

## Cheltenham Borough Council

### Responses from Management:

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

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

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

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

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

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

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