

# Informing the audit risk assessment for Cheltenham Borough Council - 2019/20



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. 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.

# Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	7
Fraud Risk Assessment	8
Laws and Regulations	13
Impact of Laws and Regulations	14
Going Concern	16
Going Concern Considerations	17
Related Parties	21
Accounting Estimates	23
Appendix A Accounting Estimates	25

## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Cheltenham Borough Council's (The Council) external auditors and the Council's Audit, Compliance and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Committee under auditing standards.

## Background

Under International Standards on Auditing (UK) (ISA(UK)) auditors have specific responsibilities to communicate with the Audit, Compliance and Governance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit, Compliance and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Committee and supports the Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit, Compliance and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

## General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	<p>Revenue Outturn- COVID-19 and the associated lockdown has had a significant impact on the financial statements for 2019/20 and is highly likely to continue to do so in 2020/21. This has been managed by the use of reserves in 2019/20 to ensure there is no adverse impact against the net 2019/20 budget. Whilst Cheltenham's allocation of grant from the first tranche of Government funding covered 68% of additional expenditure, the loss of income from fees and charges has had a profound impact on the outturn position.</p> <p>The most significant impact on the 2019/20 income is on car parking fees. The council received income of £4.6m for the year, against the budget of £4.8m, with income being circa £216k less than expected in March 2020, as a direct result of the pandemic and the closure of one of the council's main income generating car parks.</p> <p>The reported overspend of £109,175.16 has been met from general balances. The Council will seek to replenish the general balances and other earmarked reserves from future allocations of government support.</p>
2. 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>The appropriateness of accounting policies are considered annually by the S151 Officer and Public Finance as part of the preparation of the statements of account. These are reviewed by the Audit Compliance and Governance Committee in March each year, who also consider the impact on accounting policies in future years as a result of changes in the CIPFA Code of Practice. The scheduled meeting for 24<sup>th</sup> March 2020 was cancelled due to lockdown. However, Members of that Committee were requested to note the content of these draft accounting policies and make any comments as necessary through a proxy vote.</p> <p>There are no material changes to accounting policies which will impact on the 2019/20 accounts. The change in the International Financial Reporting Standard 16 in relation to leases, to be introduced in 2020/21, is not expected to have a material impact on the 2020/21 financial statements.</p>



## General Enquiries of Management

Question	Management response
3. Is there any use of financial instruments, including derivatives?	No
4. Are you aware of any significant transaction outside the normal course of business?	In August 2019, the council completed its purchase of 112 acres of strategic land allocated for the Golden Valley Development (Cyber Central) in West Cheltenham. The Council's £37.5m investment into this site will enable the rapid growth of the Cyber Tech and innovative industries and is a significant step forward in achieving the council's corporate plan priority of making Cheltenham the UK capital of cyber.

## General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
6. 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.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, 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>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 2019/20, specialist external legal support was engaged in respect of planning inquiries, property regeneration and property disputes and such advice continues as at April 2020. Details of those solicitors utilised by the Council can be obtained through One Legal.</p> <p>In addition, the Council is involved in a number of group claims the rough the Local Government Association.</p>
9. 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?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Arlingclose, Treasury Management advisors. Ernst & Young, general VAT advice. Arthur J Gallagher Insurance broker advice. Savills property advice.



## Fraud Issue

### Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit, Compliance and Governance Committee and management. Management, with the oversight of the Audit, Compliance and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit, Compliance and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Risk & Assurance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit, Compliance and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit, Compliance and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

## Fraud risk assessment

Question	Management response
<p>1. Have the Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<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 the Executive Leadership Team prior to circulation to Cabinet. All reports to committees require financial, legal, HR and property implications and risks to be identified.</p> <p>The Audit, Compliance and Governance Committee also approves the risk-based annual audit plan which includes possible areas where fraud may be a risk. The Committee also approve the work plans of the Counter Fraud Unit (CFU) which are developed in consultation with Internal Audit and Senior Management based on current fraud trends.</p> <p>The CFU is a permanent shared support service tasked with minimising fraud and abuse of public funds. The CFU directly reports to the Executive Director Finance and Assets (Section 151 Officer) and as such the work plan and any risks identified are linked to financial reporting.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The categories most at risk within a Council are:</p> <p>Assets - housing stock / rental properties.</p> <p>Revenue - streams such as Council tax, Business Rates and rental income.</p> <p>Expenditure - procurement and contract management.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole or within specific departments since 1 April 2019?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The Counter Fraud Unit 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 and this is reported fully to Audit and Risk Committee at Cheltenham Borough Homes and in summary to Audit, Compliance and Governance Committee at Cheltenham Borough Council..</p> <p>All Council related instances are reported in full to the Executive Director Finance and Assets (Section 151 Officer) and biannually to the Audit, Compliance and Governance Committee.</p>

## Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>The main areas of abuse relate to fraud associated with benefits to include the Councils Council Tax Reduction Scheme although reviews and verification processes within CBC keep this to a minimum. In addition abuse relating to Council Tax and Business Rates avoidance / evasion affects a main revenue stream.</p> <p>Housing and Tenancy Fraud is a high risk as Cheltenham BC retains a housing stock. Some high risk areas are no longer within the domain of the Council - depot services are managed by Ubico, leisure matters are managed by The Cheltenham Trust.</p> <p>There are low risk internal areas such as mileage expense abuse but this is not significant due to the small geographical area that CBC covers. Recruitment and payroll are also areas which are open to abuse.</p> <p>Procurement fraud, specifically within departments such as Property Services, remains an area susceptible to abuse because of the significantly high levels of expenditure.</p> <p>Regarding external fraud, both Internal Audit and the Counter Fraud Unit have undertaken work around serious and organised crime which is recognised as a significant issue affecting Cheltenham.</p> <p>Cyber related crime remains a significant risk for the Council and this is managed and reported by the ICT Team.</p> <p>It cannot be stated that fraud will not occur, but I would not consider one area being significantly at risk. I would add that there is a current increased risk of fraud across the Council due to the pandemic, especially with the payment of Business and Community Grant payments..</p>

## Fraud risk assessment

Question	Management response
<p>5. What processes do the Council have in place to identify and respond to risks of fraud?</p>	<p>The existence of the CFU as a permanent dedicated service significantly mitigates fraud risk generally. 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. The team undertakes reactive investigation work where a referral is received and where necessary, proactive fraud drives in high risk areas.</p> <p>The CFU have contracts to deliver services to CBH, the ALMO responsible for the stock and more recently The Cheltenham Trust.</p> <p>We have promoted and introduced processes for internal and external reporting for both staff and by members of the public. Whistleblowing is becoming more effective as a result.</p> <p>There are many financial controls around the validity and payment of invoices and we are working with HR re recruitment controls in place to ensure all new employees are vetted properly and that staff recognise fraudulent qualifications</p> <p>Work is developing in relation to gifts and hospitality procedures and conflicts / declarations of interest by staff.</p> <p>The CFU assist with NFI data matching and undertake our own data matching exercises where risk has been identified.</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>

## Fraud risk assessment

Question	Management response
<p>6. How would you assess the overall control environment for the Council, including:</p> <p>the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>There remains a separation of duties which are monitored as part of the control audits by the South West Audit Partnership (SWAP). Many of the processes are system controlled, particularly in relation to the financial processes. Officers who are able to authorise are certified by the Director or Service Manager and limits applied to varying level of spend depending on their responsibility and the overall budge.</p> <p>Awareness training on a regular basis reduces the risks associated with internal abuse and fraud. The promotion of integrity and whistleblowing channels also mitigates this.</p> <p>Conflict of interest / declaration of interest processes also help identify those staff who are a potential risk so that appropriate training and management controls can be put in place.</p>

## Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	<p>There is always the potential but we believe appropriate checks and balances are in place within the teams, and through Publica Finance, to ensure misreporting does not occur.</p> <p>The Council monitors budgets to cost centre level which highlights any unexpected variances for further investigation.</p> <p>Financial rules govern what is required to be reported and controls the rules surrounding 'virement'.</p> <p>Reports produced by the CFU are subject to auditable case files held on the case management system. These reports are then scrutinised by Governance staff, Members and Executive Leadership which therefore mitigates the risk of misreporting.</p>
<p>8. How do the Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>Staff and Member awareness sessions have been provided by the Counter Fraud Unit. Provision of refresher information and literature for new starters is being developed as are online training modules.</p> <p>The Procurement Team have included statements on all tender / quote documentation detailing the Councils approach to modern slavery, ethical procurement and supporting local businesses.</p> <p>Publicity with regard to identified fraud and error will also be encouraged to act as a deterrent generally.</p> <p>Through the work the CFU have delivered across the Council relating to awareness and through reputation, staff are now approaching the team with more confidence and more regularity. The development of the relationship with HR colleagues also ensures fraud reports come to the CFU for assessment.</p> <p>Reports were made in relation to procurement processes within the Property Services Team which did not prove fraudulent activity but has led to better controls, procurement and contract management processes.</p>

