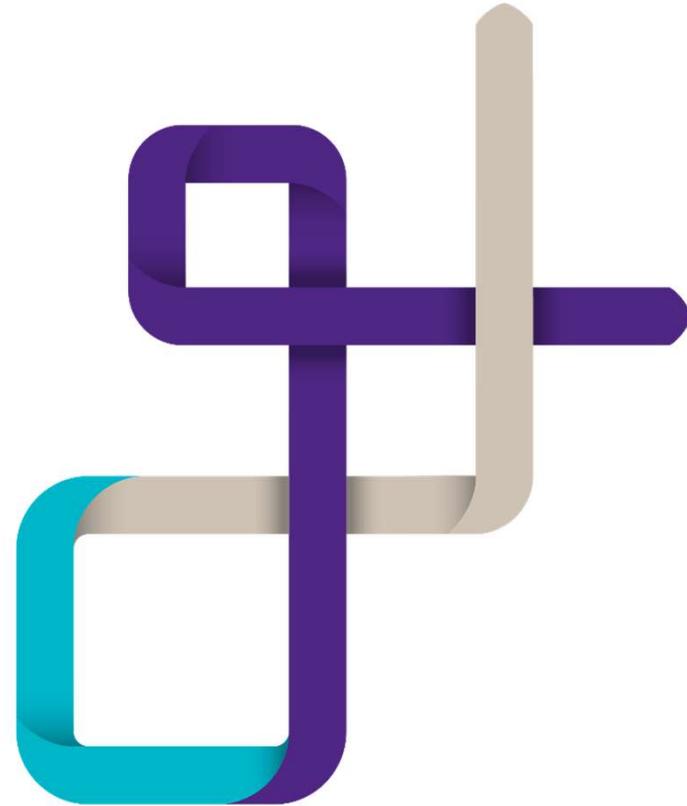


Audit Findings

Year ending 31 March 2018

Cheltenham Borough Council
20 July 2018



Contents



Your key Grant Thornton team members are:

Barrie Morris
Director

T: 0117 305 7708
E: barrie.morris@uk.gt.com

Sophie Morgan-Bower
Manager

T: 0117 305 7757
E: sophie.j.morgan-bower@uk.gt.com

Scott Corboy
Assistant Manager

T: 0117 305 7616
E: scott.f.corboy@uk.gt.com

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

This table summarises the key issues arising from the statutory audit of Cheltenham Borough Council Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2018 for those charged with governance.

| | | |
|-------------------------------------|--|--|
| Financial Statements | <p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the group and Council's financial statements give a true and fair view of the group's and Council's financial position and of the group and Council's expenditure and income for the year, andhave been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> | <p>Our audit work was completed on site during June and July 2018. Our findings are summarised on pages 4 to 29. We have identified no adjustments to the financial statements which have resulted in £nil adjustment to the Statement of Comprehensive Income and Expenditure. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 25 July 2018, as detailed in Appendix E. These outstanding items include:</p> <ul style="list-style-type: none">- Receipt of management representation letter- Review of the final set of financial statements- Completion of our final review and receipt of a number of outstanding queries <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p> |
| Value for Money arrangements | <p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion') | <p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Cheltenham Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 22 to 29.</p> |
| Statutory duties | <p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">report to you if we have applied any of the additional powers and duties ascribed to us under the Act; andcertify the closure of the audit | <p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p> |

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group and is risk based, and in particular included:

- An evaluation of the group's internal controls environment including its IT systems and controls
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a targeted approach was required for the components Gloucestershire Airport Limited, and Cheltenham Borough Homes.
- In our Audit Plan we reported to you that we expected group accounts to be prepared in respect of Publica Group (Support) Limited. After consideration of the Council's view that group accounts were not required on either a quantitative or qualitative materiality basis. We determined that it was reasonable for group accounts to not be prepared. Further details are provided at page 17.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 25 July 2018, as detailed in Appendix E. These outstanding items include:

- Receipt of management representation letter
- Review of the final set of financial statements
- Completion of our final review, finalisation of our audit testing, and receipt of a number of outstanding queries

Summary

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remains the same as reported in our audit plan.

We detail in the table below our assessment of materiality for Cheltenham Borough Council.

| | Group Amount (£) | Council Amount (£) | Qualitative factors considered |
|--|------------------|--------------------|---|
| Materiality for the financial statements | 1,606,000 | 1,606,000 | We have determined planning materiality to be £1.606m (PY £1.646m), which equates to 2% of your forecast gross expenditure for the year. |
| Performance materiality | 1,204,500 | 1,204,500 | This has been set at 75% of materiality as there has been no indication from our risk assessment of any significant deficiencies. |
| Trivial matters | 80,300 | 80,300 | 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. Clearly trivial has been set at £0.080m (PY £0.082m). |
| Materiality for specific transactions, balances or disclosures | 10,000 | 10,000 | Senior Officers' Remuneration and Members Allowances are balances which require a lower materiality due to the sensitive nature of these balances. Due to public sensitivity we have chosen £10,000 – the equivalent of two remuneration bands in the officer remuneration note. |

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Auditor commentary

- The disclosures in the accounts are considered appropriate.
- We have reviewed the Council's budget forecast and associated sensitivity analysis for the 4 year period to 31 March 2022, which exceeds 12 months from the date of signing (to 30 July 2019).
- We have reviewed the Council's financial plans for 2018/19 including the requirement to achieve savings, and the associated sensitivity analysis.

Work performed

We have reviewed the Section 151 Officer's assessment, including the four year plan and associated sensitivity analyses. We have reviewed the associated disclosures in the financial statements.

Auditor commentary

- Management set out their consideration of the appropriateness of the adoption of going concern assumption in a specific report provided to the auditor in June 2018. In this report the s151 officer confirmed his view that the Council is a going concern. Subsequently the s151 Officer has also confirmed there are no material uncertainties that would require disclosure, under ISA 570. We concur with this view.
- Disclosures in the financial statements relating to material uncertainties are appropriate and sufficient.

Concluding comments

We are satisfied that the Going Concern basis is appropriate for the 2017/18 financial statements.

Auditor commentary

- Our audit opinion will be unmodified in respect of Going Concern.

Significant audit risks

| Risks identified in our Audit Plan | Commentary |
|--|---|
| <p>1 Improper revenue recognition</p> <p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> | <p>Auditor commentary</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 <p>Therefore we do not consider this to be a significant risk for Cheltenham Borough Council.</p> <p>Our audit work has not identified any issues in respect of revenue recognition.</p> |
| <p>2 Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p> | <p>Auditor commentary</p> <p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> • Gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; • Obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; and • Evaluate the rationale for any changes in accounting policies or significant unusual transactions. • Reviewed any unusual significant transactions <p>Our audit work has not identified any evidence of management over-ride of controls. In particular our testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p> |

Significant audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of property, plant and equipment

The Council revalues its land and buildings on an rolling basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

Auditor commentary

We have performed the following work in respect of this risk:

- Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- Reviewed the competence, expertise and objectivity of any management experts used.
- Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.
- Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.
- Tested revaluations made during the year to ensure they were input correctly into the Council's asset register
- Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.

