social behaviour (ASB) in Cheltenham and Gloucester. • The Communications team and our Marketing Cheltenham Team ensure that specific matters are placed in the media and engage with the media over enquiries on specific matters.

		<ul style="list-style-type: none"> Engagement and consultation with the public is undertaken through public meetings, surveys and other mechanisms as required throughout the year or around specific topics, e.g. Cheltenham Plan. A Statement on Community Involvement is approved which sets out the opportunities by which the public and organisations can engage with the planning system, including the procedures and methods used to consult on planning applications.
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Governance Principle	Sub-Principle	Assurance on Compliance
Principle C - Defining outcomes in terms of sustainable economic, social, and environmental benefits	Defining outcomes	<ul style="list-style-type: none"> The Cheltenham Place Vision document sets out the ambitions, aspirations and actions that the authority, together with its key partners, will take to bring about a thriving town in terms of businesses and their workforces, culture and creativity, people and communities. Our Corporate Plan sets out CBC's purpose, principles and priorities for the future. Guided by an agreed set of principles the priorities in the plan were developed to make the biggest difference to Cheltenham's communities, businesses and residents, in line with Cheltenham's place vision. As Cheltenham continues to recover from the impact of COVID our Recovery Strategy supports both the place vision and our corporate plan. The Borough has a statutory development plan in place made up of the Gloucester, Cheltenham and Tewkesbury Joint Core Strategy (adopted 2017) and The Cheltenham Plan (adopted 2020), together these plans make provision for the long-term growth of our area delivering sustainable, social and environmental benefits across the Borough up to 2031. The Council is updating its Local Development Scheme, which sets out the key milestones for the preparation of its statutory development plan, as required by the Planning and Compulsory Purchase Act 2004 (as amended). The key milestones over the coming year include a new draft JCS that presents clear spatial options and updated policy that looks to 2041 and the start of the scoping work on the review of the Cheltenham Plan; <ul style="list-style-type: none"> JCS – agreement of preferred options by the JCS councils and consultation by Spring 2023, and Cheltenham Plan – Issues and options consultation by Spring 2023 The Local Development Scheme references a review of the Council's Supplementary Planning Documents, this review will be completed by Summer 2022 and a programme of preparation and/or review agreed. During 2022/23 we also envisage two neighbourhood plans reaching their concluding milestones.

	Sustainable economic, social and environmental benefits	<ul style="list-style-type: none"> Following the Council's Cabinet formally declaring a climate emergency in July 2019 in 2020/21 specific funding was made in the budget to start work on both CBC and Cheltenham becoming carbon neutral by 2030. Changes were made to Cabinet portfolios with the Leader assigning two new posts, one covering economy and development and, the other covering climate and communities. In February 2022 the council approved the emerging CBC Climate Emergency Action Plan: Pathway to Net Zero and during 2022/23 a robust framework to monitor achievements against this action plan will be put in place.
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Governance Principle	Sub-Principle	Assurance on Compliance
Principle D - Determining the interventions necessary to optimise the achievement of the intended outcomes	Determining interventions	<ul style="list-style-type: none"> A mixed economy approach to service delivery is in place to deliver the priority outcomes of Members. To operate within a more constrained financial cost base CBC has over a number of years created a number of new organisations to deliver services once provided in house. Each partner service is assigned a client officer who undertakes frequent and direct liaison with the service provider and monitors the contract performance and delivery. Each member of the Executive Leadership Team holds accountability for one of these services and provides the strategic guidance and support to the client officers. Executive Leadership Team and client officers keep relevant Cabinet members apprised of commissioned service performance as well as Cabinet Members being engaged directly in performance meetings with commissioned service providers. Regular Peer Reviews are undertaken for quality assurance and the latest review undertaken measured CBC's response to COVID and commended the positive action taken by the council in this area. CBC have an Overview and Scrutiny Committee whose role it is to deliver measurable outcomes which benefit the effectiveness of the Authority and the community.
	Planning interventions	<ul style="list-style-type: none"> Performance, audit, risk and finance information is used to identify areas of concern and plan required interventions. Corporate risks are considered by the Executive Leadership Team on a monthly basis. Operational risks are monitored and managed at Manager level. Any strategic risks scoring 16 or more are escalated to the corporate risk register discussed by the Leadership Team and considered by members of the Cabinet.

		<ul style="list-style-type: none"> • Outcomes are monitored on a regular basis and open to scrutiny and programmes/projects which have a formal programme/project structure are required to be placed on our Clearview system and reported upon to the Executive Leadership Team at regular intervals. • Our Corporate Leadership Team has strategic oversight of major issues affecting the Council with a well-developed forward plan. • Budget monitoring is designed to capture and incorporate internal & external factors and to enable the authority to respond appropriately.
	Optimising achievement of intended outcomes	<ul style="list-style-type: none"> • We continue to work on achieving the aims of our commercial strategy that sets out the authority's ambition to be an enterprising and commercially focused authority which will be even more important in the future following COVID19. • CBC's approach to drive down the Council's net costs and increase income via a commercial mind-set with the aim to hold down council tax as far as possible, now and in the longer term helps the Authority protect frontline services from cuts which is exceptionally important following COVID19. • The drive towards financial sustainability includes identifying new opportunities to generate income and investment in projects that provide good financial returns. The Director of Finance and Assets oversees all commercial work to ensure it fits with our role as a council and within our financial framework. • During 2021 CBC's Capital Strategy 2022 to 2023, Investment Strategy 2022 to 2023 and Treasury Management Strategy 2022 to 2023 were refreshed and approved by full council in March 2022. • The authority's budgets are prepared annually in accordance with objectives, strategies and the MTF is finalised following consultation with Members, customers, stakeholders and officers. • Financial stewardship in respect of both capital and revenue proposals is reviewed and challenged by the Budget Scrutiny Working Group and considered regularly by the Executive Leadership Team. • The MTFS is a live document and is updated as necessary, to respond to the changing environment and in such circumstances would be discussed by the Executive Leadership Team to determine any necessary mitigating actions that would then be discussed with the Cabinet.

Governance Principle	Sub-Principle	Assurance on Compliance
Principle E - Developing the entity's capacity, including the capability of its	Developing the entity's capacity	<ul style="list-style-type: none"> • The Head of Paid Service is responsible for the organisation of the staff. • Leadership and Management is delivered through the Executive Leadership Team and the Corporate Leadership Team who meet once a week along with monthly managers meetings and monthly all staff webinars.

leadership and the individuals within it		<ul style="list-style-type: none"> • During 2021/22 our new performance management approach, using our Learning Management System, was tested and implementation commenced. Our aim is to have in place a modern, flexible, effective, approach to 1:1 conversations with our people about performance and development. • During 2021/22 we continued to work on our organisational review to ensure our resources were structured to deliver our corporate plan over the next five years and the proposed changes were approved by council in March 2022. • Publica support services continue to provide services to CBC in the areas of Human Resources, some Finance and ICT and once again during the past year we have worked with our Publica Health and Safety partners to help us adopt safe working practices that continued to adhere to changing government guidance. • During the past year we have also strengthened our finance team following a decision in 2020/21 to bring back in house the majority of the finance function being undertaken by Publica. • To further develop our operational services and capability a procurement exercise has been completed to secure a new digital platform aimed at improving services to our residents and businesses.
	Developing the capability of the entity's leadership and other individuals	<ul style="list-style-type: none"> • We have a programme of training available for both Councillors and Officers at all levels. • All new employees take part in an induction programme and ongoing staff development needs are identified through our system of 1:1 meetings • There is mandatory compliance training for all staff on key items and policies via our Learning Management System. • Professional members of staff are required to undertake additional training requirements (continuing professional development) as set by their professional bodies. • We continue to run a range of leadership programmes for our people designed to give them behaviours and skills for the future. • Our executive leadership team have undertaken a 360 review to gather insights from a wide range of individuals and stakeholders who have given their views on their leadership and management competencies. • The results of these reviews will be used to put in place development plans to ensure the team has the required level of skills and behaviours to lead the council and drive organisational performance. • All new Members undertake a comprehensive Members induction programme that is delivered after each borough election (i.e. every 2 years). • New Members are matched with a senior officer under a "buddy" system to provide practical support as they develop into their roles.

		<ul style="list-style-type: none"> • Training is provided for Members on an ongoing basis as appropriate and necessary. Members on certain committees (e.g. Planning and Licensing) are required to undertake initial and ongoing “top up” training in order to take their place on the committee. • During the last year Members have undertaken learning and development in a number of areas including Data Protection, FOI, Flooding, CERTF, Emergency Planning, Carbon Foot Printing and Environmental Crime. • The authority is a member of the Local Government Association who provide individual mentoring and support to Members and officers as necessary or requested.
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Governance Principle	Sub-Principle	Assurance on Compliance
Principle F - Managing risks and performance through robust internal control and strong public financial management	Managing risk	<ul style="list-style-type: none"> • Our Risk Management Policy are in place and subject to regular review. Considerable work has taken place during the year to embed the framework more consistently across our key programmes and projects. • Officers are required to maintain the CBC Service / Operational Risk Registers and the Executive Leadership Team and Informal Cabinet reviews the corporate risk register on a monthly basis. • Any strategic level risks that score 16 or above are incorporated in the corporate risk register. • The Audit, Compliance and Governance Committee reviews and approves the Risk Management Policy on a regular basis. Risks are identified when undertaking Internal Audit reviews and reported when necessary. • A risk-based Audit Plan is drafted annually following consultation with Officers, Members and the Executive Director Finance and Assets. The Audit Plan is approved at Audit, Compliance and Governance Committee prior to the financial year.
	Managing performance	<ul style="list-style-type: none"> • Organisational performance against the authority’s corporate plan objectives is reviewed by the Leadership Team to ensure key programmes of work remain on track to achieve CBC goals and objectives. • Principal performance KPI’s and targets are being developed throughout the organisation and captured within our organisational performance management system, Clearview. • Scorecards for individual services areas, Leadership Team and Cabinet will be developed during 2022/3. • Individual programmes and projects have their own targets and performance expectations and are reported via the programme/project boards as required. • Programmes and Projects are tracked through our Clearview system and reported to the Leadership Team.

	Robust internal control	<ul style="list-style-type: none"> • CBC corporate governance group meets on a quarterly basis, chaired by the Executive Director of People and Change, and its attendees are the other statutory officers, internal audit, counter fraud, risk management and Human Resources. • Assurance is gained through regular internal audits and reporting. • External Audit recommendations are reported to Audit, Compliance and Governance Committee following the completion of their annual audit process with follow-ups of recommendations also reported. Any recommendations are incorporated into the planning for the next year's Audit. • Internal Audit is delivered through SWAP Internal Audit Services (SWAP) and processes ensure compliance with Public Sector Internal Auditing Standards. • Internal Audit agreed actions are followed up and reported to Audit, Compliance and Governance Committee with further follow up being reported where agreed actions have not been implemented in full. • Copies of all Internal Audit reports are provided to the Executive Director Finance and Assets and / or Executive Director People and Change who ensures that other relevant Directors and Officers are made aware of any significant issues or recommendations. • Audit reports, once completed are discussed with the service manager. Executive summaries, including findings, and progress on the Annual Plan are reported to Audit, Compliance and Governance Committee, on a quarterly basis. • Agreed Actions made in audit reports are followed up one month after the agreed target implementation date. High priority agreed actions are reported to Audit, Compliance and Governance Committee with quarterly updates on progress. • A Counter Fraud Unit supports all the Gloucestershire Local Authorities, West Oxfordshire District Council and other third parties. Where investigations identify possible improvements to the internal control framework, the Counter Fraud Unit will liaise with the Internal Audit Team to ensure the improvements are followed up and implemented by Management. • During 2021/2 the Counter Fraud team have continued to work with CBC to ensure that COVID19 grant payments are only made to qualifying organisations to reduce the risk fraud.
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	Managing data	<ul style="list-style-type: none"> • Our Data Protection Policy provides a framework for all other Information security and Information Management Policies all of which are available to all data users on the Councils intranet. • These policies also provides the responsibilities and accountabilities for the roles of the Data Protection Officer, Senior Information Risk Officer (SIRO) and the Single Point of Contact (SPoC). • All officers and Councillors are required to undertake mandatory e-Learning training on information governance. • The importance of reporting breaches of Data Protection legislation is well publicised and individual officers are welcomed when they come forward to report incidents. • The authority is part of the Gloucestershire Information Sharing Partnership. This will enable data to be shared when necessary. • Audit reviews ensure data is held securely whether electronic or hard-copy.
	Strong public financial management	<ul style="list-style-type: none"> • The Finance Strategy sets the overall direction for how we will fund our activities and invest in the future. • We have a budget setting process with the Budget and Medium Term Financial Plan decided annually by Council. • We have in place a statutory Section 151 Officer with finance teams that support the budget holders. • The MTFS is reviewed and updated on a regular basis so that Members and ELT are aware of the financial standing of the authority in terms of delivering against cost reduction or revenue raising targets. • Performance against budget is reported to Cabinet and any significant variances explained. • Financial Procedure Rules and Contract Procedure Rules are in place and regularly updated. • The Statement of Accounts is produced and published annually in accordance with statutory legislation. • Aligned with the accounts the production of this Annual Governance Statement that identifies how the authority has met its governance reporting obligations.

