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Dear Paul

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Cheltenham Borough Council Financial Statements for the year end 31 March 2019

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

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

In addition to our request to management, we also need to gain an understanding of how the Corporate Audit Committee maintains oversight of the above processes. Therefore, I have also made a similar request for information to the Chair of the Corporate Audit Committee.

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

I would be grateful for a response by 17 May 2019. We suggest that it would be useful to coordinate both the Corporate Audit Committee and management responses.

If you have any queries in respect of this letter, please contact Sophie Morgan-Bower on Sophie.J.Morgan-Bower@uk.gt.com.

Chartered Accountants

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Yours sincerely

Barrie Morris
Engagement Lead
For Grant Thornton UK LLP

Appendix 1 – Responses from Management

Auditor question	Response
<p>What do you regard as the key events or issues that will have a significant impact on the financial statements for 2018/19?</p>	<p>Revenue Outturn:</p> <ul style="list-style-type: none"> • Following the phased closure of the Crematorium in October 2018, there is an expected deficit of £447k for the service for 2018/19. This was due to no cremations taking place between the middle of October 2018 and the start of March 2019, when the new facility opened. • Due to the changes within the waste and recycling contract, and the requirement for extra vehicles to deal with demand, a significant overspend was reported within the Ubico contract. This has been structurally addressed in the 2019/20 contract sum. This overspend was partly offset through additional income via recycle resales and garden waste income. • There was a net surplus for the year of £222k, generated from new rental income streams of £960k arising from the purchase of 4 commercial properties during the year. • Business Rates Retention – a significant pool/pilot surplus distribution was achieved which, in line with previous years, has been appropriated to the BRR earmarked reserve. <p>The 2018/19 budget was delivered with a small surplus of £40k which is a significant achievement taking the above factors into account.</p>
<p>Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>There are no material changes to the accounting policies in 2018/19. However the accounting policies have been updated for changes in accordance with IFRS9 and IFRS15.</p> <p>IFRS 9 Classification and subsequent measurement of financial assets (draft accounting policy 1.17): Under IFRS 9 applicable from 2018/19, the authority's financial assets are classified into three types:</p> <ul style="list-style-type: none"> • Financial assets at amortised cost – where payments consist solely of principal and interest and the reason for holding is to collect cash flows (previously classified as Financial Instruments, Loans & Receivables). • Fair value through Other Comprehensive Income (OCI) – where payments consist

Auditor question	Response
	<p>solely of principal and interest and the reason for holding is to collect cash flows and sell and where payments do not consist solely of principal and interest but where the authority has designated the instrument as Fair value through OCI</p> <ul style="list-style-type: none"> • Fair value through Profit and Loss (P&L) - where payments do not consist solely of principal and interest. (The previous category of Available for sale assets has now been removed and is now disclosed as either Fair Value through OCI or Fair Value through P&L categories, whichever is applicable). <p>IFRS 15 – This requires the disclosure of any material contracts provided by the council. Under the accrual concept (draft accounting policy 1.2) Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services, in accordance with the performance obligations in the contract.</p> <p>An assessment will be made during the preparation of the 2018/19 statement of accounts as to whether there are any material contracts to be disclosed.</p>
<p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>Annually, Publica Support Services request that service managers highlight any change to the Council's regulatory environment. None of the responses result in any significant impact on the financial statements although the move to 100% retention of business rates, changes to the allocation of New Homes Bonus and changes to the funding needs assessment may create some volatility in future years.</p>
<p>How would you assess the quality of the Council's internal control processes?</p>	<p>The Council's Annual Governance Statement is based upon an annual review of its internal controls and the work of SWAP (internal audit). The Corporate governance group have considered the governance arrangements in place for each of the council's service areas.</p> <p>The governance structures within each of the commissioned services have been designed to ensure that decision making is transparent and based upon sound audit principles.</p> <p>One Legal provides advice on the lawfulness of decision making.</p> <p>SWAP provides the Audit Committee with monitoring reports which provide a level of</p>

