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9 June 2014

Dear Mark

Cheltenham Borough Council Financial Statements for the year end 31 March 2014

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

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

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

For information, (as in previous years) we are also required to make enquiries of Members and I enclose a letter and schedule of questions for the new Audit Committee Chair. Could I ask that you pass this onto him. We suggest that it would be useful to co-ordinate and discuss both the Members' and management responses in time for discussion at the next Audit Committee meeting on 18 June 2014.

Chartered Accountants

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

Yours sincerely

Peter Barber
Associate Director and Engagement Lead
For Grant Thornton UK LLP

Responses from Management:

Auditor question	Response
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2013/14?	Auction of Icelandic bank deposit with Lanbdsbanki. Sale of North Place and Portland street car parks Local retention of business rates and business rates pooling within Gloucestershire.
Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Annually the GOSS review the accounting policies which accompany the accounts during the perpetration of the statement of accounts. I do not believe there are any events which may cause a change in policies.
Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	Annually, GOSS request that service managers highlight any change in regulatory environment. None of the responses result in any significant impact on the financial statements.
How would you assess the quality of the Council's internal control processes?	The Councils Annual Governance Statement is based upon an annual review of its internal controls and the work of internal audit. The Corporate governance group have considered the governance arrangements in place for each of the council's service areas and One legal provides advice to officers on the separation of duties in respect of decision making. The governance structures within each of the shared services have been designed to ensure that decision making is transparent and based upon sound audit principles. Audit Cotswolds Head of Internal Audit provides the Audit Committee with monitoring reports which provide a level of assurance for the Council and for partners within shared services.
How would you assess the process for reviewing the effectiveness of internal control?	Rely on audit reports and the Annual Governance Statement including officer annual declarations which cover internal control.
How do the Council's risk management processes link to financial reporting?	The council has a robust risk management process which requires managers to manage all risks within projects and services with escalation to the corporate risk register which is reviewed monthly by SLT prior to circulating to Cabinet. All reports to committees require financial implications to be identified and include a template for financial risk to be identified and scored using a new risk scorecard which has been developed to strengthen the assessment process in response to members requests. The Section 151 Officer produces a risk based review of the annual budget which is included in the budget papers for consideration ahead of the budget setting discussion and debate.

How would you assess the Council's arrangements for identifying and responding to the risk of fraud?	As from June 2013 Internal Audit will be producing an annual Fraud Report for Audit Committee
What has been the outcome of these arrangements so far this year?	There have been no frauds reported to Audit Committee from the Head of Internal Audit for 2013/14. However, there have been "frauds" investigated by the Revenues & Benefits Fraud Team that has resulted in prosecutions or penalties etc.
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	<p>The Head of the Audit Partnership considers that the risk of "customer fraud" is increasing due to ongoing economic pressures, but that the likelihood is still low and the impact should not increase the material misstatement in the financial statements.</p> <p>There is no specific suspicion that fraud is occurring within any council service but Internal Audit have identified areas that are at risk within its Audit Plan and target resources accordingly.</p> <p>As indicated in the response to question 1 there is an increased risk of "fraud" generally and as such Internal Audit has been working with the Benefit Fraud team to establish a potential Counter Fraud Unit with the specific purpose of pro-actively reducing this risk in 2014/15.</p>
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	No
Have any reports been made under the Bribery Act?	No
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	This aspect has been included in annual opinion reports by the Head of Internal Audit. As from June 2013 there will be a separate report from the Head of Internal Audit on Counter Fraud activity.
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	<p>SLT receive a reports on the level of compliance on declarations of interest and for returns on Gifts, Hospitality and Sponsorship, areas of weakness are identified and raised with specific Directors and Service managers.</p> <p>Intranet articles highlight the need for declarations of interest to be made and provide advice in respect of offers of Gifts, hospitality and sponsorship.</p> <p>The council's employee and elected Member induction training programmes include the Whistle blowing policy and copies of this policy are available on the intranet which includes</p>