Principle G - Implementing good practices in transparency, reporting, and audit to deliver effective accountability	Implementing good practice in transparency	<ul style="list-style-type: none"> • Agendas for all Council meetings are publicly available on website and meetings are accessible on YouTube. • Performance monitoring reports considered by Overview and Scrutiny are published on the authority's website in accordance with publication standards and guidelines. • Data in respect of transparency is published on the authority's website. • We have a Whistleblowing Policy in place.
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	Implementing good practices in reporting	<ul style="list-style-type: none"> • We have in place comprehensive procedures for the making of decisions, either by Full Council, Committee, Cabinet or individual decisions made by Directors and Cabinet Members. • All reports are taken through Democratic Services and require clearance by Legal, Finance, HR and Property/Assets and risk implications for every report are identified. • Reports for Council, Committees and Cabinet business and minutes of these meetings are available on our website, save for reports which contain information that is exempt from publication.
	Assurance and effective accountability	<ul style="list-style-type: none"> • The Constitution sets out the executive arrangements and the roles and responsibilities of the Leader of the Cabinet, the Cabinet and each of the Cabinet Members individually and the roles and responsibilities of other Council Members. • The Constitution sets out the functions of Council, Cabinet and the various committees. • We have an effective Oversight and Scrutiny function whose responsibilities are also set out in the Constitution. • The principal roles and responsibilities of the Chief Executive and senior officers, including the Chief Financial Officer (Section 151 Officer) and the Monitoring Officer, are also set out in the Constitution. • Internal Audit processes ensure compliance with Public Sector Internal Auditing Standards. Internal Audit agreed actions are followed-up and reported to Audit Committee, further follow-up is planned if agreed actions have not been implemented in full.

6. Review of Effectiveness

The authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers, the annual opinion from the Head of Internal Audit, the officer Corporate Governance Groups and comments made by the external auditors, other review agencies and inspectorates.

The authority's process for maintaining and reviewing the effectiveness of the governance framework has included the following:

- Directors complete an Annual Assurance Statement at the end of each financial year. These governance declarations provide appropriate management assurance that key elements of the system of internal control are in place and are working effectively and help to identify areas for improvement.
- Annual Assurance Statements are also completed by Client Officers in respect of external service providers, The Cheltenham Trust, One Legal, Publica, Ubico and CBH.
- Where the assurance review highlights elements that do not fully or partially meet the systems of internal control then the Directors and Client officers explain what action needs to be taken within an agreed timeframe.
- ELT review the Corporate Risk Register on a monthly basis and service risk registers are managed by each manager.
- The SWAP Assistant Director (Head of Internal Audit) provides the Audit, Compliance and Governance Committee, as the Committee charged with governance, with an Annual Opinion on the control environment of the authority, which includes its governance arrangements.
- Investigation of, and decisions on, allegations of failure to comply with Members Code of Conduct are considered and determined through processes involving the Monitoring Officer/Independent Person(s)/Standards Committee/Sub-Committee as set out in the Constitution.
- The Executive Director Finance and Assets ensures training and awareness sessions are carried out for the Audit, Compliance and Governance Committee periodically.
- The External Auditors (Grant Thornton) present progress reports to the Audit, Compliance and Governance Committee. The Chief Executive and Executive Director Finance and Assets attend audit liaison meetings with the external auditors on a regular basis.
- The External Auditor's Annual Audit Letter and follow-up of management responses to issues raised in the Letter or other reports are overseen by the Audit, Compliance and Governance Committee.
- Performance with regard to achievement of corporate priorities, budgets and risk are reported and monitored as outlined in this statement.
- The Audit, Compliance and Governance Committee review the Annual Governance Statement.
- The Audit, Compliance and Governance Committee review the Annual Statement of Accounts and reports from both Internal Audit (SWAP) and External Audit (Grant Thornton), including quarterly progress reports.
- Council approves the annual budget, reviews and approves the Treasury Management Strategy.
- Internal Audit monitors the quality and effectiveness of systems of internal control. Audit reports include an opinion that provides management with an independent judgement on the adequacy and effectiveness of internal controls. Reports including agreed actions for improvement are detailed in an action plan agreed with the relevant Executive Director/Service Manager.

Refresh Audit statement – '~~On the balance of our 2020/21 audit work for Cheltenham Borough Council, enhanced by the work of external agencies, I am able to offer a Low Substantial Assurance opinion in respect of the areas reviewed during the year.~~'

7. Significant Governance Issues During 2020/2021

In preparing the 2020/2021 statement and reviewing the effectiveness of the governance arrangements there were no significant governance issues identified.

8. Significant Governance Issues During 2021/2022

In preparing the 2021/2022 statement and reviewing the effectiveness of the governance arrangements a number of areas were identified where the Council needs to focus attention and improve arrangements over the next financial year. These areas of work were to strengthen the control framework. These actions and outcomes are set out in the table below. (If issues identified)

No	Key Area of Focus	Planned Actions	Lead officer	Outcome

9. Approval of Leader and Chief Executive

We have been advised of the implications of the result of the review of the effectiveness of the governance framework by the Audit, Compliance and Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Signed on behalf of Cheltenham Borough Council:

Rowena Hay
Leader of the Authority

Date: XX XXXXX 2022

Gareth Edmundson
Chief Executive

Date: XX XXXXX 2022

Cheltenham Borough Council

Audit, Compliance and Governance Committee – 20 April 2022

Whistle-Blowing Policy

Accountable Member	Leader of the Council, Councillor Rowena Hay
Accountable Officer	Paul Jones Executive Director Finance and Assets Paul.Jones@cheltenham.gov.uk
Ward(s) affected	All indirectly
Key/Significant Decision	No
Executive summary	To present the Audit, Compliance and Governance Committee with an updated Whistle-Blowing Policy for approval and adoption. To update and replace the existing Whistle-Blowing Policy to highlight key legislation and the roles and responsibilities of Members, Officers and other parties.
Recommendations	That the Audit, Compliance and Governance Committee: (a) Approves and adopts the Policy attached to this report and; (b) Authorises the Executive Director Finance and Assets to approve future minor amendments to the Policy in consultation with the Counter Fraud and Enforcement Unit, Human Resources, One Legal and the appropriate Cabinet Member.
Financial implications	There are no direct financial implications as a result of this report. The support of the Whistle-Blowing Policy will help to support the prevention and detection of misuse of public funds and fraud therefore reducing potential financial loss to the Council. Contact Officer: Paul Jones, Executive Director Finance and Assets Paul.Jones@cheltenham.gov.uk
Legal implications	The Policy is set out to ensure the Council, its officers, members, employees and contractors (including agency staff) comply with and adhere to the legislation governing whistle-blowing in the workplace, making the Council less susceptible to legal challenge. Whistleblowing law is located in the Employment Rights Act 1996 (as amended by the Public Interest Disclosure Act 1998). It provides the right for a worker to take a case to an employment tribunal if they have been victimised at work or they have lost their job because they have 'blown the whistle'. Any breach by the Council of the Policy or of whistleblowing law could result in litigation action against the Council and a significant liability to pay compensation or damages. Contact: One Legal E-mail: legal.servies@onelegal.org.uk 01684 272691

HR implications (including learning and organisational development)	<p>The HR team work with the Counter Fraud and Enforcement Unit on all internal investigations and whistle-blowing allegations.</p> <p>All staff will be made aware of this Policy.</p> <p>Contact officer: Clare Jones, , HR Business Partner Clare.Jones @publicagroup.uk 01242 264355</p>
Key risks	<p>If the Council does not have effective Whistle-Blowing Policy and procedures it puts staff and its reputation at risk. The Council must fulfil its legal obligations in relation to whistle-blowing arrangements.</p> <p>Without an appropriate Policy in place the Council is unable to take effective and efficient measures to ensure staff are protected when making allegations of wrongdoing and that staff are protected from vexatious allegations.</p>
Corporate and community plan Implications	In administering its responsibilities; the Council has a duty to enforce the law and prevent wrongdoing, whether it is attempted by someone outside or within the Council such as another organisation, a resident, an employee or Councillor, thus supporting corporate priorities and community plans.
Environmental and climate change implications	N/A
Property/Asset Implications	<p>There are no property implications associated with this report.</p> <p>Contact officer: Gemma Bell, Head of Finance and Property Gemma.Bell@cheltenham.gov.uk</p>

- 1.1. The Counter Fraud and Enforcement Unit is tasked with reviewing the Council's Whistle-Blowing Policy.
- 1.2. The Policy, attached at Appendix 2, has been updated in accordance with the review period. Review frequency is as required by legislative changes or every three years. This has been slightly delayed due to events over the last two years however, the changes are relatively minor in relation to content: the Policy has been refreshed and includes an entry at 3.14 which signposts staff to an independent body for advice.
- 1.3. The Policy details employer responsibilities to ensure that the Council protects staff who report or whistle-blow about any areas of concern within the organisation. The Policy also safeguards those against whom allegations are made. In administering its responsibilities the Council has a duty to protect staff members who choose to alert the authority to wrong doing and to protect employees against whom vexatious allegations are made.
- 1.4. All referrals received by the Counter Fraud and Enforcement Unit and Human Resources must be dealt with in the correct manner adhering to regulations, legislation and guidance. This includes internal alerts of wrongdoing which must adhere to whistle-blowing legislation. Adherence to this legislation in the workplace means the Council is less susceptible to legal challenge.
- 1.5. Any breach of the Policy or the revealing of the identity of someone that has made an anonymous disclosure could result in litigation action against the Council and a significant fine. Whistle-Blowing is embedded in the Employment Rights Act 1996 (as amended by the Public Interest Disclosure Act 1998). This legislates that an employee has the right to take a case to an employment tribunal if they have been victimised at work or lost their job as a consequence of 'blowing the whistle'.
- 1.6. The Policy highlights the key legislation and the roles and responsibilities of Members, Officers and other parties.
- 1.7. If an individual is considering raising a concern the Policy will enable them to understand the type of issues which can be raised, how the person raising a concern will be protected from

victimisation and harassment, how to prevent it and what the Council will do as a consequence of the report.

- 1.8. The Council has a responsibility to prevent wrong-doing within the authority by promoting high ethical standards and encouraging the exposure of any abuse.
- 1.9. As part of the consultation process, the Policy has been reviewed by One Legal and issued to Human Resources.
- 1.10. Audit Committee considered a Whistle-Blowing Policy in September 2016.
- 1.11. Online refresher training will be issued to staff following approval of the Policy.

Report author	Emma Cathcart Head of Service, Counter Fraud and Enforcement Unit 01285 623356 Emma.Cathcart@cotswold.gov.uk
Appendices	1. Risk Assessment 2. Whistle-Blowing Policy
Background Information	Audit Committee Report September 2016 – Whistle-Blowing Policy

Risk Assessment

Appendix 1

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likelihood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
1	Without appropriate policy in place the Council are unable to take effective and efficient measures to ensure staff are protected when making allegations of wrongdoing and that staff are protected from vexatious allegations	Chief Executive	March 2022	4	2	8		Put in place effective management and guidance. Introduce a suitable policy that enables effective and efficient adherence to legislation and provides clear reporting routes to staff	Ongoing	Chief Executive	
Explanatory notes Impact – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical) Likelihood – how likely is it that the risk will occur on a scale of 1-6 (1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability) Control - Either: Reduce / Accept / Transfer to 3rd party / Close											



Whistle - Blowing Policy

Version Control:	
Document Name:	Whistle-Blowing Policy
Version:	1.2
Responsible Officer:	Deb Bainbridge, Human Resources Emma Cathcart, Counter Fraud and Enforcement Unit
Approved by:	Audit, Compliance and Governance Committee
Date First Approved:	September 2016
Next Review Date	January 2025
Retention Period:	N/A

Revision History

Revision date	Version	Description
February 2018	1.1	Update to include further reporting choices / information
January 2022	1.2	Review

Consultees

Internal	External
Human Resources One Legal Executive Leadership Team	

Distribution

Name	
All staff (intranet)	

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1. INTRODUCTION AND PURPOSE OF THE POLICY

- 1.1. Staff are often the first to realise that there may be something of concern occurring within the Council. Usually any issues can be resolved swiftly and satisfactorily. However, when these concerns relate to more serious matters, staff may be discouraged from expressing their concerns or 'whistle-blowing'.
- 1.2. Whistle-blowing is the term used when an employee passes on information concerning wrongdoing. This can also be called 'making a disclosure' or 'blowing the whistle'. Typically (although, not always) the wrongdoing will be something that the employee has witnessed at work.
- 1.3. Staff may feel disloyal and may fear victimisation or harassment. In such circumstances, it may be easier to ignore the concern rather than report what may just be a suspicion of malpractice. However, any person raising a concern is protected in law.
- 1.4. Whistle-blowing law is embedded in the Employment Rights Act 1996 (as amended by the Public Interest Disclosure Act 1998). This legislation provides that an employee has the right to take a case to an Employment Tribunal if they have been victimised at work or lost their job as a consequence of 'blowing the whistle'.
- 1.5. To be covered by this law, an employee who makes a disclosure must reasonably believe:
 - That they are acting in the public interest - therefore personal grievances and complaints are not ordinarily covered by whistle-blowing law;
 - That the disclosure of information indicates past, present or future wrongdoing within the following categories:
 - (a) criminal offences which may include financial impropriety such as fraud;
 - (b) failure to comply with legal obligations;
 - (c) miscarriages of justice;
 - (d) endangering another person's health and safety;
 - (e) damage to the environment;
 - (f) covering up any wrongdoing in any of the above.
- 1.6. Staff are not prevented from making disclosures in the public interest by 'gagging clauses' in Settlement or Compromise Agreements.
- 1.7. The Council is now part of various shared service arrangements and it is important that there is clear guidance for anyone wishing to raise an issue. This policy applies to all staff of the Council, and to individuals working within the organisation

who are not staff (e.g. contractors, agency staff, volunteers, Councillors, staff of associated employers etc.)