## Fraud risk assessment

Question	Management response
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Contract procurement posts, high level budget controllers/approvers, ICT staff with high level system access, Marketing Teams.</p> <p>Many Local Government staff are susceptible to duress and corruption due to the nature of their duties - housing teams, council tax officers, planning staff; however there must be a level of trust within the organisation to promote a healthy working environment.</p> <p>Conflict of interest / declaration of interest process development to make it a more risk based one - identifying high risk staff and ensuring the correct controls are in place.</p> <p>Better recruitment checks to vet staff and prevent them entering the workplace - prevention is always the best control.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Organisations such as CBH, The Cheltenham Trust, Ubico, and Publica all give rise to fraud risk which may affect the Council.</p> <p>Partnership working with local businesses and contractors - for example in relation to Cyber Central - increases risk.</p> <p>The CFU have contracts with all of the above named organisations to mitigate fraud risk more generally in relation to public funds rather than the Council as an individual body.</p> <p>Transparency, audit and scrutiny practices across these partnerships and more generally Local Government.</p>

## Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit, Compliance and Governance Committee?</p> <p>How does the Audit, Compliance and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The CFU provides biannual updates to Audit, Compliance and Governance Committee. The report includes the future work plan and retrospective findings for comment and consideration.</p> <p>The CFU would work with Executive Leadership team, Governance Group and Internal Audit to manage any internal control recommendations and the outcome would be transparently reported as above.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The CFU 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 and with due consideration to sensitive referral sources.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>None.</p>



# Law and regulations

## Issue

### Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit, Compliance and Governance Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit, Compliance and Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

## Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on Council's financial statements?</p>	<p>Any significant litigation claims are referred to the council's legal services providers, One Legal who will then advise the relevant officer. The relevant officer will brief ELT / SLT / Members and notify the insurance officer as appropriate.</p> <p>Legal costs will also form part of the quarterly budget monitoring reports. Advice from the 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> <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>2. How is the Audit, Compliance and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Audit Compliance and Governance Committee is advised by the Council's S151 Officer, Internal Audit and the Corporate Governance, Risk and Compliance officer who provide assurance regarding compliance with laws, regulation and financial rules. They bring any issues to the attention of the Committee and provide updates on progress against any appropriate action plans.</p> <p>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>

## Impact of laws and regulations

Question	Management response
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?	No.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	No.
5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	The Council's S151 officer, Solicitor/Monitoring Officer, Chief Executive and Directors ensure that all legal requirements are met. All complete an annual assurance review which includes compliance with legislation and regulation. Service managers report to ELT any known or possible litigation or claims in their service.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.

# Going Concern

## Issue

### Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

## Going concern considerations

Question	Management response
1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for Cheltenham Borough Council? What was the outcome of that assessment?	<p>The Council's Medium Term Financial Strategy (MTFS) was approved by full council in February 2020 showing the council is a going concern over the next 4 years with plans in place to alleviate the significant reductions in core government funding.</p> <p>The Section 151 Officer also provides an independent assessment of the overall financial position as part of the budget setting process (Section 25 report).</p> <p>In addition, the Section 151 Officer provides an annual assessment of the going concern status. The main factors which underpin this assessment are the:</p> <ul style="list-style-type: none"> <li>Council's current financial position;</li> <li>Council's projected financial position;</li> <li>Council's governance arrangements;</li> <li>Regulatory and control environment applicable to the Council as a local authority.</li> </ul> <p>The Section 151 Officer does not foresee any reason why the statements for 2019/20 will alter that position as the Council has once again delivered services within budget. Clearly COVID-19 will have a profound impact on the sector; and it is for that reason that a detailed report on the Going Concern concept will be considered at the next meeting of the Audit, Compliance and Governance Committee on 22<sup>nd</sup> July 2020.</p> <p>The council has recently undertaken a detailed review of its earmarked reserves and general balances, in light of the additional expenditure and significant loss of income during the first half of 2020/21 as a result of the COVID-19. The challenges ahead and the impact on the council's assessment as a going concern in 2020/21 depends to an extent on support that will be received by central government during the period of the emergency. Government funding of £1.210m has been received to date as a contribution towards the costs incurred to date. More direct government support will be needed, especially to cover income losses. The council will set aside £846k of its general reserve (65%) and £600k of its earmarked reserves (14%) to partially meet these losses if necessary. It will also look to re-prioritise its capital programme and minimum revenue policy if necessary.</p> <p>The council continues to review and report the financial impact of COVID-19. It does not expect to issue a section 114, but is reviewing its levels of spending and evaluating and prioritising plans and ambitions during the period of uncertainty.</p>