Our audit work has not identified any issues in respect of valuation of property, plant and equipment.

4

Valuation of investment property

The Council revalues its investment property on an rolling basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.

We identified the valuation of investment property revaluations as a risk requiring special audit consideration.

Auditor commentary

We have performed the following work in respect of this risk:

- Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- Reviewed the competence, expertise and objectivity of any management experts used.
- Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.
- Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.
- Tested revaluations made during the year to ensure they were input correctly into the Council's asset register
- Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.

Our audit work has not identified any issues in respect of valuation of investment property.

Significant audit risks

| Risks identified in our Audit Plan | Commentary |
|--|---|
| <p>5 Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p> | <p>Auditor commentary</p> <p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none">• Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement;• Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation.• Gained an understanding of the basis on which the IAS19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.• Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary <p>In addition we have reviewed the accounting treatment of the early repayment of £7.1m paid across to the pension fund in 2017/18.</p> <p>Our audit work has not identified any issues in respect of the Pension Fund net liability.</p> |

Reasonably possible audit risks

| Risks identified in our Audit Plan | Commentary |
|--|--|
| <p>6 Employee remuneration Payroll expenditure represents a significant percentage of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p> | <p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness • Undertook a walkthrough of the key controls to understand the Council's system for accounting for payroll expenditure, and to assess the whether those controls were in line with our documented understanding • Agreed the year-end payroll reconciliation and ensured amount in accounts can be reconciled to the ledger and through to payroll reports. • Agreed payroll related accruals to supporting documents and reviewed any estimates for reasonableness. <p>Our audit work has not identified any issues in respect of employee remuneration.</p> |
| <p>7 Operating expenses Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p> | <p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • Gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls; • Reviewed a sample of non-pay payments made post year end to ensure that they have been charged to the appropriate financial period. <p>Our audit work has not identified any issues in respect of operating expenditure.</p> |
| <p>8 Disclosure risk – LGPS upfront payment We understand that the Council are considering making an advance contribution to the Gloucestershire County Council Pension Fund. The Council have sought guidance on the implications of making an advance payment of its Secondary contributions into the Fund for 2018-19 and 2019-20.</p> <p>We have identified the pension contribution prepayment and the associated accounting disclosures as a risk requiring particular audit attention.</p> | <p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Reviewed the financial statement disclosures associated with the up-front payment to ensure they are in line with the Code. <p>Our audit work has not identified any issues in respect of the financial disclosures associated with the upfront pension payment.</p> |

Internal Controls

We considered and walked through the internal controls for the significant and other risks identified as set out on page 7 to page 10 above.

The matters that we identified during the course of our audit are set out in the table below. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| <p>1.  Deficiency</p> | <p>Proactive Reviews of Logical Access within Active Directory (AD) Publica review AD user accounts and access permissions when notified of new starters, movers and leavers. However, they can only review the access permissions of those accounts when notified of changes and so would not necessarily review the access permissions of those AD accounts of movers and leavers if not properly notified by departments.</p> <p>This condition poses the following risk(s) to the organisation:</p> <ul style="list-style-type: none"> • Gaps in user administration processes and controls may not be identified and dealt with in a timely manner • Access to information resources and system functionality may not be restricted on the basis of legitimate business need • Enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls • No-longer-needed permissions may granted to end-users may lead to segregation of duties conflicts • Access privileges may become disproportionate with respect to end users' job duties | <p>Auditor commentary</p> <ul style="list-style-type: none"> • It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within Active Directory. • These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. <p>Management Response: ICT Audit & Compliance Manager will conduct periodic reviews on Active Directory User accounts and allocated permissions. In addition assurance reviews will be undertaken on users with High privilege access; all reviews will be appropriately documented and results concluded.</p> |

Assessment

- Significant deficiency
- Deficiency – risk of inconsequential misstatement

Internal Controls

| Assessment | Issue and risk | Recommendations |
|---|---|--|
| <p>2.  Deficiency</p> | <p>CIVICA Openrevenues CORE System administration duties</p> <p>We note that the Head of Revenues & Benefits at Cheltenham Borough Council (CBC) has 'CORE' functionality and is required to perform high level system administration duties as well as business functions. The possibility of granting another member of her staff the system security administration ability is currently being explored to support more effective segregation of duties.</p> <p>This condition poses the following risk(s) to the organisation:</p> <ul style="list-style-type: none"> Required security maintenance and support requests may not be resolved (or may not be resolved timely) due to competing administrative and operational responsibilities | <p>Auditor commentary</p> <ul style="list-style-type: none"> The responsibility of administering high level system security of the CIVICA Openrevenues System should be undertaken by another member of the Revenues & Benefits Team based at CBC. This could be achieved via 'SSL1' functionality. <p>Management Response: Management accepts there may be a need to introduce an additional officer to undertake the system administration role. We will consider the best way of implementing the recommended procedure control.</p> |

Assessment

-  Significant deficiency
-  Deficiency – risk of inconsequential misstatement

Internal Controls

| Assessment | Issue and risk | Recommendations |
|---|--|---|
| <p>3.  Deficiency</p> | <p>Super User Monitoring</p> <p>There are four members of Publica IT who have super-user access to CIVICA to undertake system maintenance duties. However, this activity is not formally monitored and reported to Cheltenham Borough Council on a periodic basis.</p> <p>This condition poses the following risk(s) to the organisation:</p> <ul style="list-style-type: none"> Access to information resources and system functionality may not be restricted on the basis of legitimate need. | <p>Auditor commentary</p> <ul style="list-style-type: none"> There should be monitoring of super-user activities of all critical financial applications. Cheltenham Borough Council should ensure that evidence is provided of monitoring of such activity being undertaken through the appropriate service level reporting with Publica. <p>Management Response: ICT Audit & Compliance Manager will conduct periodic reviews high privilege access & super-users across all key support applications; all reviews will be appropriately documented and results concluded.</p> |