- 1.8. The Council is committed to the highest possible standards of openness, probity and accountability. In line with that commitment we wish to encourage staff and others with serious concerns about any aspect of the Council's work to come forward and voice them without fear of reprisal.
- 1.9. This policy is intended to encourage and enable staff to make disclosures at an early stage, rather than waiting. Staff are also encouraged to raise any issues internally with the Council first rather than raising it outside of the organisation. If issues are raised externally in the first instance you may weaken the protection given to you under the Public Interest Disclosure Act 1998.
- 1.10. This policy also seeks to ensure concerns are raised in the right way and seeks to protect those staff members against whom complaints are made from malicious allegations. The Council has a duty to investigate all reports of irregularity. This does not mean that the organisation supports the allegation.
- 1.11. This policy should be read if you are considering raising a concern to provide clarification in relation to the following:
 - The type of issues which can be raised;
 - How the person raising a concern will be protected from victimisation and harassment;
 - How to raise a concern;
 - What the Council will do as a consequence of the report.
- 1.12. This policy has been agreed with any relevant trade unions or non-union representatives.

2. AIMS AND SCOPE OF THE POLICY

2.1. This policy aims to:

- Encourage staff to raise serious concerns at the earliest opportunity and to question and act upon concerns about practice.
- Encourage staff to be watchful for illegal or unethical conduct and report anything of that nature of which they become aware. Everyone should be aware of the importance of preventing and eliminating wrongdoing at work.
- Ensure all reported allegations are treated in absolute confidence, with every effort made by the Council not to reveal a whistle-blower's identity if they so wish. However, it may be necessary for the whistle-blower to become an identified witness at an appropriate time, particularly if it has not been possible to substantiate the allegation by other means. The implications of this and the

appropriate support/protection arrangements will be discussed with the whistleblower. This is detailed at Part 3: Employee Safeguards and Assurances.

- Ensure all reported allegations are treated fairly, ethically and consistently.
- Provide a robust procedure and ensure any matter raised under this procedure will be investigated thoroughly, promptly and confidentially, and the outcome of the investigation reported back to the employee who raised the issue, as appropriate.
- Provide reassurance for those acting in good faith that they will be protected from possible reprisals or victimisation. This means that the continued employment and opportunities for future promotion or training of the employee will not be prejudiced because he or she has raised a legitimate concern. Victimisation of an employee for raising a qualified disclosure is a disciplinary offence.
- If misconduct is discovered as a result of any investigation under this procedure, the Council's disciplinary procedure will be used, in addition to any other appropriate measures. This could include internal criminal investigation and appropriate further action.
- Allow whistle-blowers to raise concerns and proceed further if they are dissatisfied with the Council's response. It should be recognised that certain cases will have to proceed on a confidential basis and that feedback will be limited due to legal constraints.

2.2. This policy is not a substitute for the Council's other policies and procedures on such matters as personal grievances, bullying and harassment, health and safety, safeguarding issues (children and/or adults) or complaints. It should also not be used to raise matters relating to an employee's own terms and conditions of service.

2.3. There are existing procedures in place to enable staff to lodge a grievance relating to their own employment. This process does not form part of this policy. For further guidance on whistle-blowing and grievances, staff can contact the Advisory, Conciliation and Arbitration Service (ACAS) at www.acas.org.uk/grievances.

2.4. If a member of the public has a concern about any service they have been provided by the Council then this should be raised as a complaint. There are existing procedures in place which relate to this. However, if that concern relates to malpractice by a member of staff, then they should be directed to Human Resources at the earliest opportunity.

2.5. If a member of the public has concerns relating to malpractice by a Councillor, then they should be directed to Democratic Services or the Monitoring Officer at the earliest opportunity.

2.6. Making malicious, vexatious or false allegations will not be tolerated and is a disciplinary offence. If a person makes an allegation in good faith and reasonably

believes it to be true, but it is not confirmed by the investigation, the Council will recognise your concern. However, if a person makes an allegation frivolously, maliciously or for personal gain, appropriate action, which could include disciplinary proceedings, may be taken.

- 2.7. An instruction to cover up wrongdoing is itself a disciplinary offence. If told not to raise or pursue any concern, even by a person in authority such as a manager, staff should not agree to remain silent and should report the matter at the earliest opportunity.
- 2.8. This policy and procedure is primarily for issues where the interests of others or of the organisation itself are at risk. That issue may be one of the following (although this list is not exhaustive). The following are examples of concerns that might be raised:
- Financial irregularities including fraud, corruption or unauthorised use of public funds or other assets;
 - Conduct which is against the law, a miscarriage of justice or a failure to meet a legal obligation;
 - Failure to observe health and safety regulations, or actions which involve risks to the public or other staff;
 - Damage to the environment;
 - A criminal offence being committed;
 - Claiming benefits and/or expenses to which there is no entitlement;
 - The conduct of contractors and/or suppliers to the Council;
 - Sexual, racial, disability or other discrimination;
 - Neglect or abuse; physical or verbal;
 - Any other unethical conduct, malpractice, negligent or unprofessional behaviour;
 - Discriminatory acts not specifically covered by other procedures;
 - Concealment of any of the above.

3. EMPLOYEE SAFEGUARDS AND ASSURANCES

3.1. Harassment or Victimisation

- 3.2. The Council recognises that the decision to report a concern can be a difficult one to make, not least because of the fear of reprisal from those responsible for the malpractice.
- 3.3. The Council will not tolerate harassment or victimisation in any form of anyone raising a legitimate concern. Any employee who attempts at any stage to apply any retribution or detriment to a whistle-blower will face serious disciplinary charges.

- 3.4. The Council will support and protect whistle-blowers who raise an issue in line with this policy, in accordance with the safeguards contained in the Public Interest Disclosure Act 1998. This legislation protects everyone from victimisation and dismissal when speaking out against corruption or malpractice at work.
- 3.5. Protection does not mean that if an employee is already the subject of disciplinary action or redundancy procedures that those procedures would cease or be suspended as a result of their whistle-blowing.
- 3.6. It may be that the employee making the report is (or was) directly involved in the action now being raised. In such circumstances it is in the employee's own interest to come forward as soon as possible. The Council cannot promise not to act against such an employee but the fact that they came forward may be taken into account.
- 3.7. **Confidentiality and Anonymity**
- 3.8. All reports will be treated in the strictest of confidence and every effort will be made to protect, and not disclose, the identity of an informant if that is their wish. However, if disciplinary or other proceedings are an option as a result of the investigation it may not be possible to take any action without further assistance, in which case the informant may be asked to become an identified witness and provide a witness statement. It is possible that the identity of the informant will become obvious during the investigation. In addition there is a risk that some colleagues may speculate about the source of the original complaint.
- 3.9. The law does not compel an organisation to protect the confidentiality of a whistle-blower. However, it is considered best practice to do so unless required by law to disclose it.
- 3.10. Any requests for disclosure of information relating to or collected as part of any whistle-blowing complaint or investigation will be considered and determined in accordance with the relevant provisions of the Freedom of Information Act 2000 and Data Protection Regulations / Legislation.
- 3.11. At all times the informant will receive full support from the Council. There will be a limited number of people aware of the investigation at any one time but there will always be a representative from Human Resources involved in the process.
- 3.12. This policy encourages a whistle-blower to put their name to an allegation. If you do not reveal your identity then you will not receive a response or feedback. It may also make the task of investigating the allegation and protecting the whistle-blower more difficult.

3.13. Concerns can of course be raised anonymously but are much less powerful. They can be considered at the discretion of the Council. In exercising this discretion the factors taken into account would include:

- The seriousness of the allegation.
- The credibility of the concern.
- The likelihood of confirming the allegation from other sources.

3.14. Staff who whistle-blow can seek independent support from the charity Protect. Details can be found by following the link below.

<https://protect-advice.org.uk/>

4. PROCEDURE

4.1. Raising a concern as an employee

4.2. Issues should normally be raised with a member of Human Resources. A decision can then be made in relation to how the matter will be dealt with and who should be informed depending on the seriousness and sensitivity of the issues involved and who is suspected of wrongdoing.

4.3. If the Human Resources staff are not available, staff may direct any concerns to Internal Audit or the Counter Fraud and Enforcement Unit.

4.4. Alternatively an employee can speak to their own manager, or someone they feel comfortable talking to. A third party may also attend any meetings for moral support however, they would be required to maintain confidentiality. A whistle-blower may also wish to take advice from, or invite, a trade union or professional association to raise a matter on their behalf. Meetings may be held away from the workplace if necessary.

4.5. Raising a concern as an elected Member

4.6. If an elected Member has any concerns about the Council's work, they should raise the matter directly with Democratic Services, the Chief Executive or the Monitoring Officer. In the case of financial irregularity, disclosure may be made to the Officer appointed under section 151 of the Local Government Act 1972.

4.7. Raising a concern as a third party contractor, agency staff etc.

4.8. Concerns should be raised with the Human Resources Manager, the Chief Executive or the Monitoring Officer. In the case of financial irregularity, disclosure may be made to the Chief Finance Officer.

4.9. Alternative Reporting Routes

4.10. There are a number of prescribed bodies and organisations who may be contacted if there is a reason not to raise the matter internally. Staff can find

guidance by following the link below which provides a comprehensive list with contact details therein.

<https://www.gov.uk/government/publications/blowing-the-whistle-list-of-prescribed-people-and-bodies--2/whistleblowing-list-of-prescribed-people-and-bodies>

4.11. The Council would not ordinarily expect a whistle-blower to make disclosures to the media prior to raising the matter internally. If a person does approach the media with their concerns, the informant should expect in most cases to lose their whistle-blowing law rights.

4.12. **Process**

4.13. Concerns may be raised by telephone, in person or in writing. The earlier the matter is raised, the easier it is to take action. A whistle-blower is asked to provide the nature of the concern and why they believe it to be true, background details giving names, dates and places where possible, together with any other supporting evidence or information. An informant may be asked if they have any personal interest in the matter.

4.14. When raising an issue or making an allegation it is important that it is made clear that an informant is doing so as a whistle-blower to ensure they are dealt with correctly.

4.15. Although it is not expected that a person prove beyond doubt that the allegation is correct, it will need to be demonstrated that the allegation has been made in good faith and there are reasonable grounds for concern.

4.16. An informant should:

- Remain calm and not be flustered where possible;
- Make a note of the facts as soon as it is feasible to do so;
- Be specific with dates, times, locations, names etc.;
- Deal with the matter promptly;
- Contact someone with the appropriate authority to deal with the matter.

4.17. An informant should not:

- Be reticent because they fear they are wrong;
- Approach, alert or confront the person they suspect of wrongdoing, directly themselves;
- Investigate personally – there are important rules of evidence which must be adhered to;
- Consult or discuss the matter with anyone other than those with the correct authority;
- Do nothing or leave it to someone else to report.

- 4.18. If approached by someone wishing to whistle-blow, a person should take full details and a member of the Human Resources Team to discuss the matter. It is imperative that staff do not undertake any kind of investigation or intelligence gathering exercise which could compromise the evidence.
- 4.19. It may be necessary for Human Resources (or other appropriate Officer) to take a preliminary statement to gather more information to entirely understand the situation and nature of the allegation.

5. HOW THE COUNCIL WILL RESPOND

- 5.1. The action taken by the Council will depend on the nature of the issue. The Council will respond to your concerns as quickly as possible. Please note that making initial enquiries about the concerns is not the same as accepting or rejecting them.
- 5.2. The overriding principle for the Council will be the public interest. In order to be fair to all staff, including those who may be wrongly or mistakenly accused, initial independent enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. This decision will be made by The Human Resources Manager and the Executive Leadership Team. The matters raised may be:
- Investigated internally, either in accordance with internal policy and procedure or in line with criminal investigative regulations where appropriate. Whilst not all allegations will result in criminal action, this is an option open to the Council and it is thus critical that the investigation is conducted in the appropriate manner. Evidence gathered as part of that investigation could form part of the disciplinary process whether or not criminal proceedings commence;
 - Referred to the Police or other external enforcement agency such as the Health and Safety Executive, Environment Agency etc.;
 - Referred to the External Auditor;
 - Form the subject of an independent enquiry.
- 5.3. Concerns or allegations which fall within the scope of existing procedures will normally be referred for consideration under those procedures. In some situations the matter may be resolved without the need for an investigation. Urgent and immediate action may be necessary where the security of relevant information is at risk or to protect the safety of staff.
- 5.4. If an investigation is appropriate, it may be necessary for this to be carried out under terms of strict confidentiality, i.e. by not informing the subject of the complaint until (or if) it becomes necessary to do so. However, in certain cases,

such as allegations of ill treatment of others, suspension from work may have to be considered immediately. Protection of others is paramount in all cases.