Auditor question	Response
	assurance for the Council and for partners within shared services. The opinion in respect of 2017/18 was classified as 'reasonable' assurance.
How would you assess the process for reviewing the effectiveness of internal control?	<p>Key areas of risks are covered by internal audit. Any serious findings are reported to the Audit Committee.</p> <p>Reliance on audit reports and the Annual Governance Statement which includes officer annual declarations which cover internal control.</p> <p>Internal Audit provides a cyclical effectiveness review which will be reported to the Audit Committee.</p>
How do the Council's risk management processes link to financial reporting?	<p>The council has a robust risk management process which requires managers to manage all risks within projects and services with escalation to the corporate risk register (where appropriate) which is reviewed monthly by Senior Leadership Team prior to circulation to the Cabinet.</p> <p>All reports to committees require financial, legal, HR and property implications and risks to be identified.</p>
How would you assess the Council's arrangements for identifying and responding to the risk of fraud?	<p>The Counter Fraud and Anti-Corruption Policy, the Whistleblowing Policy, Internal Audit Charter and the terms of reference for the Chief Internal Auditor are formally agreed by the Audit Committee. These documents set out the role of Internal Audit in the prevention and investigation of fraud. The Audit Committee also approves the risk-based annual audit plan and prepares audits to consider possible areas where fraud may be a risk.</p> <p>The Counter Fraud Unit is a permanent shared support service tasked with minimising fraud and abuse of public funds. The overall remit is to prevent, detect and deter the abuse of public funds within the Council by working closely with other public sector organisations and referring to recommendations by the Home Office and other professional bodies.</p> <p>The team undertakes reactive investigation work where a referral is received and where necessary, proactive fraud drives in high risk areas.</p> <p>The Council also employs a number of Enforcement Officers within the various service areas who undertake work to tackle abuse of public funds.</p>
What has been the outcome of these arrangements so far this year?	The Counter Fraud Unit work-plan for 2018/2019 was developed with focus on the Home Office UK Anti-Corruption Strategy 2017-2022. Corporately the team have focussed on promoting integrity across the public sector through awareness training and by raising the

Auditor question	Response
	<p>profile of the team.</p> <p>Proactive work continues within high risk areas to tackle Tenancy and Housing Fraud and abuse within the Council Tax Reduction Scheme.</p> <p>The team is tackling areas of known abuse with Enforcement Teams where appropriate and corporately with the direction of the Corporate Management Team. Where fraud or abuse is identified a formal report is issued to senior management and Statutory Officers for consideration in relation to risk and control.</p> <p>The Counter Fraud Unit meets regularly with Internal Audit to ensure a joined up approach and that any fraud risk and control issues are minimised.</p> <p>Audit Committee is updated biannually with regard to the progress of the work plan and any identified fraud risk or abuse through management reports to the Committee.</p> <p>The Council feeds data in to the Cabinet Office National Fraud Investigation process and reviews the information feedback from the data matching process to identify potential fraud for investigation.</p>
<p>What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The Counter Fraud Unit continues to work within known areas at risk of fraud and abuse - CTAX discount abuse, fraudulent Right to Buy applications / Tenancy Fraud.</p> <p>Where directed, the team are also undertaking internal investigations relating to fraud, theft, abuse of position etc.</p> <p>Work is developing in relation to gifts and hospitality procedures and conflicts / declarations of interest by staff.</p> <p>Development of work with Gloucestershire Constabulary in relation to serious and organised crime continues.</p>
<p>Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The Counter Fraud Unit has been contacted for advice in relation to referrals from internal members of staff. Any reports would be dealt with correctly and in line with the Whistleblowing Policy.</p> <p>The Counter Fraud Unit have reviewed and redrafted the Whistleblowing Policy to ensure it is current and robust when dealing with these types of referral. This</p>