Assessment

-  Significant deficiency
-  Deficiency – risk of inconsequential misstatement

Internal Controls

| Assessment | Issue and risk | Recommendations |
|--|--|---|
| <p>4. ● Deficiency</p> | <p>CIVICA Access management procedure</p> <p>We note that access to the application is not supported by a documented user management procedure for adding, amending or removing users. We appreciate that the current team are experienced and work to an agreed on-line process supported with flowcharts. However, we would suggest that this advice is enhanced to ensure that Councils are provided with consistent and formalised services to better support the Information Security Policy's access requirements.</p> <p>This condition poses the following risk(s) to the organisation:</p> <ul style="list-style-type: none"> • There is a risk that users are provided with access is given without the appropriate authorisation or at a level that is not commensurate with their role | <p>Auditor commentary</p> <ul style="list-style-type: none"> • We note that Partner Council Information Security (IS) Policy stipulates that: "Formal user access control procedures must be documented, implemented and kept up to date for each application and information system to ensure authorised user access and to prevent unauthorised access. They must cover all stages of the lifecycle of user access, from the initial registration of new users to the final de-registration of users who no longer require access." • Cheltenham Borough Council should ensure that CIVICA Openrevenues System services adheres to the above policy as stated. <p>Management Response:</p> <p>ICT Audit & Compliance Manager will provide compliance procedures support to the CIVICA Openrevenue system administrators to ensure all users management access procedures are adequately reviewed and documented ensuring compliance with our partner Council & Public Information Security Policies.</p> <p>A User access control document is being set up for open Revenues.</p> |

Assessment

- Significant deficiency
- Deficiency – risk of inconsequential misstatement

Internal Controls

| Assessment | Issue and risk | Recommendations |
|---|--|---|
| <p>5.  Deficiency</p> | <p>Agresso and CIVICA Password Settings</p> <p>We have reviewed the password settings for the Agresso and CIVICA Openrevenues systems and note the following:</p> <ul style="list-style-type: none"> Agresso - no minimum length or complexity settings in place. (A user may only have to enter a userid to access Agresso with the current security settings.) CIVICA Openrevenues - minimum password setting of seven characters. <p>This condition poses the following risk(s) to the organisation:</p> <ul style="list-style-type: none"> The lack of security access controls on the Agresso system could allow unauthorised access by just the use of a known userid and that weak passwords can be easily guessed leading to access by unauthorised individuals to sensitive data. | <p>Auditor commentary</p> <ul style="list-style-type: none"> Cheltenham Borough Council should ensure that an appropriate password policy is applied to the Agresso and CIVICA Openrevenues Systems. Password settings should meet the following standards: eight characters; complex password enabled; and renewable every 60 days. <p>Management Response</p> <p>Whilst we agree with the issue and risks on the Agresso and CIVICA Openrevenues Systems Password Settings.</p> <p>These risks are reduced and mitigated by the high Password Policy settings within our corporate Active Directory (AD). Agresso and CIVICA Openrevenues Systems users can only access their applications via our corporate AD. We have also have complied with the governments (NCSC) guidance on Password settings within our network. However we will seek to review our passwords policy setting and on both applications. Our information security policy for all ICT systems says at least 7 characters and renewable after 90 days.</p> <p>Open Revenues parameter setting for passwords has been amended to increase the number of characters to 8 and require a change every 60 days.</p> |

Assessment

-  Significant deficiency
-  Deficiency – risk of inconsequential misstatement

Internal Controls

We considered and walked through the internal controls for the significant and other risks identified as set out on page 7 to page 10 above.

The matters that we identified during the course of our audit are set out in the table below. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

| Assessment | Issue and risk | Recommendations |
|---|--|--|
| <p>6.  Deficiency</p> | <p>Lack of adequate screensaver setting in Active Directory</p> <p>The evidence we were provided with revealed no screensaver settings in the Active Directory services. An examination of this evidence revealed that individual devices rely on 'screen sleep' settings of 15 minutes for an 'unplugged' devices and an hour for 'plugged in' devices.</p> <p>This condition poses the following risk(s) to the organization:</p> <ul style="list-style-type: none"> • There is a risk that 'screen sleep' settings can be overridden by a user and that devices left unattended and logged in are accessible by unauthorised users who would have access to any application open on the device. | <p>Auditor commentary</p> <ul style="list-style-type: none"> • Cheltenham Borough Council should ensure that an appropriate screensaver policy is in place on the network and that the current reliance on screen sleep settings is reviewed to tighten controls. • Management should ensure that evidence is provided of any system changes requested through the service level reporting with Publica. <p>Management Response: Agreed - We will review our 'Screensaver Policy and controls as part of our ICT project work plans and seek to implement the appropriate screen lock timeout settings. .</p> |

Assessment

-  Significant deficiency
-  Deficiency – risk of inconsequential misstatement

Other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

| | Issue | Commentary | Auditor view |
|---|---|---|--|
| 1 | <p>Consolidation of Publica Group (Support) Limited</p> <p>Following a number of successful partnership and shared services arrangements between the Council, Cotswold, West Oxfordshire and the Forest of Dean District Councils, Publica Group (Support) Ltd, a local authority owned company was created by the four councils and became operational in November 2017.</p> <p>The Council have considered whether Publica Group (Support) Limited will be consolidated into the Group's accounts for 2017/18.</p> | <ul style="list-style-type: none"> The Council jointly owns (with Cotswold District Council, the Forest of Dean District Council and West Oxfordshire District Council) Publica Group (Support) Limited, a wholly owned company, limited by guarantee, operating with Mutual Trading Status to deliver services on behalf of the Council and services to other members Councils under contract. We reported in our Audit Plan that group accounts would be prepared in 2017/18 to reflect this arrangement. While the Council has an interest in the Company the Council's share of profit for the year and net assets at the balance sheet date have not been consolidated into the Council's single entity accounts. The figures involved are not material to the accuracy of the accounts. Officers concluded that consolidation would not provide the reader of the accounts with any more information than is already provided within the narrative report, related party transaction and critical judgement note. The Council has not prepared Group Accounts on this basis The Council will continue to monitor this position on an annual basis to see if the position changes. | <p>Auditor view</p> <ul style="list-style-type: none"> After consideration of both materiality and qualitative considerations of the Council, we concur with their view that it is reasonable to not prepare group accounts. The Council have also expanded the disclosure (Critical Judgements) to include their consideration of qualitative factors in the decision not to prepare group accounts. |
| 2 | <p>Lender Option Borrowing Options (LOBOs)</p> <p>The Council has two LOBOs (a type of longer term borrowing where the lender can change terms), and this area is subject to increased attention by auditors due to the complexities valuing these in a more complex form.</p> | <ul style="list-style-type: none"> We have considered the LOBOs held by the Council, including the accounting treatment of these, and whether the Council hold any non-standard LOBOs which may result in material changes to the values in the accounts. | <p>Auditor view</p> <ul style="list-style-type: none"> We have not identified any non-standard LOBOs held by the Council. We have not identified any significant issues with the accounting treatment of the standard LOBOs held by the Council. |