## Going concern considerations

Question	Management response
2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Medium Term Financial Plan and the financial information provided to the Audit, Compliance and Governance Committee throughout the year?	<p>Yes, the assumptions in the medium term financial strategy are consistent to the budget and all financial information reported to the Audit, Compliance and Governance Committee and all other relevant committees throughout the year.</p> <p>The financial impact of COVID-19 is monitored and will be reported to Cabinet and the Budget Scrutiny Working Group as part of quarterly budget management reports and other reports as necessary during 2020/21.</p>
3. Are the implications of statutory or policy changes appropriately reflected in the Medium Term Financial Plan, financial forecasts and report on going concern?	Yes.
4. Have there been any significant issues raised with the Audit, Compliance and Governance Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No.
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	<p>No adverse financial indicators or negative cash flow .</p> <p>See question 4 re response to the financial impact of the COVID-19 emergency.</p>

## Going concern considerations

Question	Management response
6. Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	Yes – there are the skills and experience within senior management and staff, supported by learning and development and professional training where relevant.  External specialist advice is obtained where needed, for example in complex property / investment matters.
7. Does the Council have procedures in place to assess their ability to continue as a going concern?	Yes. The Section 151 Officer provides an independent assessment of the overall financial position as part of the budget setting process (Section 25 report).  Public Support Services monitor short and long term cash flows for the council and report to the Section 151 Officer and the Council's Treasury Management Panel on a regular basis.
8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?	See question 4 re the financial impact of the COVID-19 emergency. On cash flows and going concern.

## Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Audit, Compliance and Governance Committee ?</p> <p>How has the Audit, Compliance and Governance Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>Yes. An assessment of going concern is reported annually, alongside the annual statement of accounts. This is considered as part of the review and approval of these statements each year.</p> <p>Audit, Compliance and Governance Committee also take assurances from the External Auditors reported findings and conclusions from the annual, independent review of the production and accuracy of the statement of accounts, including the statement of going concern.</p>



# Related Parties

## Issue

### Matters in relation to Related Parties

Cheltenham Borough Council are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council
- associates;
- joint ventures;
- an entity that has an interest in the Council that gives it significant influence over the Council
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council perspective but material from a related party viewpoint then Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Related Parties

Question	Management response
1. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships ?	All Members and Senior staff are required to complete a declaration of interest annually, with the responsibility to update on a rolling basis as necessary. These declarations are reviewed by Publica Finance as part of the production of the statement of accounts, and included as a disclosure note. A review of third party related transactions included in the Comprehensive Income and Expenditure Statement is included in this disclosure note in the statements of account.

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

Cheltenham Borough Council apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Council is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit, Compliance and Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

## Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	<p>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.</p> <p>Clearly there may be an impact from COVID-19, although this has been partly mitigated by the discounts and reliefs applied by Central Government in 2020/21.</p>
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	<p>PPE Valuations are performed by the Authority's in house valuer in line with RICS guidance, who has sought independent assessment this year given the complexities and uncertainties surrounding COVID-19. 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>
3. How is the Audit, Compliance and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	<p>Publica Finance provide detailed explanation of all statements and notes included in the statement of accounts, including arrangements for accounting estimates. These are reviewed and assurances sought and provided at the Audit, Compliance and Governance Committee meeting to approve the statements.</p> <p>Independent assurance is also provided by the external Audit of the accounts and the reported findings of Grant Thornton LLP.</p>

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant & equipment Valuations (including investment properties)	Current value for land/buildings at depreciated replacement cost/existing use value/fair value	Valuations are performed one a 5 year cyclical basis to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.	Yes	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No
Estimated remaining useful lives of PPE	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	See left box	Discussion with the Estates team	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	See above	See above	See above	See above	No
Impairments	Review of all assets undertaken annually	See left.	Discussion with internal asset team as appropriate.	N/A.	No.
Measurement of Financial Instruments	Financial instruments consist of investments and loans. Measured initially at cost and subsequently at amortised cost using the effective interest method.	Knowledge by the Investment team who manages the portfolio in assessing the potential risk in credit losses.	Fund advisers – Arlingclose	The assumptions used are undertaken by Arlingclose as part of the fair value measurement of financial instruments	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are identified through detailed monthly management accounts which flags any potential issues to management.	Each provision is separately reviewed by financial accounts and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.
Bad Debt Provision	Debts are reviewed monthly and any debts that are deemed to be irrecoverable are provided for	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts.	N/A	N/A	No.

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A.	N/A.	No.
Non Adjusting events – events after the balance sheet date	Monthly management accounts prepared would flag any adjusting/non-adjusting events.	See left.	N/A.	N/A.	No.



## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Hymans Robertson. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Council responds to queries raised by the administering body, Gloucestershire Pension Fund.	The Council are provided with an actuarial report by Hymans Robertson (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.



[grantthornton.co.uk](https://grantthornton.co.uk)

© 2019 Grant Thornton UK LLP

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.