

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

Grant Thornton UK LLP
Hartwell House
55-61 Victoria Street
Bristol BS1 6FT

T +44 (0)117 305 7600
F +44 (0)117 305 7784
DX 78112 Bristol
www.grant-thornton.co.uk

17 February 2015

Councillor Colin Hay

Cheltenham Borough Council Financial Statements for the year end 31 March 2015

Understanding how the Audit Committee gains assurance from management

To comply with International Auditing Standards, each year we need to refresh our understanding of how the Audit Committee gains assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me with your responses to the following questions.

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

Please could you provide a response by the next Audit Committee on 25th March 2015 and

Chartered Accountants

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please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Peter Barber', with a stylized flourish at the end.

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

Response from Audit Committee Chair
 To be signed at Audit Committee March 2015
 Fraud risk assessment

Auditor Question	Response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud?</p>	<p>The internal audit plan includes a risk based audit of the core financial systems that are used in the compilation of the financial statements. These core systems are audited annually, any risks that are identified that may result in the financial statements being materially mis-stated due to fraud will be reported to the Executive Board, and the Audit Committee as part of the quarterly reporting cycle.</p> <p>In addition, as part of papers going Overview and Scrutiny Committee which are also available to members of the Audit Committee, a quarterly update is given on the number and value of Housing Benefit Frauds detected and sanctioned.</p>
<p>What are the results of this process?</p>	<p>The Committee is not aware of any significant risks in this regard, but is aware of fraud in the Housing Benefits and Council Tax systems.</p>
<p>What processes does the Council have in place to identify and respond to risks of fraud?</p>	<p>The Counter Fraud, Corruption and Bribery Policy, Internal Audit Charter and the terms of reference for the Head of Audit Cotswolds (Chief Internal Auditor) are formally agreed by Council. These documents set out the role of Internal Audit in the prevention and investigation of fraud. The Audit Committee also approves the risk-based annual audit plan which includes allocation of resources to respond to fraud allegations and prepare audits to consider possible areas where fraud may be a risk.</p> <p>Audit Cotswolds is also in the process of establishing a Counter Fraud Unit following the successful bid in February 2015 to the Department of Communities and Local Government (DCLG) for funding. This will ensure the authority retains skills and resources to tackle fraud following the Department of Work and Pensions Single Fraud Investigation Service (DWP SFIS) led changes.</p>
<p>Have any specific fraud risks, or areas with a high</p>	<p>A full risk assessment of fraud was completed in</p>

<p>risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>2014/15 to help inform the bid to DCLG. The result of this work is being used to scope the remit of the new Counter Fraud Unit and set new performance targets. Furthermore this assessment informed the Cabinet report in February 2015 to retain counter fraud staff.</p> <p>However, until 1st April 2015 when DWP SFIS takes responsibility for Benefit fraud, resources remain as per previous years with Audit Cotswolds resourced to tackle corporate fraud risks and the Revenues and Benefits service to address Benefit fraud and Council Tax fraud risk.</p> <p>Audit Committee has been informed of these changes through the Audit Cotswolds quarterly reporting, and we indeed supportive of the bid to DCLG for funding.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively?</p>	<p>As part of the core audit of systems appropriate internal controls (or their absence / non-compliance) is considered by internal audit. Appropriate testing by internal audit advises of their effectiveness and is covered through audit reports.</p>
<p>If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>N/A</p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>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>
<p>Are there any areas where there is a potential for misreporting?</p>	<p>There is always the potential but we believe appropriate checks and balances are in place within the teams, and through GO Shared Services, to ensure mis-reporting does not occur.</p>
<p>How does the Audit and Scrutiny Committee exercise oversight over management's processes for identifying and responding to risks of fraud?</p>	<p>Initially the responsibility for the investigation of actual or suspected fraud lies with the Head of Audit Cotswolds (excluding benefit fraud) and the Council's Executive Board. Once an Investigation has been concluded the results are reported to the Audit Committee.</p> <p>Going forward the Counter Fraud Unit is expected to continue reporting to the Audit Committee as outlined in the DCLG bid documentation.</p>
<p>What arrangements are in place to report fraud issues and risks to Members?</p>	<p>On a quarterly basis, the Audit Committee receives monitoring reports from the Head of Audit Cotswolds 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.</p>

How does the Council communicate and encourage ethical behaviour of its staff and contractors?	<p>The Audit Committee approves the risk-based annual audit plan. The annual plan includes resource allocation to core financial and governance audits as well as service audits (such as Democratic Services) which will include a review of various policies and strategies such as: the Counter fraud, Corruption and Bribery Policy, Employee Code of Conduct and Whistle-blowing Strategy. The various strategies will be reviewed for timeliness and completeness as well as how well they are communicated to employees through processes such as induction training, appraisals and refresher training. Any areas of concern are reported to the Audit Committee through the Head of Audit Cotswolds quarterly monitoring reports.</p> <p>In terms of contractors the Council monitors performance and quality and adherence to standards of service delivery.</p>
<p>How does the Audit and Scrutiny Committee encourage staff to report their concerns about fraud?</p> <p>Have any significant issues been reported?</p>	<p>See above.</p> <p>No significant issues have been reported.</p>
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	No – but the Councils constitution requires members to declare any such interests and where appropriate withdraw. Senior decision making officers are also required to declare any related party transactions.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2014?	Other than Benefit and Council tax fraud – no.

Response from Audit Committee Chair

Law and regulation

Auditor Question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	<p>The internal audit team prepare audits to ensure that compliance with relevant laws and regulations are evidenced during the audit process. The quarterly report to the Audit Committee, produced by the Head of Audit Cotswolds, identify and non-compliance with relevant laws and regulations.</p> <p>There is a dedicated legal services team (One Legal) that provides advice to members and officers in relation to laws and regulations.</p>
How does the management gain assurance that all relevant laws and regulations have been complied with?	See above. Plus the Whistle-blowing Strategy provides staff with the ability to report to management where laws and regulations have not been complied with.
How is the Audit and Scrutiny Committee provided	The internal audit team prepare audits to ensure

with assurance that all relevant laws and regulations have been complied with?	compliance with relevant laws and regulations are evidenced during the audit process. The quarterly monitoring reports, produced by the Head of Audit Cotswolds, identify any non-compliance with the relevant laws and regulations and agree with management actions to remedy the situation.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2014?	No.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	<p>The Council's legal team work with management when any potential claims or litigation are identified. One Legal provides the Head of GO Shared Services with details of any litigation or claims for inclusion within the financial statements.</p> <p>The Council has a customer complaints process which aims to resolve issues before they escalate.</p> <p>The Council has robust risk management in place which includes the recording of any risks of litigation or claims either within service areas or corporately.</p> <p>The Council has processes in place to manage significant contracts so they operate on a partnership basis and any issues can be raised and managed with the aim of minimising litigation or claims. Contract performance is monitored by the use of management information including key performance indicators.</p>
Is there any actual or potential litigation or claims that would affect the financial statements?	The Council reported the legal action in relation to the Icelandic banks. The disclosure will be updated in the 2014/15 accounts
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	No

Signed.....

Date.....

Audit Committee Chairman Councillor Colin Hay

Cheltenham Borough Council