Other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

| | Issue | Commentary | Auditor view |
|---|---------------------|--|---|
| 3 | Ubico Vehicle Lease | <ul style="list-style-type: none"> Ubico Ltd. was established in 2011/12 by Cotswold District Council and Cheltenham Borough Council to deliver a range of integrated environmental services including recycling, household and commercial refuse collection. Since 2012 the shareholding of Ubico Ltd has expanded. Cheltenham Borough Council is now one of seven partners Councils. During 2017/18 the Council has granted use of a number of waste collection and recycle vehicles to Ubico Ltd. Although detailed schedules of payments due have been agreed we identified that a formal agreement has not been put in place to set out the arrangements regarding the use of these vehicles and how risks and responsibilities are shared between the Council and Ubico Ltd. | <ul style="list-style-type: none"> We recommend that an agreement is formalised between Ubico and Cheltenham Borough Council to ensure that the Council is not exposed to any unintended financial risks and also to corroborate the substance of the accounting treatment within the financial statements for this arrangement. See Appendix A. As additional partner councils enter into this arrangement and contractual terms are formalised by each partner, it is necessary that we continue to evaluate the accounting treatment by all entities to ensure is managed consistently across all partners and any differences are clearly understood. During the course of the audit we have discussed the arrangement with officers to ensure that the accounting treatment is appropriate for the Council. We concluded that we support management's judgement to classify this arrangement as a finance lease. |

Accounting policies

| Accounting area | Summary of policy | Comments | Assessment |
|---------------------------------|--|--|--|
| Revenue recognition | <ul style="list-style-type: none"> Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. There is a separate policy for NNDR and Council Tax as well as general revenue. | The various accounting policies are considered to be reasonable and in line with the CIPFA Code. |  Green |
| Judgements and estimates | <ul style="list-style-type: none"> Key estimates and judgements include : <ul style="list-style-type: none"> Useful life of PPE Revaluations Accruals Valuation of pension fund net liability Provision for NNDR appeals Judgement applied when decision taken not to prepare group accounts in respect of Publica (Group) Support Limited Judgement applied when recognising lease with Ubico for refuse and recycling vehicles as a finance lease | <p>Key judgements relating to useful life of PPE, revaluation, accruals, valuation of pension fund net liability, and NNDR appeals provision are deemed appropriate, and appropriate disclosure of key judgements have been made in the statement of accounts.</p> <p>We have requested that management enhance the disclosures to set out the judgements made and criteria considered in relation the decision to:</p> <ul style="list-style-type: none"> categorise the waste collection vehicles with Ubico as a finance lease (see page 18) not produce group accounts (see page 17); and <p>Other estimates and judgements have been considered in the audit process, and no other issues have been identified.</p> |  Green |
| Other critical policies | <ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. | The Council's accounting policies are appropriate and consistent with previous years. |  Green |

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

| Issue | Commentary |
|--|--|
| ① Matters in relation to fraud | <ul style="list-style-type: none"> We discussed matters in relation to fraud in our communications with management and Those Charged With Governance. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures. |
| ② Matters in relation to related parties | <ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed. |
| ③ Matters in relation to laws and regulations | <ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| ④ Written representations | <ul style="list-style-type: none"> A standard letter of representation has been requested from the Council. |
| ⑤ Confirmation requests from third parties | <ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the bodies with which the Council hold investment, cash and debt balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation – subject to receipt of two letters in respect of this area. We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have received the final response from the pension fund auditor and have not identified any issues in respect of the Pension Fund net liability. |
| ⑥ Disclosures | <ul style="list-style-type: none"> Our review found no material omissions in the financial statements. A number of minor disclosure changes were proposed throughout the statement of accounts, the Annual Governance Statement, and the Narrative Report. |
| ⑦ Audit evidence and explanations | <ul style="list-style-type: none"> All information and explanations requested from management was provided. |
| ⑧ Significant difficulties | <ul style="list-style-type: none"> We did not experience any significant difficulties during the course of the audit. |

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

| Issue | Commentary |
|--|---|
| ① Other information | <ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>Minor inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect – refer to appendix E.</p> |
| ② Matters on which we report by exception | <p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>Minor improvements to the Annual Governance Statement been identified but have been adequately rectified by management. We have nothing to report on these matters.</p> |
| ③ Specified procedures for Whole of Government Accounts | <p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>For Cheltenham Borough Council, this work is not required as the Council does not exceed the threshold.</p> |
| ④ Certification of the closure of the audit | <p>We intend to certify the closure of the 2017/18 audit of Cheltenham Borough Council in the audit opinion, as detailed in Appendix E.</p> |

Value for Money

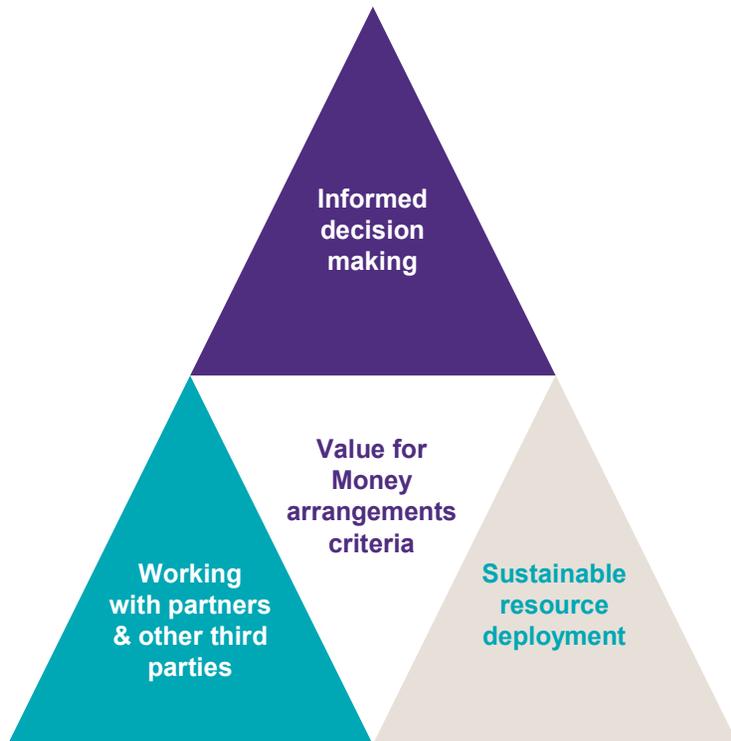
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in December 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated April 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council's Medium Term Financial Strategy (MTFS)
- The Council's arrangements for the establishment of Publica Group (Support) Limited and the contract monitoring processes in place to ensure performance and quality standards are delivered in line with the original Business Plan to demonstrate the Value for Money is being achieved.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 24 to 29.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| | Significant risk | Work undertaken | Findings and Conclusions |
|----------|--|---|--|
| <p>1</p> | <p>Medium Term Financial Strategy</p> <p>The Council have been required to deliver substantial savings since 2010/11, and forecast continued significant savings requirements going forward.</p> <p>The current MTFS indicated that the Council proposes to fund a gap of £860k from the budget strategy (support) earmarked reserve during 18/19, and also included a number of unidentified savings over the period to 2021/22.</p> | <ul style="list-style-type: none"> Reviewed the MTFS, including the robustness of the assumptions that underpin the plan. Gained an understanding of how savings are identified and monitored to ensure that they support in the delivery of budgets Considered 2017/18 performance against savings plans. Considered the use of Reserves in 2018/19 to reach the balanced budget | <ul style="list-style-type: none"> Our detailed review of the assumptions underpinning the MTFS concludes that they are satisfactory and reasonable. The Council has a strong track record of delivering balanced budgets and identifying required savings. Savings for 2017/18 have been achieved and the Council has delivered an underspend of £403k during the year. This underspend has been transferred to the Budget Strategy (Support) Reserve, and will be used to support the future years' budget. Savings are built into base budgets, and are therefore monitored through the variances reported in quarterly revenue budget monitoring. The savings for 2018/19 have been identified and can be attributed to specific plans, such as the discount attributable to the upfront payment on the Pension Fund. The Council currently has a balanced budget to 2021/22 however this is dependent on a number of red-rated savings in 2019/20 onwards. Savings are monitored by Finance on a monthly basis. Any new capital scheme or projects with a financial implication have to be subject to a business case. Financial services will be involved in this process and have to sign off the financial business case, including the impact on the MTFS. Cabinet Members are involved on the project board, which is set up for all major schemes and are fully briefed and included in the project process, prior to a committee report being submitted for approval. We have considered the use of reserves in 2018/19 to deliver financial balance. The Council plan to use £913k of the Budget Strategy (Support) Reserve in 2018/19. The level of reserves is sufficient to support the budget for 18/19 but beyond 2019/20 it will have to be replenished. The Budget Strategy (Support) Reserve is part of the Council's medium term strategy and was set up in 2015 specifically for the purpose of supporting the budget. The use of this reserve has been appropriately considered by the Section 151 Officer and approved by Cabinet and Council. <p>We concluded that the risk was sufficiently mitigated and the Council has proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities.</p> <p>We have made two recommendations in relation to the Council's saving plan at Appendix A.</p> |