- 5.5. Within ten working days of a concern being raised, the whistle-blower will receive the following in writing:
- Acknowledgement that the concern has been received.
 - Confirmation of how the Council proposes to deal with the matter.
 - If an investigation is to take place, who will be conducting the investigation.
 - If further investigation is not appropriate, the reasons why.
 - Process information and staff support mechanisms.
- 5.6. Contact between the whistle-blower and the Officers considering the issues and/or conducting an investigation will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If the matter is on-going then feedback may be limited; if the matter is dealt with promptly then the whistle-blower will be advised on the outcome.
- 5.7. You need to be assured that your disclosure has been properly addressed. Unless there are any legal reasons why this cannot be done, you will be kept informed of the progress and outcome of any investigation.
- 5.8. Coordination of any investigation will be undertaken by a member of Human Resources with the authority to do so.
- 5.9. The investigation process is independent and will seek to determine whether an irregularity has been committed, and if so, by whom. The investigator will have the authority to access all necessary data and other resources pertinent to a full, fair and properly conducted investigation.
- 5.10. Once an investigation has been completed there are a number of potential outcomes including the following:
- No case to answer / case closed;
 - Informal action;
 - Formal action; disciplinary action and/or prosecution by the Council. Suspension may also be appropriate. (For information relating to these outcomes see the relevant internal Policy or Procedure where applicable which will detail processes, actions and appeal information);
 - External referral to the Police and/or other body.
- 5.11. The Council will do what it can to minimise any difficulties that you may experience as a result of raising a concern. For instance, if you are asked to give evidence

in criminal or disciplinary proceedings, the Council will arrange for you to receive appropriate advice and support.

5.12. If a member of staff is dissatisfied with the conduct of an investigation, whether as the person under investigation, as the informant, or in any other involved capacity, a complaint may be raised with Human Resources who will ensure this is reviewed by a member of staff who is independent and who has not previously been involved in the investigation.

5.13. This Policy does not prevent any person from taking external legal advice.

6. RESPONSIBILITIES

6.1. Managers should ensure all staff, including agency staff, consultants and contractors etc. are aware of and follow Council Policies and Procedures. Managers should register any whistle-blowing cases brought to their attention immediately with Human Resources and provide support to any employee making such a complaint.

6.2. Staff should be vigilant and raise any serious concerns about aspects of work or practices which affect the integrity of the Council or safety of staff and/or the public.

6.3. Senior and Statutory Officers will respond to whistle-blowing submissions positively and within the timescales set out. The Chief Executive has overall responsibility for ensuring that the Council adheres to this Policy.

6.4. Human Resources will record and deal with any whistle-blowing issues including the provision of any support and advice as required to include attendance at meetings as necessary.

7. FURTHER INFORMATION

7.1. Further information on Council policy can be found in the following documents (or equivalent documentation / codes):

- The Constitution;
- Code of Conduct for Staff and the Councillors Code of Conduct which include information in relation to gifts and hospitality and declaring and registering interests;
- Counter Fraud and Anti-Corruption Policy;
- Corporate Enforcement Policy;
- Proceeds of Crime and Anti-Money Laundering Policy;
- Recruitment and Selection Policies and Procedures;
- Financial Rules;
- Contract Rules or equivalent;
- Fair Processing Statements;

- Disciplinary and Grievance Procedures.

8. POLICY REVIEW

- 8.1. The Counter Fraud and Enforcement Unit and Human Resources will review and amend this policy as necessary to ensure that it continues to remain compliant and meets legislative requirements and the vision of the Council.
- 8.2. Human Resources and the Counter Fraud and Enforcement Unit will monitor the effectiveness of the Policy and provide the necessary awareness sessions to staff.
- 8.3. Responsible Department: Human Resources / Counter Fraud and Enforcement Unit
Date: January 2022
Review frequency as required by legislative changes / every three years.

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Informing the audit risk assessment for Cheltenham Borough Council 2021/22

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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.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Cheltenham Borough Council's external auditors and Cheltenham Borough 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 Audit, Compliance and Governance Committee under auditing standards. This assessment should include any issues relevant to the group entities of Cheltenham Borough Homes Limited and Gloucestershire Airport Limited.

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 Audit, Compliance and Governance 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 Audit, Compliance and Governance Committee and supports the Audit, Compliance and Governance 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 local authority's oversight of the following areas:

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

Purpose

This report includes a series of questions on each of these areas and the response we have received from Cheltenham Borough 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
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>COVID-19 and the associated lockdowns have had a significant impact on the financial statements for 2021/22. A recovery budget was taken to Cabinet in November 2020 to re-prioritise spend and seek approval for the disposal of a group of surplus assets to bridge the forecast budget gap over the next three years. A number of these disposals have been completed in 2021/22.</p> <p>A number of income streams have also been impacted in the longer term by COVID-19, the most significant being car parking income. Income compensation grant was received from central government for Q1 of the financial year but this was ended on 30 June 2021.</p> <p>An estimated overspend of £618k was reported in the Q3 monitor is planned to be met from general balances. The Council will seek to replenish the general balances and other earmarked reserves from future allocations of government support. The 2022/23 budget has been completed re-profiled with an ambitious savings plan to mitigate future risks on overspend in these areas.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Cheltenham Borough Council?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>The appropriateness of accounting policies are considered annually by the S151 Officer and Head of Finance as part of the preparation of the statements of account. These are reviewed by the Audit Compliance and Governance Committee each year, who also consider the impact on accounting policies in future years as a result of changes in the CIPFA Code of Practice. There are no material changes to accounting policies which will impact on the 2021/22 accounts. The change in the International Financial Reporting Standard 16 in relation to leases, to be introduced in 2022/23, is not expected to have a material impact on the 2021/22 financial statements.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>No</p>

General Enquiries of Management

Question	Management response
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	No
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	The impact of COVID-19, rising interest rates and energy prices means the DRC valuations may be impacted by the increased build costs. For assets valued on a fair value basis, there have been no significant changes in rental income which would impact the value of these assets.
6. Are you aware of any guarantee contracts? If so, please provide further details	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? If so, please provide further details	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Cheltenham Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council's legal provider is One Legal which is a shared service between the Council , Gloucester Council, Tewkesbury Borough Council and Stroud District Council who joined in 2020. During 2021/22, specialist external legal support was engaged in respect of planning inquiries, property regeneration and property disputes and such advice continues as at April 2022. Details of those solicitors utilised by the Council can be obtained through One Legal.

General Enquiries of Management

Question	Management response
9. Have any of the Cheltenham Borough Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>Arlingclose - Treasury Management advisors</p> <p>Ernst & Young - general VAT advice</p> <p>Arthur J Gallagher - Insurance broker advice</p> <p>Savills - property advice</p> <p>Trowers – legal advice on Golden Valley development</p> <p>Avison Young – property advice on Golden Valley development</p> <p>Bruton Knowles and Vickery Holman – property valuation</p>
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	<p>Yes – financial instruments have been reviewed and none are expected to require an expected credit loss provision. This risk is minimised through the Annual Investment Strategy, which requires that investments are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Services. The Annual Investment Strategy also sets the maximum amounts and time limits in respect of each counterparty. Investments are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria.</p>

Fraud

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 Cheltenham Borough 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, Compliance and Governance 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 Cheltenham Borough Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has Cheltenham Borough 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 local authority's risk management processes link to financial reporting?</p>	<p>The council has a robust financial control framework and risk management process, supported by financial regulations, schemes of delegation and an independent Internal Audit function and Counter Fraud and Enforcement Unit (CFEU). Responsibility for ensuring that fraud and corruption risks are managed sits with the Executive Director Finance and Assets and internal processes require 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 of core financial systems and possible areas where fraud may be a risk. The Committee also approve the work plans of the CFEU which are developed in consultation with Internal Audit and Senior Management based on current fraud trends. Any risks identified would be reported to the Executive Leadership Team and the Audit, Compliance and Governance Committee as part of the reporting cycle.</p> <p>The finance team comprises qualified accounting officers who are responsible for regular monitoring of accounts to report income and expenditure against budgeted spend. This process includes the review of any variances with senior management and service leads to identify any instances of fraud or abuse.</p> <p>The CFEU is a permanent shared support service tasked with minimising fraud and abuse of public funds, reporting directly to the Executive Director Finance and Assets (Section 151 Officer). The Counter Fraud and Anti-Corruption Policy, the Whistleblowing Policy and the Internal Audit Charter are formally agreed by the Council (at a meeting of the appropriate Committee/Executive). These documents set out the role of Internal Audit and the CFEU in the prevention and investigation of fraud and as such the work plan and any risks identified are linked to financial reporting.</p>

Fraud risk assessment

Question	Management response
	<p>The work of the CFEU is reported to the Audit, Compliance and Governance Committee on a biannual basis. 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. The team can undertake reactive investigation work where a referral is received and where necessary, proactive fraud drives in high risk areas. Internal investigations have taken place by the CFEU and appropriate action has been taken and reported where appropriate. Where an investigation takes place due to the suspicion of fraud, any areas of risk or poor control that are identified will also be reported to the appropriate manager with remedial recommendations. Internal Audit will include a follow up audit in the Audit Plan to ensure the recommendations have been implemented. The Council also employs a number of Enforcement Officers within the various service areas who undertake work to tackle abuse of public funds. The risk registers are used to identify cost or resource pressures or income streams and any significant risks.</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: Assets - housing stock / rental properties. Revenue - streams such as Council tax, Business Rates and rental income. Grants / Benefits – Business Grants, Council Tax Reduction Scheme (and Housing Benefit), Track and Trace Support Payments. 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 Cheltenham Borough Council as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>Any instances of actual, suspected or alleged fraud, error or other irregularities that are identified are reported to the Executive Leadership Team and the Audit, Compliance and Governance Committee (see CFEU updates which provide all the necessary detail). Benefit fraud is dealt with by the DWP. Abuse of the Council Tax Reduction Scheme or the various Business Grants is supported by the Revenues and Benefit Department. The CFEU investigate all allegations of wrongdoing. These matters are managed in line with Council's policies, including disciplinary policy, and will be reported to the police where appropriate. The CFEU is conducting a number of investigations in relation to abuse of public funds within or against the authority. This includes cases as outlined above and 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>

Fraud risk assessment

Question	Management response
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	In some instances recommendations have been made in respect of control procedures and reports are issued to the appropriate Service Leads and Governance Group. The Audit, Compliance and Governance Committee approves the risk based Annual Audit Plan which includes a risk based system audit of core financial systems and resources for auditing non financial systems on a risk basis. The CFEU team has a similar annual plan for its work which includes an allocation of resources to investigate any alleged fraud. Performance against the Internal Audit Plan and Counter Fraud Plan and any specific issues identified are reported quarterly/half yearly to the Audit, Compliance and Governance Committee. The Council's Overview and Scrutiny Committee also receives the Council's quarterly performance reports, which includes risk registers and financial performance.
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Cheltenham Borough 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 related to Council Tax and Business Rates avoidance / evasion affects a main revenue stream and due to the pandemic abuse of Business Grants is a significant fraud risk area. 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. 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. Procurement fraud, specifically within departments such as Property Services, remains an area susceptible to abuse because of the significantly high levels of expenditure. Regarding external fraud, both Internal Audit and the CFEU have undertaken work around serious and organised crime which is recognised as a significant issue affecting Cheltenham. Cyber related crime remains a significant risk for the Council and this is managed and reported by the ICT Team. 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>6. What processes do Cheltenham Borough Council have in place to identify and respond to risks of fraud?</p>	<p>The existence of the CFEU 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. The CFEU have contracts to deliver services to CBH, the ALMO responsible for the stock and more recently The Cheltenham Trust. The CFEU 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. There are many financial controls around the validity and payment of invoices and work with HR re recruitment controls in place to ensure all new employees are vetted properly and that staff recognise fraudulent qualifications. Work has been completed in relation to gifts and hospitality procedures and is underway in relation to conflicts / declarations of interest by staff. The CFEU assist with NFI data matching and undertake our own data matching exercises where risk has been identified. The Council also employs a number of Enforcement Officers within the various services as who undertake work to tackle abuse of public funds.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Cheltenham Borough Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective 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)? If so, please provide details</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. As part of the core audit of systems, appropriate internal controls (or their absence/noncompliance) is considered by internal audit. Appropriate testing by internal audit, enables advice to be produced on the effectiveness of internal controls. The outcome of internal audit reviews are reported to management through audit reports and to the Audit, Compliance and Governance Committee as part of quarterly performance updates. There is a good working relationship between the CFEU and Internal Audit, which ensures that internal control weaknesses identified through CFEU reviews are followed up, following management action to address the weaknesses by internal audit reviews. The outcome of internal and external audit work together with Assurance Statements feed in to the Annual Governance Statement which is considered by the Executive Leadership Team and the Audit, Compliance and Governance Committee. 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. 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> <p>The CFEU submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation. On occasions such issues have been raised by both internal and external audit as part of the audit work. Appropriate recommendations for changes to internal controls are made on these occasions for management to implement.</p>