	<p>examples of the issues that can be reported. The Council has a publicised Whistle Blowing Policy and an Anti Fraud and Corruption Policy both of which are on the intranet and internet.</p> <p>Employees are asked to complete an annual declaration of interest form and advised through the employee Code of Conduct that amendments must be brought to the attention of their Director</p>
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	Use advice from insurance advisors to assess value of local provision for excesses. Other liabilities identified locally include MMI write off provision (See statement of accounts)
Is there any use of financial instruments, including derivatives?	No
Are you aware of any significant transaction outside the normal course of business?	No
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
Are you aware of any guarantee contracts?	No
Are you aware of allegations of fraud, errors, or other irregularities during the period?	<p>There have been no frauds reported to Audit Committee from the Head of Internal Audit for 2013/14. However, there have been “frauds” investigated by the Revenues & Benefits Fraud Team that has resulted in prosecutions or penalties etc.</p> <p>As from June 2013 Internal Audit will be producing an annual Fraud Report for Audit Committee</p> <p>The Head of the Audit Partnership considers that the risk of “customer fraud” is increasing due to ongoing economic pressures, but that the likelihood is still low and the impact should not increase the material misstatement in the financial statements.</p> <p>There is no specific suspicion that fraud is occurring within any council service but Internal Audit have identified areas that are at risk within its Audit Plan and target resources accordingly.</p> <p>As indicated in the response to question 1 there is an increased risk of “fraud” generally and as such Internal Audit has been working with the Benefit Fraud team to establish a potential Counter Fraud Unit with the specific purpose of pro-actively reducing this risk in 2014/15.</p>
Are you aware of any instances of non-compliance with laws or regulations or is the Council's on notice of any such possible instances of non-compliance?	The Council's S151 officer Directors and Managers ensure that all legal requirements are met. Assurance is gained from internal controls the audit process, VAT and treasury advisers.

	<p>All of the reports to Cabinet, Committee and Council include legal financial and HR implications which are completed by the relevant professional officer.</p> <p>All Directors complete an annual assurance review of their Directorates which includes compliance with legislation and regulation. The Audit Committee is advised by the Council's S.151 Officer, Internal Audit and the Corporate Governance, Risk and Compliance officer who provide assurance regarding compliance with laws, regulation and financial rules They bring any issues to the attention of the Committee and provide updates on progress against any appropriate action plans.</p> <p>There is a standard section within all reports to Council, Cabinet and Audit Committee for Legal, Finance and HR to identify the relevant</p> <p>No non-compliance since April 2013</p>
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	No
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	No
Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?	<p>PPE valuations are made by an External Valuer (Non Dwellings) and Internal Valuer (Dwellings) in line with RICS guidance.</p> <p>A revaluation of assets is carried out on every 5 year.</p> <p>The Valuer's are asked to consider whether there has been any impairments of assets in year</p> <p>The remaining UEL of an asset is calculated by the Internal Valuer every 5 years following the RICS guidance. Depreciation is then calculated on a straight line basis in line with IAS 16</p> <p>For pensions reliance on information provided by actuary about assumptions on population and future economic growth.</p>
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
Has the management team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of that assessment?	???

<p>Management is required to consider whether there are any material uncertainties that cast doubt on the Council's ability to continue as a business. What is the process for undertaking a rigorous assessment of going concern? Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?</p>	<p>The council is a local authority, receiving annual government grant settlements and contributions as well as taxation and income for goods and services provided. Please refer to the accounting concepts note in the statement of accounts. A balanced and deliverable budget was approved by Council on 14th February 2014 which is reviewed and assessed for robustness by the Section 151 officer</p> <p>The budget and annual plan are aligned and are worked on in tandem to ensure funding is available to deliver the councils aspirations. No. Regular monitoring, of which cabinet is notified formally on a quarterly basis, has not identified any issues.</p> <p>The annual preparation process ensures that policy changes are dealt with.</p> <p>The Head of Paid Service challenges the Councils Management Structure and reports and amendments to Council. The training /skill needs of all employees are assessed through an appraisal scheme.</p> <p>Capacity is recognised as a Corporate Risk and is identified with the Corporate Risk Register which is monitored by SLT on a monthly basis. SLT also receive and consider a Capacity/Resource plan every quarter.</p> <p>The annual budget setting process considers any shortfall in staffing capacity and may include request for additional funding to support additional staffing to fulfil objectives e.g. one off resource to support the creation of the Leisure and culture trust in 2014/15 budget.</p>
<p>Can you provide details of those solicitors utilised by the Council's during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>None as far as the Council is aware.</p>
<p>Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Capita, Treasury Management Advisors – general treasury management advise</p>
<p>Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?</p>	<p>No</p>