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk | Conclusion | Recommendation | Management Response |
|--|--|--|---|
| <p>1 Medium Term Financial Strategy</p> <p>The Council have been required to deliver substantial savings since 2010/11, and forecast continued significant savings requirements going forward.</p> <p>The current MTFS indicated that the Council proposes to fund a gap of £860k from the budget strategy (support) earmarked reserve during 18/19, and also included a number of unidentified savings over the period to 2021/22.</p> | <ul style="list-style-type: none"> The Council currently has a balanced budget to 2021/22, however the achievement of the balanced budget is dependent on a number of red-rated savings from 2019/20. In order to set a balanced budget for 2018/19 the Council plans to use of £913k of its Budget Strategy (Support) reserve. This reserve was created in October 2015 specifically for future challenges around budget setting. | <ul style="list-style-type: none"> We recommend that management continue to monitor high risk savings within the balanced budget We recommend that management continue to monitor the use of reserves when budget setting to ensure that into the medium term dependency on reserves is reduced. | <ul style="list-style-type: none"> The Senior Leadership Team and Cabinet Member for Finance receive a ‘Bridging the Gap’ project highlight report at their monthly meetings, which will include any changes to the MTFS or budget strategy and very much focuses on the monitoring of high risk savings. The Section 151 Officer also provides an independent assessment of the overall financial position as part of the budget setting process (Section 25 report). The Section 151 Officer regularly reports on the adequacy of reserves and reinforces the need to replenish reserves from any additional windfall income and underspends delivered. The Council has agreed a vision to become an enterprising and commercially focused Council which people are proud to work for and which others want to work with. We will use our assets, skills and infrastructure to shape and improve public services and enable economic growth in the Borough. We shall generate significant levels of new income for the Council working towards the objective of enabling it to become financially sustainable by financial year 2021/22. The delivery of this vision through greater use of our assets and workforce will ensure dependency on reserves is reduced. |

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk | Work Undertaken | Findings and Conclusions |
|---|---|---|
| <p>2 Publica Group (Support) Ltd</p> <p>Following a number of successful partnership and shared services arrangements between the Council, Cotswold, West Oxfordshire and Forest of Dean District Councils, Publica Group (Support) Ltd, a local authority owned company was created by the four councils and became operational in November 2017.</p> | <ul style="list-style-type: none"> Reviewed the Council's arrangements for the establishment of Public Group (Support) Ltd and the contract monitoring processes in place to ensure performance and quality standards are delivered in line with the original Business Plan to demonstrate that Value for Money is being achieved by the Council. Reviewed the arrangements in place at the Council to ensure that Publica is delivering the required financial savings whilst maintaining the agreed service standards. Reviewed the Council's Governance arrangements to provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified. | <p>Background</p> <ul style="list-style-type: none"> The company, Publica Group was registered in the latter part of 2016/17. Executive and Non-Executive Directors were appointed to the Board in March 2017, and the first monthly Publica Board meeting took place in April 2017. The majority of staff transferred to the Company on the 1st November 2017. A business plan has been developed and approved by all partner Councils. A transformation programme is currently ongoing to redesign services. For three of the member councils, not including Cheltenham Borough Council, Publica directly manages public services. Publica provides reduced-scope services to Cheltenham Borough Council which include ICT, HR and finance functions. The Council hold 25% of the voting rights of Publica, and service delivery is managed within the company in accordance with the service contracts agreed by the Council. <p>Contract monitoring processes in place to ensure performance and quality standards are delivered in line with the original Business Plan</p> <ul style="list-style-type: none"> The company provides a mechanism to bring employees from across the partner Councils under a single employment arrangement. The company is independent of individual councils but accountable equally to all partners. As part of the establishment of Publica a number of items were identified as reserved matters for council approval to ensure that member councils retained an element of control over their company. The reserved matters were approved in October 2016 as part of the governance principles underpinning the establishment of Publica. Frequent informal and formal reporting is provided by Publica to enable the Councils to monitor performance and quality standards (including, for example, standards around data protection). This also includes informal, regular meetings and correspondence with the s151 Officer at the Council; providing an additional platform for issues to be discussed. Cabinet and the Overview and Scrutiny Committee continue to receive quarterly performance and finance reports which provide members with an understanding of the performance and quality of services delivered. Any underperformance issues would be addressed and challenged at these key meetings. Reports provided by Publica also provide a review of outturn against budget which include savings to be achieved through Publica. Explanations are provided for significant under and over spends. The Council has also included a risk around Publica service delivery within their corporate risk register which is reported to Cabinet. <p>We concluded that the Council has appropriate arrangements in place to establish and monitor Publica's performance against quality standards in line with the original Business Plan.</p> |