Fraud risk assessment

Question	Management response
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>There is always the potential but we believe appropriate checks and balances are in place within the teams, and through Publica and internal Finance, to ensure misreporting does not occur. The Council monitors budgets to cost centre level which highlights any unexpected variances for further investigation. Financial rules govern what is required to be reported and controls the rules surrounding 'virement'. Reports produced by the CFEU 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>9. How does Cheltenham Borough Council communicate and encourage ethical behaviours and business processes of its 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? Have any significant issues been reported? If so, please provide details</p>	<p>The Council communicates and encourages ethical behaviour and business processes of its staff and contractors through its policies and strategies including The Counter Fraud and Anti-Corruption Policy, Employee Code of Conduct and Whistleblowing Policy all of which are available on the intranet site. Updates are communicated through inductions and refresher training. Staff and Member awareness sessions have been provided by the CFEU. Provision of refresher information and literature for new starters is being developed as are online training modules. Significant contracts are let following a robust process which seeks assurance from the potential contractor that the organisation has appropriate policies and processes in place. The Council monitors performance and quality and adherence to standards of service delivery. The Procurement Team have included statements on all tender / quote documentation detailing the Council's approach to modern slavery, ethical procurement and supporting local businesses. Publicity with regard to identified fraud and error will also be encouraged to act as a deterrent generally. Through the continued work the CFEU have delivered across the Council relating to awareness and through reputation, staff continue to approach the team. HR colleagues also ensure fraud reports come to the CFEU for assessment. No significant issues have been reported in 2021/22. Staff are expected to report any concerns they have about fraud or the misuse of public funds. Any allegations received are referred to the Counter Fraud Unit for investigation. These matters are managed in line with the Council policies, including disciplinary policy, and will be reported to the Council's leadership team where appropriate. In some instances, recommendations will be made in respect of control processes.</p>

Fraud risk assessment

Question	Management response
<p>10. 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. Officers with significant operational financial responsibilities, such as roles in the Treasury Management team, Chief Finance Officer/Deputy Finance Officer, and roles in Revenues and Benefits are subject to regular security checks, at recruitment and then regularly every three years. Each role is assessed for the requirement to undertake post holder security checks. 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. 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. Better recruitment checks to vet staff and prevent them entering the workplace - prevention is always the best control.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</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. Partnership working with local businesses and contractors - for example in relation to Cyber Central - increases risk. The CFEU have contracts with the above named organisation (not Ubico) to mitigate fraud risk more generally in relation to public funds rather than the Council as an individual body. Prevention methods for bribery and corruption form part of the CFEU's work streams and are detailed within the Counter Fraud and Anti-Corruption Policy. Transparency, audit and scrutiny practices across these partnerships and more generally Local Government. The CFEU were consulted by Publica in relation to the new procurement processes and fraud awareness training/updated documents were reviewed in relation to fraud risk.</p>

Fraud risk assessment

Question	Management response
<p>12. 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>On a quarterly basis, the Audit, Compliance and Governance Committee receives monitoring reports from SWAP regarding work carried out by the internal audit team. The report details the work carried out compared to the plan, the level of assurance resulting from the audit, the key issues regarding internal controls or fraud including any breaches. Reporting includes the outcome of internal audit follow-up reviews of the implementation of audit recommendations. The CFEU provides biannual updates to Audit, Compliance and Governance Committee. The report includes the future work plan and retrospective findings for comment and consideration. The Committee is consulted on any proposed changes to relevant Council Policy – e.g. Whistle Blowing Policy, Counter Fraud and Anti-Corruption Policy, Proceeds of Crime and Anti-Money Laundering Policy, RIPA Policies etc. Changes to the Council's Corporate Risk Register are also reported to the Audit, Compliance and Governance Committee. The Council's Overview and Scrutiny Committee also receives the Council's quarterly performance reports, which includes changes to the Council's risk registers and details of financial performance. The CFEU 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. The Audit, Compliance and Governance Committee exercise oversight over management processes for identifying and responding to risks of fraud and breaches of internal control through challenge of internal audit and counter fraud, monitoring the implementation of recommendations and seeking additional assurances from operational management. See reports presented to Audit / Overview and Scrutiny Committee.</p>

Fraud risk assessment

Question	Management response
13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	The CFEU has received referrals via whistleblowing. Reports are dealt with correctly and in line with the Whistleblowing Policy and with due consideration to sensitive referral sources. Once the investigation is complete, appropriate recommendations are made for action which may include prosecution, civil penalties, improvements to internal controls, and (where an employee is the subject), consideration of disciplinary action. If warranted a report would be made to the Audit, Compliance and Governance Committee and recommendations for improvements to internal controls issued to Corporate Management to be followed up by internal audit.
14. Have any reports been made under the Bribery Act? If so, please provide details	No

Law and regulations

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 Cheltenham Borough Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, 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 body is in compliance with laws and regulations. Where we become aware 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 Cheltenham Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the local authority's regulatory environment that may have a significant impact on the local authority'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.</p> <p>The relevant officer will brief ELT / SLT / Members and notify the insurance officer as appropriate. Legal costs will also form part of the quarterly budget monitoring reports.</p> <p>Advice from the Public Insurance Officer is used to assess level of provision held for excesses. A contingent liability will continue to be disclosed in the accounts for MMI. Service managers are also requested to highlight any change to the Council's regulatory environment on an annual basis. None of the responses result in any significant impact on the financial statements.</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 Auditor 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. Assurance is gained from internal controls within the audit process, VAT and treasury advisers. All of the reports to Cabinet, Council, and other Committees include HR, legal and financial implications which are completed by the relevant professional officer</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>No</p>

Impact of laws and regulations

Question	Management response
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	No
5. What arrangements does Cheltenham Borough 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 reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No

Related Parties

Matters in relation to Related Parties

Cheltenham Borough Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Cheltenham Borough Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the local authority;
- 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 local authority, or of any body that is a related party of the local authority.

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 [type of body]'s perspective but material from a related party viewpoint then the local authority 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
<p>1. Have there been any changes in the related parties including those disclosed in Cheltenham Borough Council's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Cheltenham Borough Council whether Cheltenham Borough Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>The related parties disclosed in the 2020/21 were reviewed in detail to ensure only those parties and transactions which meet the definition were included. These again have been reviewed but no significant changes have been made.</p>
<p>2. What controls does Cheltenham Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>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 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 are included in a separate note to the accounts.</p>

Related Parties

Question	Management response
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	The same processes and controls are in place for all significant transactions, related party or otherwise. When senior officers, Cabinet or Full Council are required to approve related party transactions then those individuals who have significant control or influence over any external parties or partners are required to declare a conflict of interest and are excluded from voting or formally endorsing the transaction.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	See 3. above.

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Cheltenham Borough Council will no longer continue?</p>	<p>The following processes and controls are in place to identify events or conditions which may indicate the Council can no longer continue to provide statutory services:</p> <ul style="list-style-type: none"> • Monthly informal budget monitoring undertaken by the Finance team, with quarterly monitoring reports to Cabinet and Council to identify financial risks which may impact statutory services • A detailed four year medium term financial strategy produced each year which outlines savings and use of resources required to continue delivering statutory services. • A detailed assessment of the budget proposals in the Section 25 report, including the appropriateness of reserve levels and ability to continue to deliver services at current levels • Corporate risk register and risk management processes reported and discussed monthly at Executive Leadership meetings. Includes any financial implications of items on the long term budgeting strategy. • The key statutory service the Council provide is waste and recycling which is provided by Ubico Limited. The Council are partners in Ubico and have representation on the Board and would be notified if any event were to occur which would impact on the delivery of the service.
<p>2. Are management aware of any factors which may mean for Cheltenham Borough Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>Management are not aware of any factors which may mean the Council will have to discontinue to fund statutory services.</p>

Going Concern

Question	Management response
<p>3. With regard to the statutory services currently provided by Cheltenham Borough Council, does Cheltenham Borough Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Cheltenham Borough Council to cease to exist?</p>	<p>No changes to statutory services expected.</p>
<p>4. Are management satisfied that the financial reporting framework permits Cheltenham Borough Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Management are satisfied that the financial reporting framework permits the Council to prepare its financial statements on a going concern basis and that this provides a faithful representation of the items in the financial statements.</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

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

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The classes of transactions that are significant to the financial statements are give rise to an accounting estimate are all listed and documented in Appendix A.
2. How does the local authority's risk management process identify and address risks relating to accounting estimates?	Accounting estimates are not considered by the Authority to be a significant corporate risk in themselves but the uncertainty around them is impacted by wider operation risks. For example, the valuation of investment property is intrinsically linked to the impact of COVID-19 on the town's economy. The Corporate risk register has been reviewed as part of the preparation of the estimates and impact of wider events considered \n refreshing our methodology.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The method, assumptions and source data for accounting estimates is reviewed annually for reasonableness in consultation with external audit. The review considers the completeness and accuracy of source data, the robustness of the assumptions and the control framework underpinning the method o calculation. Any changes would be required to be supported by a clearly evidenced justification.

Accounting Estimates - General Enquiries of Management

Question	Management response
4. How do management review the outcomes of previous accounting estimates?	As part of the preparation for the closure of accounts a full review of the basis, methodology and risk profile of each of the accounting estimates has been undertaken by the Head of Finance. This includes a walkthrough of the working papers and information provided to external audit to determine whether any improvements can be made or whether there are any changes in methodology required.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No significant changes have been made to the estimation processes in 2021/22. Minor changes have been made to the controls in place around the estimation processes including greater scrutiny from the Head of Finance. The recommendations made by external audit in the 2020/21 Audit Findings Report have also been reviewed and actioned as part of the closedown planning activity.
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	<p>The use of specialised skills and knowledge is considered:</p> <ul style="list-style-type: none"> • where there are high levels of uncertainty in an accounting estimate; • where information required to inform the estimate is not available to the finance team or; • where the calculation of an estimate requires expertise outside that of the finance team.

Accounting Estimates - General Enquiries of Management

Question	Management response
7. How does the local authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	A risk based approach is applied to determining the controls in place around accounting estimates. The completeness, reliability, validity and accuracy are considered when reviewing and implementing controls.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	The controls are monitored by review of information used and output of the calculations. Controls relating to estimates where a third party is used are subject to internal review within Finance.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	All working papers and calculations relating to accounting estimates are produced by the Finance Business Partner team and are reviewed by the Head of Finance. Our accounting policies underpinning estimates are reviewed annually by the Audit, Compliance and Governance Committee. The methods and models used for significant accounting estimates are also reviewed by the Audit, Compliance and Governance Committee as part of the planning process. The accounts, including relevant disclosures, are also reviewed by the same Committee before the draft unaudited accounts are published.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any 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)? If so, what are they?	No other transactions, events or conditions the require significant judgement other than those in Appendix A.
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	The arrangements outlined in Appendix A are consistent with those in the prior year, with improved control activities and implementation of recommendations previously made by external audit.
12. How is the Audit, Compliance and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Our accounting policies underpinning estimates are reviewed annually by the Audit, Compliance and Governance Committee. The methods and models used for significant accounting estimates are also reviewed by the Audit, Compliance and Governance Committee as part of the planning process. The accounts, including relevant disclosures, are also reviewed by the same Committee before the draft unaudited accounts are published.