Auditor question	Response
	was adopted by the Council in 2016; staff awareness training was then rolled out across the organisation and annual refresher sessions have been conducted.
Have any reports been made under the Bribery Act?	No.
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	<p>The Counter Fraud Unit provides biannual updates to Audit Committee.</p> <p>The Counter Fraud Unit reports to the S.151 Officer and with agreement reports results, risk and control recommendations to the Senior Leadership Team for consideration.</p>
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	<p>Staff and Member awareness sessions have been provided by the Counter Fraud Unit. Provision of refresher information and literature for new starters is being developed.</p> <p>Publicity with regard to identified fraud and error will also be encouraged to act as a deterrent.</p>
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	<p>Any significant litigation claims are referred to One Legal who will then advise the relevant officer. The relevant officer will brief Exec Board / SLT / Members and notify the insurance officer as appropriate.</p> <p>Legal costs will also form part of the quarterly budget monitoring reports.</p> <p>Advice from Publica Insurance Officer is used to assess level of provision held for excesses. Other liability identified includes MMI write-off provision and contingent liability.</p>
Is there any use of financial instruments, including derivatives?	No.
Are you aware of any significant transaction outside the normal course of business?	No.
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No.
Are you aware of any guarantee contracts?	No although in the case of local authority owned companies (Publica, Ubico and SWAP), the Council is obliged to cover liabilities if they operate with a loss.
Are you aware of allegations of fraud, errors, or other irregularities during the period?	The Counter Fraud Unit is conducting a number of investigations in relation to abuse of public funds within or against the authority. This includes allegations of Tenancy Fraud with the Council's arms- length organisation, Cheltenham Borough Homes.
Are you aware of any instances of non-compliance with laws or regulations or is the Council on notice of any such possible	The Council's S151 officer, Solicitor/Monitoring Officer, Chief Executive and Directors ensure that all legal requirements are met. All complete an annual

Auditor question	Response
instances of non-compliance?	<p>assurance review which includes compliance with legislation and regulation.</p> <p>Assurance is gained from internal controls within the audit process, VAT and treasury advisers. All of the reports to Cabinet, Council, and other Committees include HR, legal and financial implications which are completed by the relevant professional officer.</p> <p>The Audit Committee is advised by the Council's S.151 Officer, Internal Audit and the Corporate Governance, Risk and Compliance officer who provide assurance regarding compliance with laws, regulation and financial rules. They bring any issues to the attention of the Committee and provide updates on progress against any appropriate action plans.</p>
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	No.
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	The non-domestic (NDR) appeals provision has been estimated based on past experience of successful appeals and other RV reductions, and actual success rates and reductions may differ from the estimate. The process was altered from 1 April 2017 and we do not yet have sufficient data to indicate the success rate and likely reductions under the new system.
Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?	<p>PPE Valuations are performed by the Authority's in house valuer in line with RICS guidance. A rolling programme of asset revaluation is in place. The remaining useful life of property assets is estimated by the valuer in line with RICS guidance.</p> <p>For provisions and liabilities an estimate is made of the likely future cost based on a review of the likelihood and risk related to the potential obligation.</p> <p>Where appropriate, information is obtained from the Authority's legal advisors.</p> <p>For pensions, actuarial valuations of pension liabilities and assets are undertaken annually by the actuary in accordance with IAS 19.</p>
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No.
Although the public sector interpretation of IAS1 means that the financial statements should be prepared on a going concern basis, management are required to consider whether there are any material uncertainties that cast doubt on the Council's ability to continue as a business. What is the process for undertaking a rigorous assessment of going concern? Is the process carried out	<p>The Council's MTFS was approved by full Council in February 2019 showing the council is a going concern over the next 4 years with plans in place to alleviate the significant reductions in core government funding.</p> <p>The Section 151 Officer also provides an independent assessment of the overall financial position as part of the budget setting process (Section 25 report).</p>

Auditor question	Response
<p>proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?</p>	<p>In addition, the Section 151 Officer provides an annual assessment of the going concern status. The main factors which underpin this assessment are the:</p> <ul style="list-style-type: none"> • Council’s current financial position; • Council’s projected financial position; • Council’s governance arrangements; • Regulatory and control environment applicable to the Council as a local authority. <p>The Section 151 Officer does not foresee any reason why the statements for 2018/19 will alter that position as the Council has once again delivered services within budget, with the added benefit of being able to return funds to the budget strategy support earmarked reserve.</p>
<p>Can you provide details of those solicitors utilised by the Council during the year? Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>The Council’s legal provider is One Legal which is a shared service between the Council , Gloucester City Council and Tewkesbury Borough Council.</p> <p>During 2018/2019, specialist external legal support was engaged in respect of planning inquiries, property regeneration and property disputes and such advice continues as at April 2019.</p> <p>In addition, the Council is involved in a number of group claims through the Local Government Association.</p>
<p>Can you provide details of other advisors consulted during the year and the issue(s) on which they were consulted?</p>	<p>Arlingclose, Treasury Management advisors. LAVAT and Ernst & Young, general VAT advice. Portmore Insurance broker advice. Savills property advice.</p>
<p>Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?</p>	<p>No.</p>