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk | Work Undertaken | Findings and Conclusions |
|---|---|--|
| <p>2 Publica Group (Support) Ltd</p> <p>Following a number of successful partnership and shared services arrangements between the Council, Cotswold, West Oxfordshire and Forest of Dean District Councils, Publica Group (Support) Ltd, a local authority owned company was created by the four councils and became operational in November 2017.</p> | <ul style="list-style-type: none"> Reviewed the Council's arrangements for the establishment of Public Group (Support) Ltd and the contract monitoring processes in place to ensure performance and quality standards are delivered in line with the original Business Plan to demonstrate that Value for Money is being achieved by the Council. Reviewed the arrangements in place at the Council to ensure that Publica is delivering the required financial savings whilst maintaining the agreed service standards. Reviewed the Council's Governance arrangements to provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified. | <p>The arrangements in place at the Council to ensure Publica is delivering required financial savings while maintaining agreed service standards</p> <ul style="list-style-type: none"> Publica's business plan includes a number of objectives, ambitions and key tasks against which their performance (and in particular, delivery of financial targets) can be measured and highlights the importance of providing robust data and performance metrics to the Councils' to that they can track their performance. This was presented to Cabinet in March 2018. The 2020 Partnership, preceding Publica, historically has a good track record of cashable savings to date. The savings planned are £5.6m per annum across the four member Councils to 2020, of which £0.7m are planned to be delivered by the Council in the next four years through a transformation programme. Up to 2017/18, the 2020 Partnership had achieved savings of £2.33m. The Council have included a red-rating "Transformation and Modernisation" saving of £265k in the MTFs, from 2020/21 onwards, due to alignment in technology through Publica. Although Cheltenham is not involved to the extent of the other three Councils in Publica, it expects reasonable savings from organisational transformation. Overall, for 2017/18, Publica delivered the required financial savings planned. The overall 'contract sum' payable to Publica was underspent in 2017/18 by £258k. Financial performance measures were implicit within the four Councils' budgets for the year. In 2017/18 this amounted to £240k in total across the Councils. All partners exceeded the minimum business case savings with the total over delivery in the order of £412k for the five month period; a return of 10%. This meant that the target 5% return for the year was exceeded. We noted that some performance standards, such as "Days taken to process new claims" were not meeting the target levels. This had been communicated to the Council in a timely and open manner in the year end performance report and to the Member Liaison Group. <p>We concluded that the Council has appropriate arrangements in place to ensure Publica is delivering required financial savings while maintaining agreed service standards.</p> |

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk | Work Undertaken | Findings and Conclusions |
|---|---|--|
| <p>2 Publica Group (Support) Ltd</p> <p>Following a number of successful partnership and shared services arrangements between the Council, Cotswold, West Oxfordshire and Forest of Dean District Councils, Publica Group (Support) Ltd, a local authority owned company was created by the four councils and became operational in November 2017.</p> | <ul style="list-style-type: none"> Reviewed the Council's arrangements for the establishment of Public Group (Support) Ltd and the contract monitoring processes in place to ensure performance and quality standards are delivered in line with the original Business Plan to demonstrate that Value for Money is being achieved by the Council. Reviewed the arrangements in place at the Council to ensure that Publica is delivering the required financial savings whilst maintaining the agreed service standards. Reviewed the Council's Governance arrangements to provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified. | <p>The Council's Governance arrangements to provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified.</p> <ul style="list-style-type: none"> We have considered the Governance arrangements of the Council over Publica, to provide appropriate oversight as one of the partnership organisations. In October 2016, the Council agreed the detailed governance principles applicable to Publica. These principles were incorporated within the Company's Articles and Association and the Members' Agreement, providing Councillors with rights to monitor the operational performance of the company. The 2018/19 Publica Business Plan was presented by the Publica Managing Director to Cabinet for consideration by members. This plan is based upon the principles and targets set out in business case which was approved by Council in 2016. Cabinet concluded that the business plan accorded with the Council's priority to provide efficient and value for money services, whilst delivering quality front line services. The plan was also reviewed by the Overview and Scrutiny Committee. The plan was approved by the Council leader as recommended by Cabinet. Internally, the Council hold to account the managing director of Publica, and monitor the partnership through the Overview and Scrutiny Committee – this Committee is responsible for monitoring performance, quality and improvement. Weekly meetings are held between officers of the Council and Publica and briefings are provided to members. Members are engaged on any proposals to improve performance monitoring. Arrangements to ensure members of the Council are kept informed of any issues are evolving but informal liaison meetings with Cabinets, political group leaders and Scrutiny Chairs of the member Councils have taken place. A Member Group comprised of the Chairmen of the Overview and Scrutiny Committees, representatives of the Cabinet and the Leaders of the Political Groups had been established to review the work of Publica, agreed as part of the year end performance meeting in May 2018. The Group is to meet on a quarterly basis during 2018/19. This Group represents a member platform for queries and discussions around Publica's performance and operations. The decision to set up a formal member liaison group and review liaison arrangements has been deferred until Publica has been operational for a year. <p>We concluded that the Council has appropriate arrangements in place to provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified.</p> <p>Arrangements for Council members to formally liaise and communicate with Publica should be agreed following the year anniversary of the operation of Publica.</p> |

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk | Conclusion | Recommendation | Management Response |
|---|---|--|--|
| <p>2 Publica Group (Support) Ltd</p> <p>Following a number of successful partnership and shared services arrangements between the Council, Cotswold, West Oxfordshire and Forest of Dean District Councils, Publica Group (Support) Ltd, a local authority owned company was created by the four councils and became operational in November 2017.</p> | <ul style="list-style-type: none"> Recognising the evolving nature of governance arrangements, the council has appropriate arrangements in place for working with Publica. Arrangements for Council members to formally liaise and communicate with Publica should be agreed following the year anniversary of the operation of Publica. | <ul style="list-style-type: none"> Formalise liaison and communication arrangements between members and Publica to ensure members have the opportunity to challenge and scrutinise Publica’s performance. | <ul style="list-style-type: none"> A positive officer and member dialogue has been established with Publica to consider how Publica can support the CBC modernisation programme. A request has been made to review and reconsider member engagement arrangements. |

Independence and ethics

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms). In this context, we disclose the following to you:

In our 2017-18 Audit Plans we brought a specific issue to the attention of those charged with governance. In November 2017 Grant Thornton UK LLP identified a potential breach of the ethical standards in connection with a contractor who was engaged with the Firm and who was also the Chair of Publica Group (Support) Limited (the company). The company was incorporated as a dormant company on 24 January 2017 and is jointly owned by the four councils of Forest of Dean, Cotswold, West Oxfordshire and Cheltenham. The company started operations on 1 November 2017. As soon as this breach was identified, we notified Public Sector Audit Appointments Ltd (PSAA) as well as the Director of Finance for each of the Councils and contractor concerned. The contractors' engagement with the Firm was terminated, with immediate effect, as soon as the breach was identified. No members of the audit team had any involvement with the contractor concerned and were unaware of his relationship with the Firm.