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?
Land and buildings valuations	Assets are generally valued on a five year rolling programme, and if not fully valued then a review is completed to provide assurance that there has not been a material change in the value of the asset.	The valuation results are discussed with our CBC internal valuer and supporting documentation is provided to evidence the judgements made. The finance team will review the valuations to confirm that data and assumptions have been applied reasonably and appropriately.	Yes	The high degree of uncertainty in relation to this estimate is considered and addressed through the review of comparable market and other relevant data sources to determine a reasonable estimate for the value of our land and buildings.	No
Council dwelling valuations	The Council dwellings are valued on an EUV basis on a five year rolling basis. If a full valuation is not due then an uplift is applied based on the Land Registry index to determine whether there has been a material change.		Yes	The uncertainty of this estimate is high. It is addressed through the use of the Land Registry index to determine a reasonable estimate for the value of the Council dwellings. If a full revaluation is not undertaken on an asset then a review will be completed to determine whether there have been any material movements.	No

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?
Investment property valuations	In line with IAS40, all investment properties are subject to annual valuation on a fair value basis. A valuation instruction is provided to both the internal and external valuers to summarise our requirements.	The valuation results are discussed with our CBC internal valuer and supporting documentation is provided to evidence the judgements made. The finance team will review the valuations to confirm that data and assumptions have been applied reasonably and appropriately.	Yes	The high degree of uncertainty in relation to this estimate is considered and addressed through the review of comparable market and other relevant data sources to determine a reasonable estimate for the value of our investment property.	No
Depreciation	Depreciation is provided for all PPE with a remaining useful life and is charged on a straight-line basis as outlined in the accounting policies. PPE is recorded on the fixed asset register together with value and the remaining useful economic life.	Asset lives are included in the asset register and are updated on receipt of the valuation report received from our valuers. A detailed valuation report is provided to support the external valuers and reviewed by finance.	Yes	The degree of uncertainty of the estimate is deemed to be judged. If the useful economic life of an asset is reduced, depreciation increases and the carrying value of an asset will fall. Management ensure that experts appointed are independent, professional, suitably experienced and qualified.	No

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?
Valuation of defined benefit net pension fund liabilities	Ten months of actual payroll data was provided to the actuary who use this to estimate the remaining two months of the year. This includes the 2021/22 pay award. These estimates will be compared to the actual contributions paid out at year end.	Data disclosed in the IAS 19 report provided by the Actuary to the Council is reviewed by the finance team for reasonableness and any unexplained variances challenged or queried with the actuary and GCC.	Yes	The degree of uncertainty in this estimate is high. The estimate is based upon a number of factors and judgements applied by the scheme's actuary including discount rate used, rate of salary increases, and change in retirement age, mortality rates and expected return on Pension Fund Investments. Estimate are made upon judgements and conditions as seen by the actuary at a point in time.	No
Fair value estimates	The inputs are based on observable data, but where this not possible judgement is required to establish fair values based on unobservable inputs. The authority employs relevant experts to identify the most appropriate valuation techniques used.	All valuation results are discussed with the expert valuers. The finance team will review the valuations to confirm that data and assumptions have been applied reasonably and appropriately.	Yes	The main sensitivity of the estimate to the methods and assumptions would be if the category or valuation basis of an asset or an asset class was changed. Where this is the case, we would provide evidence to demonstrate why the change had been made and why the in year approach was judged to be more appropriate.	No

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?
Provision for NNDR appeals	The provision is based on an expected success rate of appeals submitted at 31 March and on an estimated reduction in rateable value. The expected success rate is based on previous three years data.	The provision is calculated and checked by the Business Partner Accountant.	No	There is a significant level of estimation uncertainty in relation to business rate appeals due to the volume of outstanding appeals and the sensitivity of the provision to the inputs. The value of provision is assessed using information on outstanding appeals rates.	No
Accruals	Accruals are based on expenditure incurred that has not yet been paid or income due that has not yet been received. Activity is accounted for in the year it takes place, not when money is paid or received. Where accruals are estimated they are based on the latest information available with the assumptions and calculations clearly documented.	All estimated accruals require a peer review. To ensure the completeness of our accruals, checks are undertaken throughout April on expenditure to ensure it is recorded in the correct period.	No	Accruals are largely based on known values, where estimates are used the level of uncertainty is not deemed to be material.	No

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?
Credit loss and impairment allowances	Collective lifetime ECL's are calculated based on the credit risk, the credit status of the instrument and whether there has been any change in the credit risk since initial recognition.	Monthly aged debt reports are produced by the Accounts Receivable team. Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts.	No	The uncertainty is considered as part of the loss provision calculation at year end. We will select the point estimate based on the data available and communications with customers at year end.	There have been no changes to these methods but specific factors in the calculation will be reviewed in light of the risks identified.
Finance lease liabilities	The calculation is based on a spreadsheet model previously reviewed by external audit.	The inputs are validated back to supporting information. The accuracy of the calculation is reviewed by the Head of Finance.	No	The uncertainty and sensitivity of the estimate is low as the inputs are agreed to supporting documentation and no judgement is used by management.	No



Cheltenham Borough Council

Audit, Compliance and Governance Committee – 20 April 2022

Review of Draft Accounting Policies 2021/22

Accountable member	Councillor Peter Jeffries, Cabinet Member for Finance and Assets
Accountable officer	Gemma Bell, Head of Property, Finance and Assets (Deputy s151 Officer)
Ward(s) affected	All
Key Decision	Yes
Executive summary	To update Members on the Council's draft accounting policies which will be included in the 2021/22 Statement of Accounts, providing Members with the opportunity to review these policies before the unaudited accounts are published on 31 July 2022.
Recommendations	The Committee notes the content of these draft accounting policies and make any comments as necessary.

Financial implications	As detailed throughout this report. Contact officer: Gemma Bell, gemma.bell@cheltenham.gov.uk, 01242 264124
Legal implications	None specific directly arising from the report. Contact officer: One Legal – legalservices@onelegal.org.uk 01684 272012
HR implications (including learning and organisational development)	None arising directly from this report. Contact officer: Julie McCarthy julie.mccarthy@publicagroup.uk Tel no: 01242 264355
Key risks	None
Corporate and community plan Implications	None
Environmental and climate change implications	None.

1. Background

- 1.1 The Committee is requested to review the Council's accounting policies, as included in the statement of accounts, on an annual basis. The Council's auditors, Grant Thornton have recommended that this review is done prior to the review and sign-off of the Council's final audited statement of accounts. This is to aid the Committee's understanding of the policies in place and their application in the statement of accounts.
- 1.2 This report therefore includes the draft accounting policies included in the draft statement of accounts. It should be noted that DLUHC have once again extended the deadline for the publishing of the unaudited Statement of Accounts from 31 May 2022 to 31 July 2022. The deadline for publishing final audited accounts is 30 September 2022. The final accounting policies will be reviewed again by the Committee when the audited accounts are presented for approval.

2. Accounting Policies

- 2.1 The Statement of Accounts are prepared in accordance with proper accounting practices and regulations by following the CIPFA Code of Practice on Local Government Accounting ('The Code'), supported by International Financial Reporting Standards (IFRS's) and International Accounting Standards (IAS's).
- 2.2 The Council's accounting policies outline the relevant accounting principles and methodologies adopted by the Council, in order to meet these statutory requirements. They can be used to aid understanding of the statements as well as providing a comparison to other organisations. Any changes to accounting policies from previous financial years are disclosed as a separate note to the accounts.
- 2.3 The accounting policies have been reviewed in 2021/22 to ensure they are up to date and relevant to the statements, a copy of which is included as Appendix A to this report.

3. Changes to accounting policies in 2021/22

- 3.1 There are no material changes to the accounting policies in 2021/22.
- 3.2 The Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified. There is also the requirement for an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The following standards and amendments will be introduced in the 2022/23 Code and apply from 1 April 2022:
 - IFRS 16 Leases
- 3.3 IFRS 16 is not anticipated to have a material effect on the financial statements or balances of the Council since the changes mainly affect the recognition of leases by lessees and the authority does not have any finance lease liabilities or material operating leases (as disclosed in note 23 of the Statement of Accounts on the Council as Lessee).

4. Conclusion

- 4.1 It should be noted that the draft accounting policies may be updated as part of the final audited Statement of Accounts. The Committee will have the opportunity to review the final version as part of the approval of the audited Statement of Accounts in September 2022.

Report author	Contact officer: Gemma Bell gemma.bell@cheltenham.gov.uk, 01242 264124
Appendices	Appendix A - Draft Accounting Policies 2021/22
Background information	Code of Practice on Local Authority Accounting in the UK 2021/22 Accounts Accounts and Audit Regulations 2015

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

1.1 GENERAL PRINCIPLES

The Statement of Accounts summarises the council's transactions for the financial year and its position at the end of the financial year. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the CIPFA/LASAAC Code of Practice on Local Government Accounting in the United Kingdom 2020/21 (The Code) supported by International Financial Reporting Standards (IFRS's), International Accounting Standards (IAS's) and statutory guidance.

The accounting convention adopted by the Statement of Accounts is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounting policies of the council have as far as possible been developed to ensure that the accounts are understandable, relevant, free from material error or misstatement, reliable and comparable.

1.2 ACCOUNTING CONCEPTS

Except where specified in the Code, or in specific legislative requirements, it is the council's responsibility to select and regularly review its accounting policies, as appropriate.

These accounts are prepared in accordance with a number of fundamental accounting principles:

- Relevance
- Reliability
- Comparability
- Materiality

Additionally three further concepts play a pervasive role in the selection and application of accounting policies:

Accruals of Income and Expenditure

The financial statements, other than the cash flow statement, are prepared on an accruals basis, i.e. transactions are reflected in the accounts in the year in which the activity to which they relate takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services, in accordance with the performance obligations in the contract and IFRS15 Revenue Contracts with Customers. These are fees and charges such as car parking fees, bereavement services fees, planning applications and building control

fees.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- All income and expenditure is credited and charged to the Comprehensive Income and Expenditure Statement, unless it comprises capital receipts or capital expenditure.

Going Concern

The accounts are prepared on the assumption that the council will continue its operations for the foreseeable future. This means in particular that the Comprehensive Income and Expenditure Statement and Balance Sheet assume no intention to significantly curtail the scale of operations.

Primacy of legislative requirements

The council derives its powers from statute and its financial and accounting framework is closely controlled by primary and secondary legislation. Where legislative requirements and accounting principles conflict, legislative requirements take precedence.

1.3 EMPLOYEE BENEFITS

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within twelve months of the year-end. They include such benefits as salaries and wages, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the accounting year in which they were accrued. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the council to

terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the council can no longer withdraw the offer of any benefits.

Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. Therefore in the Movement in Reserves Statement appropriations are required to and from the pensions reserve to remove the notional charges and credits for pension enhancement termination benefits, and replace them with the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Post-Employment Benefits

Employees of the council are members of the Local Government Pension Scheme, administered by Gloucestershire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council, and is accounted for as a defined benefits scheme:

- The liabilities of the Gloucestershire pension scheme attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on the adoption of the AA-rated corporate bond basis.
- The assets of the Gloucestershire pension fund attributable to the council are included in the balance sheet at their fair value on the following basis:
 - quoted securities – current bid value
 - unquoted securities – professional estimate of fair value
 - unitised securities – current bid price
 - property – market value.
- The change in the net pension liability is analysed into seven components:
 - Current service cost: the increase in liabilities as a result of the additional year of service earned - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - Past service cost: the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - charged to the Surplus or Deficit in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
 - Interest cost on defined obligation: the expected increase in the present value of liabilities during the year as they move one year closer to being paid - charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Interest income on plan assets: the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Gains/losses on settlements: the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – charged to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Measurement of the net defined benefit liability: changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve.
- Contributions paid to the Gloucestershire pension fund: cash paid as employer's contributions to the pension fund, in settlement of liabilities.

Statutory provisions limit the amount chargeable to council tax to that payable by the council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are appropriations to and from the Pension Reserve to remove the notional charges and credits for retirement benefits and replace them with the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award, and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.4 GRANTS AND CONTRIBUTIONS

Grants and contributions received from the government and other organisations are credited to the Comprehensive Income and Expenditure Statement unless any conditions attached to the grant or contribution have not been satisfied. For example conditions may be stipulated that specify that the grants or contributions are required to be consumed by the recipient as specified, or they must be returned to the transferor.

Amounts received as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as Revenue or Capital Grants Received in Advance. When the conditions are satisfied, the grant or contribution is credited to the relevant service line (if ring-fenced) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement, so that they are available to fund capital expenditure. Where the grant has yet to be used to finance capital expenditure, it is credited to the Capital Grants Unapplied reserve. Where it has been applied it is credited to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.5 OVERHEADS AND SUPPORT SERVICES

The authority operates and manages its overheads (including telephones and printing costs) and corporate and support services separately and expenditure relating to these activities is reported to key decision makers as separate activities. These overheads are not therefore apportioned to services within the general fund. Overhead charges between the General fund and Housing Revenue services, however, continue to apply.

1.6 COUNCIL TAX RECOGNITION

Council Tax receivable for the financial year is recognised in the Collection Fund, a separate statutory account maintained by billing authorities. The Fund is charged with the council tax requirements ('precepts and demands') set by the major preceptors and billing authority before the start of the year, leaving (after providing for uncollectable debts) a surplus or deficit, which is then distributed to the same authorities in future years in proportion to their precepts or demands.

The council tax income included in the council's Comprehensive Income and Expenditure Statement for the year represents its 'demand' for the year, plus its share of the collection fund surplus or deficit for the year, before any distribution. Because the amount of surplus or deficit that can be credited or charged to the council's general fund is governed by statute, and is limited to that declared at the start of the year, adjustments are made in the Movement in Reserves Statement to the collection fund adjustment account to reflect the difference between the surplus or deficit due for the year and that which can be released according to statute.

There is no statutory requirement for a separate collection fund balance sheet. Instead the fund balances (arrears, over/pre-payments, bad debts provision and accumulated surpluses or deficits) are distributed across the balance sheets of the billing authority and the major preceptors, in proportion to their precepts and demands. The council, as a billing authority, therefore accounts for council tax balances on an agency basis, showing only its share of the fund balances on its balance sheet.