- Following the subsequent discussions with our Head of Ethics, it has been agreed that there is no ongoing conflict of interest and there is no impact upon our independence of the audit of either the Councils or the company. We have subsequently been approached to be the external auditors of Publica Group (Support) Limited and are currently going through the formal appointment process.
- We are reporting this breach to those charged with governance to ensure that they are fully apprised of the situation and can confirm that they do not have any concerns with either our appointment as external auditors to the Council or to Publica Group (Support) Limited.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Independence and ethics

Audit and Non-audit services

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

| Service | £ | Threats | Safeguards |
|---|-------|---|---|
| Audit related | | | |
| Certification of Housing capital receipts grant | 2,100 | 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 £2,100 in comparison to the total fee for the audit of £49,406 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 mitigate the perceived self-interest threat to an acceptable level. |
| Non-audit related | | | |
| CFO insights | 3,750 | Self-Interest (because this is a recurring fee) | We have provided subscription services only; any decisions are made independently by the Council. The work is undertaken by a team independent to the audit team. |

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Action plan

We have identified a number of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| | Assessment | Issue and risk | Recommendations |
|---|-------------|--|--|
| 1 | ● Medium | The Council currently has a balanced budget to 2021/22, however the achievement of the balanced budget is dependent on a number of red-rated savings from 2019/20. | <p>We recommend that management continue to monitor high risk savings within the balanced budget</p> <p>Management response</p> <p>The Senior Leadership Team and Cabinet Member for Finance receive a 'Bridging the Gap' project highlight report at their monthly meetings, which will include any changes to the MTFS or budget strategy and very much focuses on the monitoring of high risk savings. 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> |
| 2 | ● Medium | In order to set a balanced budget for 2018/19 the Council plans to use of £913k of its Budget Strategy (Support) reserve. This reserve was created in October 2015 specifically for future challenges around budget setting. | <p>We recommend that management continue to monitor the use of reserves when budget setting to ensure that into the medium term dependency on reserves is reduced.</p> <p>Management response</p> <p>The Section 151 Officer regularly reports on the adequacy of reserves and reinforces the need to replenish reserves from any additional windfall income and underspends delivered. The Council has agreed a vision to become an enterprising and commercially focused Council which people are proud to work for and which others want to work with. We will use our assets, skills and infrastructure to shape and improve public services and enable economic growth in the Borough. We shall generate significant levels of new income for the Council working towards the objective of enabling it to become financially sustainable by financial year 2021/22. The delivery of this vision through greater use of our assets and workforce will ensure dependency on reserves is reduced.</p> |

Key

- High – Significant issue or risk of material misstatement requiring immediate action
- Medium – Impact on the control environment resulting in a deficiency or weakness or the risk of incorrect financial reporting
- Low – Best practice

Action plan

We have identified a number of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| | Assessment | Issue and risk | Recommendations |
|---|-------------|--|---|
| 3 | ● Medium | Recognising the evolving nature of governance arrangements, the council has appropriate arrangements in place for working with Publica. Arrangements for Council members to formally liaise and communicate with Publica should be agreed following the year anniversary of the operation of Publica | <p>Formalise liaison and communication arrangements between members and Publica to ensure members have the opportunity to challenge and scrutinise Publica's performance.</p> <p>Management response</p> <p>A positive officer and member dialogue has been established with Publica to consider how Publica can support the CBC modernisation programme. A request has been made to review and reconsider member engagement arrangements.</p> |
| 4 | ● Medium | A number of IT deficiencies were identified as part of our 2017/18 IT review. | <p>The Council should implement the recommendations arising from our IT review as set out on page 12.</p> <p>Management response</p> <p>Agreed.</p> |
| 5 | ● Medium | A formal lease is not in place between Ubico and Cheltenham Borough Council for arrangements to lease recycling and refuse vehicles from the Council to Ubico. | <p>We recommended that a lease between Ubico and Cheltenham Borough Council is formalised to support the accounting treatment within the financial statements and to ensure that the Council is not exposed to any unintended financial risks.</p> <p>Management response</p> <p>Agreed.</p> |

Key

- High – Significant issue or risk of material misstatement requiring immediate action
- Medium – Impact on the control environment resulting in a deficiency or weakness or the risk of incorrect financial reporting
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Cheltenham Borough Council's 2016/17 financial statements, which resulted in 4 recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations and note 2 are still to be completed.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|------------|--|--|
| 1 ✓ | The Council should implement the recommendations arising from our 2015/16 IT review. | <ul style="list-style-type: none"> An updated IT review has taken place in 2017/18 and this review point is no longer applicable. |
| 2 X | At as December 2016 there was a cumulative shortfall in the savings plans of £436k, mostly in 2018-19. The shortfall mostly arose as a result of the New Homes Bonus settlement in December 2016 which was £381k less than forecast. The gap had only recently opened, and the Council have since identified a number of savings strategies to close this gap. The Council currently has a balanced budget to 2019-20, however the achievement of the balanced budget is dependent on a number of red-rated savings in 2019-20. We recommend that management continue to monitor high risk savings within the balanced budget. | <ul style="list-style-type: none"> The recommendation remains applicable in 2017/18. |
| 3 X | In order to set a balanced budget for 2017/18, the Council plans to use of £882k of its Budget Strategy (Support) reserve. This reserve was created in October 2015 specifically for future challenges around budget setting. We recommend that management continue to monitor the use of reserves when budget setting to ensure that into the medium term dependency on reserves is reduced. | <ul style="list-style-type: none"> The recommendation remains applicable in 2017/18. |
| 4 ✓ | We reported in our Audit Plan that we had identified that journal entries posted by the Deputy Section 151 Officer were not regularly reviewed. | <ul style="list-style-type: none"> The recommendation was implemented in June 2017. |

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

We did not identified any adjusted adjustments which have had an impact on the key statements and the reported net expenditure for the year

Impact of unadjusted misstatements

We have not identified any adjustments identified during the audit which have not been made within the final set of financial statements

Impact of prior year unadjusted misstatements

We did not identified any prior year adjustments which have not been made within the final set of financial statements

Audit Adjustments (cont)

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Disclosure omission | Detail | Auditor recommendations | Adjusted? |
|---|--|---|-----------|
| Note 3 - Critical Judgements in Applying Accounting Policies | <p>The note did not provide details of the qualitative considerations for not preparing group accounts in respect of Publica Group (Support) Limited.</p> <p>The note did not provide details of the key considerations taken into account when categorising the vehicle lease with Ubico as a finance lease</p> | Agreed with officers that the note be expanded to provide details of both the quantitative and qualitative considerations for not preparing group accounts and details of the key considerations when categorising the vehicle lease with Ubico as a finance lease. | ✓ |
| Note 6 – Events after the reporting period | The draft statement of accounts did not disclose whether there had been any events after the reporting period. | The Council should disclose whether there have been any events after the reporting period. | ✓ |

Audit Adjustments (cont)

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Disclosure omission | Detail | Auditor recommendations | Adjusted? |
|--|---|---|-----------|
| Note 18 - Expenditure and income analysed by nature | The total income and expenditure figures in Note 18 did not match gross income and expenditure in the CIES. This is due to the deficit of the Collection Fund in Note 10 not being reflected in the income of the note, resulting in the expenditure and income figures being understated by £437k. | Precept and levies expenditure should increase by £437k to £18,889k. Income from council tax and non-domestic rates should increase by £437k to £29,890k | ✓ |
| Note 23 – Assets held under leases | The term of one lease was originally included in the lease schedule as 5 years. However, this is the date of internal review, and the term of the lease should be 175 years. This has the result of significantly increasing the lease payments receivable in future years. | The disclosure note for future minimum lease payments receivable in future years under non-cancellable operating leases should be decreased by £575k for the category “2-5 years” to £9,386k. The disclosure note for future minimum lease payments receivable in future years under non-cancellable operating leases should be increased by £93,725kk for the category “More than 5 years” to £99,002k. | ✓ |
| Various | There were a number of other minor presentational adjustments made to improve the quality of disclosure in the accounts. | Presentational adjustments identified should be corrected in the final version of the statement of accounts. <ul style="list-style-type: none"> This included moving the Expenditure and Funding Analysis from within the primary financial statements; and removing an unnecessary contingent liability note. Other minor amendments were made throughout. These adjustments are not significant and do not warrant separate reporting to the Audit Committee. | ✓ |
| Annual Governance Statement & Narrative Report | There were a number of other minor presentational adjustments and improvements made to enhance the quality of disclosure in the Annual Governance Statement & Narrative Report | Presentational adjustments identified should be corrected in the final version of the Annual Governance Statement & Narrative Report. | ✓ |

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

| | Proposed fee | Final fee |
|---|----------------|------------|
| Council Audit | £49,406 | £49,406 |
| Grant certification | £8,361 | TBC |
| Total audit fees (excluding VAT) | £57,767 | TBC |

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA) and our audit plan.

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

| Fees for other services | Fees (£) |
|---|--------------|
| Audit related services: | 2,100 |
| • Certification of Housing Capital Receipts grant | |
| Non Audit related services: | |
| • CFO Insights | 3,750 |
| Total | 5,850 |

Audit opinion

We anticipate we will provide the group with an unmodified audit report

Independent auditor's report to the members of Cheltenham Borough Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cheltenham Borough Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director - Finance & Assets use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director - Finance & Assets has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Executive Director - Finance & Assets is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the Group and Authority financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the s151 Officer, Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on [page 17](#) the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the s151 Officer who is the Executive Director - Finance & Assets. The Executive Director - Finance & Assets is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Executive Director - Finance & Assets determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director - Finance & Assets is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit Committee are Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities for the review of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

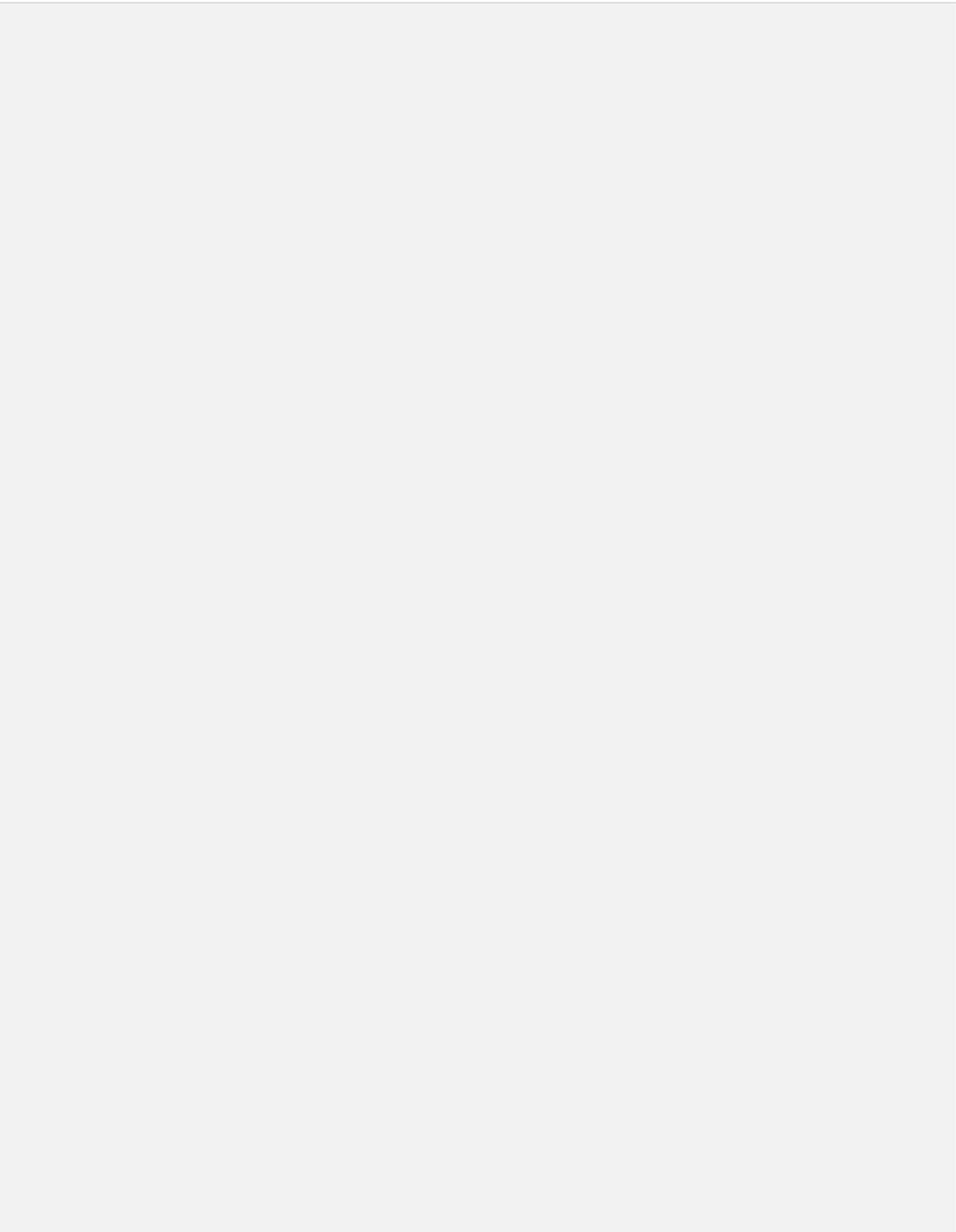
We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[Signature]

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

2 Glass Wharf, Temple Quay, Bristol, BS2 0EL

[Date]





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