1.7 NATIONAL NON-DOMESTIC RATES (NNDR) INCOME RECOGNITION

NNDR income is recognised in the same way as council tax described above, with the exception that the net income and surplus/deficit credited or charged to the Comprehensive Income and Expenditure Statement is shared between the billing authority, the county council and central government in statutory proportions. NNDR balances are also distributed across their balance sheets in the same proportions.

1.8 VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

1.9 NON-CURRENT ASSETS - RECOGNITION OF CAPITAL EXPENDITURE

The council recognises non-current assets when expenditure is incurred on assets:

- held for use in the production or supply of goods or services, rental to others, or for administrative purposes
- expected to be used for more than one financial period
- where it is expected that the future economic benefits associated with the asset will flow to the council
- where the cost can be measured reliably.

The initial cost of an asset is recognised to be:

- Purchase price, construction cost, minimum lease payments or equivalent including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- Costs associated with bringing the asset to the location and condition necessary for it to be capable of operating in the manner required by management.
- Any costs of dismantling and removing an existing asset and restoring the site on which it is located.

The cost of an asset acquired other than by purchase or construction is deemed to be its fair value, except where an asset is acquired via an exchange it is deemed to be the carrying amount of the asset given up by the council.

Donated assets are measured initially at fair value. The difference between their fair values and any consideration paid is credited to the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in a Donated Assets Reserve account. Where gains are credited to the Comprehensive Income and Expenditure Statement they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Subsequent 'enhancement' expenditure is treated as capital expenditure when it is considered it will increase the value of the asset or its useful life or increase the extent to which the council can use the asset.

De Minimis policy - expenditure below £10,000 (excluding VAT) is not treated as capital expenditure except where the sum of identical assets purchased exceeds this figure, as is the case with waste collection bins and caddies.

Capital assets are held on the Balance Sheet as Non-Current Assets.

1.10 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT (PPE)

Assets that have physical substance and are held for use in the provision of services, for rental to others, or for administrative or other operational purposes on a continuing basis are classified as Property, Plant and Equipment. Such assets are categorised as Council Dwellings, Other Land and Buildings, Vehicles Plant and Equipment, Infrastructure, Community Assets, Surplus Assets and Assets Under Construction.

Infrastructure assets are inalienable assets, expenditure on which is only recoverable by continued use of the asset and there is no prospect for sale or alternative use. Examples include footpaths, cycle tracks, bridges, street furniture and drainage systems.

Community Assets are assets that the authority intends to hold in perpetuity, have no determinable useful lives and which may have restrictions on their disposal. Examples include parks, gardens, cemeteries land, allotments and open spaces used for recreation.

Surplus Assets are assets which are not being used to deliver services or for administrative purposes but which do not meet the definition of Investment properties or Assets Held for Sale.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it yields benefits to the council for more than one financial year and the cost of the item can be measured reliably. This excludes expenditure on routine repairs and maintenance, which is charged directly to service revenue accounts when it is incurred.

Measurement

PPE assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. The council does not capitalise borrowing costs incurred whilst assets are under construction.

The assets are then carried on the Balance Sheet using the following measurement bases:

- Dwellings – Current value, using the basis of existing use value for social housing (EUV-SH)
- Other Land and Buildings – Current value, using the basis of existing use value (EUV) where an active market exists or Depreciated Replacement Cost (DRC), where there is no active market for the asset or it is specialised
- Infrastructure – depreciated historic cost
- Community assets – historic cost (where known). The cost of many of the council's parks, gardens and open spaces is not known and they are therefore shown at Nil value. The Code offers the option for authorities to measure community assets at valuation, which is the requirement for Heritage assets. The council has so far not adopted to change its accounting policy in this way

as it does not currently have the management information to make reasonable valuation estimates of community assets.

- Assets under construction – historic cost
- Surplus Assets – Current value, using the Fair Value basis (see paragraph 1.19 *Fair Value Measurement*).
- In the case of assets that have short useful lives or low values (or both) i.e. Vehicles, Plant and Equipment, depreciated historic cost is used as a proxy for current value.

Assets included in the Balance Sheet at Current value are re-valued where there have been material changes during the year, and as a minimum every five years.

Where there is an upward revaluation, the carrying value is increased and the gain credited to the Revaluation Reserve. This is reflected in the Comprehensive Income and Expenditure Statement as a revaluation gain, included in Other Comprehensive Income and Expenditure. Exceptionally, gains are credited to the Surplus or Deficit on the Provision of Services (and not the Revaluation Reserve) where a revaluation loss or impairment in respect of that asset was previously charged to a service revenue account (adjusted for the depreciation that would have been charged had the revaluation or impairment losses not occurred).

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

PPE assets are assessed at the end of each year for evidence of impairment. Where evidence exists and the effect is considered material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the difference.

Where there are revaluation gains for the asset in the Revaluation Reserve the impairment loss is written down against that balance (up to the amount of the accumulated gains).

Where there are no gains in the Revaluation Reserve or an insufficient balance to meet the impairment loss, the remaining loss is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged

if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets with a determinable finite useful life, by writing down the carrying value of the asset in the Balance Sheet over the remaining periods expected to benefit from their use. Assets not depreciated are those without a determinable finite useful life (land and Community and Heritage assets), assets that are not yet available for use (assets under construction) and assets reclassified as Held for Sale.

Depreciation is calculated on the following bases:

- Council dwellings – straight-line allocation over each significant component's estimated useful life
- Other buildings, Vehicles, Plant, Furniture and Equipment, Infrastructure, Surplus assets – straight-line allocation over the asset's estimated useful life.

Newly acquired assets are depreciated from the year following that in which they were acquired, although assets in the course of construction are not depreciated until they are brought into use.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged and the depreciation that would have been charged based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Assets disposed of during the year are depreciated in the year of disposal or in the case of assets reclassified as Held for Sale, in the year they were reclassified.

Componentisation

Where a *material* item of Property Plant and Equipment has components whose cost is *significant* in relation to the total cost of that item, *and* which have different estimated useful lives and/or depreciation methods, they are identified as separate assets and depreciated separately.

The council's current Componentisation Policy for non-dwelling assets defines a material item as an individual building exceeding a gross book value of £1,421k and a significant individual component as one which exceeds 20% of the gross replacement cost of that building. Significant components are identified as separate assets and separately depreciated if their estimated useful lives are considered significantly different to the 'host' building or other components. 'Material' buildings are considered for componentisation whenever such a building is acquired, enhanced, or revalued after 1 April 2010.

With effect from 1st April 2017 separate building components (including the 'host' or residual building) have been identified for dwellings where their current replacement cost and useful lives can be estimated reliably.

1.11 NON-CURRENT ASSETS - HERITAGE ASSETS

Assets with historical, artistic, scientific or technological qualities held principally for their contribution to knowledge or culture.

The council's collections of heritage assets are accounted for as follows:

Ceramics, Art, Regalia and Silverware, Furniture, Textiles, Ephemera, other collectables

These are reported in the Balance Sheet at their current insurance valuation, which is based on market values.

Statues and Monuments

These are reported in the Balance Sheet at their current insurance valuation, which is based on historic or replacement cost.

Archaeology

The council cannot obtain reliable cost or valuation information for its archaeological collection. This is because of the diverse nature of the assets held and lack of comparable market values. Consequently the council does not recognise these assets on its balance sheet.

The insurance valuations are updated for inflation on an annual basis, with gains credited to the Revaluation Reserve. The council has deemed that all the heritage assets have indeterminate lives, hence it does not consider it appropriate to charge depreciation.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment. Any impairment is recognised and measured in accordance with the council's policy on impairment for Property, Plant and Equipment. Occasionally the council will dispose of heritage assets. These are accounted for in accordance with the council's policy on disposals and assets held for sale.

1.12 NON-CURRENT ASSETS - INVESTMENT PROPERTY

Investment properties are those that are used *solely* to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value (see paragraph 1.19 *Fair Value Measurement*). Properties are not depreciated but are revalued annually unless their carrying value can be demonstrated to be not materially different to fair value at the balance sheet date. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Such gains and losses, however, are not permitted by statutory arrangements to have an impact on the General Fund Balance and are therefore reversed out in the Movement in Reserves Statement and credited to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

1.13 NON-CURRENT ASSETS - INTANGIBLE ASSETS

Expenditure on assets that do not have physical substance and which are controlled by the entity through custody or legal rights (e.g. software licences), is capitalised when it will bring benefits to the council for more than one financial year. Internally generated assets are capitalised where it can be demonstrated that the project is technically feasible, is intended to be completed (with adequate resources being available), where the council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset, and where the expenditure during the development phase can be reliably measured.

Intangible assets are measured at cost, which is amortised over the estimated useful life of the asset to the relevant service line in the Comprehensive Income and Expenditure Statement, to reflect the pattern of consumption of benefits. Estimated remaining useful lives are reviewed annually and an asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are charged to the relevant service line in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or cessation of use of an intangible asset is credited or charged to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance, so they are reversed out of the General Fund Balance in the Movement in Reserves Statement and charged or credited to the Capital Adjustment Account with any sale proceeds greater than £10,000 credited to the Capital Receipts Reserve.

1.14 NON-CURRENT ASSETS – DISPOSALS AND ASSETS HELD FOR SALE

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Assets are classified as held for sale where the asset is available for immediate sale in its present condition and where the sale is highly probable i.e. the asset has been advertised for sale and a buyer sought and the completion of the sale is expected within twelve months of the balance sheet date. Dwellings sold under Right to Buy are deemed to become surplus on the day that the transfer to the tenant takes place (completion of the sale), and are therefore considered operational until they are sold.

Except when carried at (depreciated) historic cost, an asset is revalued immediately before its reclassification as Held for Sale, using its existing category's measurement basis. Following reclassification assets are measured at the lower of their carrying values and fair values less costs to sell. Any subsequent gains in value are first used to reverse any losses previously charged to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement and thereafter recognised in the Revaluation Reserve. Losses in value are charged to the Surplus or Deficit on the Provision of Services (even when there is a balance held for that asset in the Revaluation Reserve).

Depreciation is not charged on Assets Held for Sale, except in the year in which they

were classified as held for sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified as non-current assets (Property, Plant and Equipment, Investment or Heritage assets) and valued at the lower of their carrying amount before they were classified as held for sale (adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale), and their recoverable amount at the date of the decision not to sell.

When an asset is disposed of, or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment, Heritage or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal (i.e. netted off against carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are written off to the Capital Adjustment Account.

Amounts received from a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to Housing Revenue Account (HRA) disposals, as specified by statutory regulations, is payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement of Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Such amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.15 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets is charged to the relevant service revenue account in the year. To the extent the council has determined to meet the cost of this expenditure from capital resources (borrowing, capital receipts or grants) a transfer to the Capital Adjustment Account via the Movement in Reserves Statement reverses out the amounts charged to the General Fund Balance so there is no impact on the level of council tax.

1.16 CHARGES TO REVENUE FOR NON-CURRENT ASSETS

Service revenue accounts, support services and trading accounts are charged with the following amounts to record the real cost of holding assets during the year:

- Depreciation of property, plant and equipment used by the relevant service
- Amortisation of intangible assets used by the service
- Revaluation and impairment losses, where there are no accumulated gains in the Revaluation Reserve against which the losses can be charged.

The council cannot raise council tax to cover depreciation, amortisation or revaluation and impairment losses. It is, however, required to make an annual provision (known as Minimum Revenue Provision or MRP) from revenue towards reducing its overall borrowing requirement, equal to an amount calculated on a prudent basis by the council in accordance with statutory guidance. The above charges to the General Fund are therefore reversed out of the General Fund Balance and replaced by a MRP contribution to the Capital Adjustment Account in the Movement of Reserves Statement.

1.17 LEASES

Leases are classified as either Finance Leases or Operating Leases. Arrangements that do not have the legal status of a lease but convey the right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

Defining a Finance Lease

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. This is likely to apply if some or all of the following situations are met:

- If the lessee will gain ownership of the asset at the end of the lease term (e.g. in the case of hire purchase)
- If the lessee has an option to purchase the asset at a sufficiently favourable price that it is reasonably certain, at the inception of the lease, that it will be exercised
- If the lease term is for the major part of the economic life of the asset, even if title is not transferred. The economic life of the asset is deemed to be consistent with the useful life of the asset in the depreciation policy. The council recognises the major part to be 75% of the life of the

asset, unless on an individual case basis this would not give a true representation of the substance of the transaction

- At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. The present value of the minimum lease payments is calculated by discounting at the rate inherent in the lease. If this rate cannot be determined the incremental borrowing rate applicable for that year is used. The council recognises “substantially all” to mean 90% of the value of the asset. In some circumstances, a level of 75% is used if the council believes that using this level will give a result that better reflects the underlying transaction
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications
- If the lessee cancels the lease, the lessor’s losses associated with the cancellation are borne by the lessee
- Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (e.g. in the form of a rent rebate equalling most of the sales proceeds at the end of the lease)
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Lessee Accounting for a finance lease

Where the council is leasing an asset (for example as a tenant) that is deemed a finance lease, it will recognise that asset within its asset register, and account for that asset as though it were an owned asset.

The initial recognition of the asset is at the fair value of the asset, or if lower, the present value of the minimum lease payments. A liability (less any premium paid) may also be recognised at this value, which is reduced as lease payments are made. Lease payments made to the lessor are split between the reduction in the liability and interest, which is charged to the Comprehensive Income and Expenditure Statement.

Lessor Accounting for a finance lease

Where the council grants a finance lease over property or items of plant or equipment the carrying values of the relevant assets are written out of the Balance Sheet to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement, as part of the gain or loss on disposal. The amount receivable on disposal (representing the minimum lease payments due), is credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal, matched by a cash receipt (if a premium has been paid) or a long term debtor (if to be settled by payments in future years) on the Balance Sheet.

The amount receivable on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

Where the amount due under the lease is settled by payments in future years the amount receivable on disposal is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve. When received future lease payments are apportioned between:

- a charge for the acquisition of the assets, which reduces the lease debtor
- finance interest, which is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

An amount equivalent to the charge for the acquisition of the assets is at the same time transferred from the Deferred Capital Receipts Reserve to the Capital Receipts Reserve.

Defining an Operating Lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards arising from ownership of the asset.

Lessor Accounting for an operating lease

Where the council grants an operating lease over property or items of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to the relevant service income line or, if the asset is classified as an Investment Property, to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Lessee Accounting for operating leases

Rentals paid under operating leases are charged to the service using the asset in the Comprehensive Income and Expenditure Statement.

1.18 FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised in the Balance Sheet when the authority becomes party to the contractual provisions of the instrument. In the case of a financial asset this is when the authority becomes committed to its purchase, except in the case of trade receivables, which are recognised when the goods or services have been supplied. Financial liabilities are recognised when the cash or goods or services have been received.

Financial Liabilities

Financial liabilities are initially measured at fair value and then carried at amortised cost. Where interest is payable this is charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, based on the carrying amount of the liability multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount

at which it was originally recognised. Transaction costs are charged to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement, unless deemed material, in which case they are added to the initial cost.

Normally this means, for the council's borrowings, the amount recognised in the Balance Sheet represents the outstanding principal repayable plus any accrued interest, and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year stated in the loan agreement. For current payables with no stated interest rate the amount recognised is the outstanding invoiced amount.

Gains and losses on the early settlement of borrowing are credited or charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of settlement. However, where settlement has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is deducted from or added to the amortised cost of the new or modified loan and its write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over a number of years. The council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid, subject to the maximum or minimum number of years specified in the regulations. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Under IFRS 9 the authority's financial assets are classified into three types:

- Financial assets at amortised cost – where payments consist solely of principal and interest and the reason for holding is to collect cash flows
- Fair value through Other Comprehensive Income (OCI) – where payments do not consist solely of principal and interest but where the authority has designated the instrument as Fair value through OCI
- Fair value through Profit and Loss (P&L) - where payments do not consist solely of principal and interest.

Financial assets at amortised cost

These are initially measured at fair value and carried at amortised cost. Where interest is receivable this is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. Normally this means, for the council's loans and investments, the amount recognised in the Balance Sheet is the outstanding principal receivable plus any accrued interest,

and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year stated in the loan agreement.

Interest attributable to the Housing Revenue Account (HRA) is calculated based on the level of its usable reserves held throughout the year and the weighted average (consolidated) rate of interest earned by the council, in accordance with statutory provisions.

Deposits, bonds and loans are assessed on recognition for impairment due to the likelihood that payments due under the contract will not be made and, if material, a provision for twelve month expected credit losses set aside from the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the risk of default increases significantly after initial recognition and for trade and lease receivables a provision is set aside based on expected lifetime credit losses, if deemed significant or material.

For current receivables with no stated interest rate the amount recognised is the outstanding invoiced amount, less any allowance for impairment (provision for bad or doubtful debts).

Any gains and losses that arise on the disposal or de-recognition of the asset are credited or charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Fair value through OCI

These are initially measured at cost (equivalent to fair value) and carried at fair value. For instruments quoted in an active market, fair values are based on their market prices at the reporting date, except where the instruments will mature within twelve months of that date, in which case they are assumed not materially different to (and therefore equal to) their carrying values.

Interest receivable is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Dividends from equity instruments designated by the authority as Fair value through OCI are credited to the same line when they become receivable by the council.

Changes in fair value are balanced by an entry to the Financial Instruments Revaluation Reserve (FIRR) (formerly the Available-for-Sale Reserve), with the gain or loss being recognised in Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement.

Any gains or losses held in the FIRR on de-recognition of the asset are credited or charged to the General Fund Balance via the Movement in Reserves Statement.

Fair value through P&L

These are initially measured at cost and carried at fair value. For instruments quoted in an active market, fair values are based on their market prices at the reporting date, except where the instruments will mature within twelve months of that date, in which case they are assumed not materially different to (and therefore equal to) their carrying values.

Dividends are credited to the Financing and Investment Income and expenditure line in the Comprehensive Income and Expenditure Statement (CIES) when they become receivable by the council. Changes in fair value and any gains or losses on de-recognition are charged or credited to the same line in the CIES and, in the case of pooled investment funds reversed to the Pooled Investment Funds Adjustment Account via the Movement in Reserves Statement (MIRS). Sale proceeds on de-recognition are credited to usable capital receipts via the MIRS.

1.19 FAIR VALUE MEASUREMENT

The authority measures certain non-financial assets (Surplus Assets, Investment Property and Assets Held for Sale) and its Fair value through OCI and Fair value through P&L financial assets at fair value at the balance sheet date, unless there is no material difference between carrying value and fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest. In the case of a non-financial asset, the authority takes into account the market participants' ability to use the asset in its 'highest and best use' or by selling it to another market participant that would use the asset in its 'highest and best use'.

Inputs to the valuation techniques used in measuring fair value are categorised within the fair value hierarchy as follows:

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 - directly or indirectly observable inputs other than quoted prices
- Level 3 - unobservable inputs for the asset or liability.

1.20 INVENTORIES

Inventories held in stores are included in the Balance Sheet at the latest price paid. This is a departure from the requirements of the Code, which require inventories to be shown at the lower of cost and net realisable value. The effect of the different treatment is not considered material.

1.21 CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in

value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

1.22 PROVISIONS

Provisions are made where an event has taken place that gives the council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing or amount of the transfer is uncertain. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the council becomes aware of the event, based on its best estimate of the likely settlement. When payments are eventually made, they are charged to the provision carried on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service line in the Comprehensive Income and Expenditure Statement.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

1.23 CONTINGENT LIABILITIES

A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but, where material, disclosed in a note to the accounts.

1.24 RESERVES

The council sets aside specific amounts as usable reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the General Fund balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to form part of the Surplus or Deficit in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure in that year.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits, and they do not represent usable resources for the council – these reserves are known as unusable reserves.

1.25 CONTINGENT ASSETS

A contingent asset arises where an event has taken place that gives the council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council.

Contingent assets are not recognised in the Balance Sheet but, where material, disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.26 PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the council's financial position or financial performance. Where a change made has a material effect, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.27 EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that arose after the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.28 ESTIMATION TECHNIQUES

Estimation techniques are the methods adopted to assess the values of assets, liabilities, gains and losses and changes in reserves in situations where there is uncertainty as to their precise value. Unless specified in the Code or in legislative requirements, the method of estimation will generally be the one that most closely reflects the economic reality of the transaction.

1.29 JOINTLY CONTROLLED OPERATIONS

Jointly controlled operations are activities undertaken by the council, together with other organisations, involving the shared use of the assets and resources of the organisations, rather than the establishment of a separate entity. The council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and charges or credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Such operations, not being separate entities, are accounted for in the council only accounts and are not separate entities for Group Account purposes.

1.30 INTERESTS IN COMPANIES AND OTHER ENTITIES – GROUP ACCOUNTS

The council has material interests in companies that have the nature of being subsidiaries and joint ventures and require it to prepare Group Accounts. In the council's own single-entity accounts the interests in companies and other entities are recorded as financial assets at cost (if any), less any provision for losses.

Basis of Consolidation

The group accounts bring together the council's own accounts with those of Gloucestershire Airport Limited (GAL), in which the council has a 50% shareholding, and Cheltenham Borough Homes Limited (CBH), a company limited by guarantee in which the council is the sole member. The accounts of CBH include those of Cheltenham Borough Homes Services Limited (CBHSL), a wholly owned subsidiary of Cheltenham Borough Homes Limited.

GAL has been treated as a Joint Venture since it is jointly owned and controlled with Gloucester City Council. GAL has therefore been consolidated with the council's accounts on an equity accounting basis, in which the council's share of the company's operating results and net assets or liabilities (based on its proportionate shareholding) are shown as separate lines in the main group statements. There is no requirement to adjust for inter-organisation transactions and balances.

CBH has been treated as a Subsidiary (since it is wholly controlled by the council), so its accounts have been consolidated in the main group statements on a line-by-line basis, eliminating inter-organisation transactions and balances.

At 31 March 2021 the council also had a 14.29% shareholding in Ubico Limited, a local authority owned company which has seven members, providing environmental services to the shareholder councils. Since the council does not have control or significant influence over the company, its accounts are not consolidated into the group accounts, however full disclosure notes are provided.

The council also has an interest in Publica Group (Support) Limited, a Joint Venture company limited by guarantee, in which the council is one of four members. The council's share of the company's profit for the year and net assets at the balance sheet date have not been consolidated into the Group Accounts on the basis of immateriality.

The council also has an interest in the South West Audit Partnership Limited (SWAP), a company limited by guarantee. As the council does not have any controlling or significant influence in the company it is classed as an investment, and is not included in the Group Accounts.

Accounting Policies

The financial statements in the group accounts are prepared in accordance with the policies set out above, with the following additions and exceptions:

Cheltenham Borough Homes Limited (CBH)

The financial statements for CBH have been prepared under the historical cost convention in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including Financial Reporting Standard 102 (FRS102) and the Housing SORP 2014: Statement of Recommended Practice for Registered Social Housing providers.

Consequently dwellings owned by CBH are initially valued at historic cost. For the purposes of the group accounts they have been re-valued at Current value to bring them into line with the council's accounting policies, using the existing use value for social housing (EUV-SH) appropriate to the dwellings' tenure as affordable homes. Any revaluation gains or losses are treated as described in paragraph 1.10 (Measurement).

In the company accounts capital grants are written off to the Income and Expenditure account over the estimated life of the asset in line with depreciation. However in the group accounts such grants are treated in accordance with paragraph 1.4, whereby they are credited to the Income and Expenditure account when any conditions attaching to the grant are met.

Gloucestershire Airport Limited

The financial statements of the Airport have been prepared under the historic cost convention (except for certain items that are shown at fair value) in accordance with Financial Reporting Standard 102 (FRS102).

Since Investment Property and Property, Plant and Equipment (PPE) assets held by the airport have been valued at fair value no adjustments are required to the value of non-current assets on consolidation with the council's accounts. Unlike in the airport accounts, however, where any gains in value over historic cost are credited to the Profit & Loss Account, such gains are credited in the group accounts to the Revaluation Reserve (for PPE assets) and the Capital Adjustment Account via the Group Income and Expenditure Statement (for Investment Property), in line with the council's accounting policies.

Audit, Compliance and Governance Committee 2022 work plan

Item	Author	Received
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13 July 2022 (report deadline, 5.00pm, Friday 1 July)		
Internal audit opinion (for the previous year)	Internal Audit	
Auditing Standards – communicating with the Audit Committee	Paul Jones/Chair	
Statement of Accounts (previous year) (inc. letter of representation)	Finance Team	
Annual update on FOI and EIR	J Hibbert/B Cordingley	
Cyber Security Business Continuity Arrangements (inc review of databases and data sources). Exempt report (<i>pushed back from April</i>)	Darren Knight	
Annual Review of Risk Management Policy (<i>pushed back from April</i>)	Ann Wolstencroft	
September 2022		
Audit Findings Report - ISA260 (for the previous year)	Grant Thornton	
Internal audit monitoring report	Internal Audit	
Counter Fraud update and future work provision	Counter Fraud Unit	

ANNUAL ITEMS (standing items to be added to the work plan each year)		
January		
IT Security update	John Chorlton/Tony Oladejo	
Audit committee update	Grant Thornton	
Annual Auditors report (for previous year)	Grant Thornton	
Internal audit monitoring report	Internal Audit	
Annual governance statement – significant issues action plan	Ann Wolstencroft	
April		
Audit progress report and sector updates	Grant Thornton	
External audit plan (for the current year)	Grant Thornton	
External Audit Fee Letter (for previous 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 (if CIPFA guidance has changed)	Darren Knight	

Audit, Compliance and Governance Committee 2022 work plan

Item	Author	Received
Annual Governance Statement	Darren Knight	
Annual Review of Risk Management Policy	Ann Wolstencroft	
July		
Internal audit opinion (for the previous year)	Internal Audit	
Auditing Standards – communicating with the Audit Committee	Paul Jones/Chair	
Statement of Accounts (previous year) (inc. letter of representation)	Finance Team	
Annual update on FOI and EIR	Judy Hibbert/Beth Cordingley	
September		
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