

# Informing the audit risk assessment for Cheltenham Borough Council 2020/21



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.

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Cheltenham Borough Council's external auditors and Cheltenham Borough 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 Audit, Compliance and Governance 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 Audit, Compliance and Governance 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 Audit, Compliance and Governance Committee and supports the Audit, Compliance and Governance 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 Authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- 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 Cheltenham Borough 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
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p>	<p>COVID-19 and the associated lockdowns have had a significant impact on the financial statements for 2020/21. A recovery budget was taken to Cabinet in November 2020 to re-prioritise spend and seek approval for the disposal of a group of surplus assets to bridge the forecast budget gap over the next three years. During 2020/21, the Council has received £1.535m of COVID-19 support grant to support additional costs incurred to support the response to the pandemic. A number of income streams were also impacted, the most significant being car parking income. The Council received income of £1.563m for the year, against the budget of £4.478m as a direct result of the pandemic. The DCLG Sales Fees and Charges Support Grant has provided compensation of 75% of the loss against budget, after the 5% deductible rate has been applied.</p> <p>The estimated overspend of £100,000 reported in the Q3 monitor is planned to be met from general balances. The Council will seek to replenish the general balances and other earmarked reserves from future allocations of government support.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Cheltenham Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>The appropriateness of accounting policies are considered annually by the S151 Officer and Head of Finance as part of the preparation of the statements of account. These are reviewed by the Audit Compliance and Governance Committee each year, who also consider the impact on accounting policies in future years as a result of changes in the CIPFA Code of Practice.</p> <p>There are no material changes to accounting policies which will impact on the 2020/21 accounts. The change in the International Financial Reporting Standard 16 in relation to leases, to be introduced in 2021/22, is not expected to have a material impact on the 2020/21 financial statements.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>No</p>
<p>4. Are you aware of any significant transaction outside the normal course of business?</p>	<p>No</p>

# 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?	The impact of COVID-19 on the
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 Cheltenham Borough 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, Tewkesbury Borough Council and Stroud District Council who joined in 2020.</p> <p>During 2020/21 , specialist external legal support was engaged in respect of planning inquiries, property regeneration and property disputes and such advice continues as at April 2021 . Details of those solicitors utilised by the Council can be obtained through One Legal.</p>

# General Enquiries of Management

Question	Management response
9. Have any of the Cheltenham Borough 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 Bruton Knowles – property valuation

# 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 Cheltenham Borough 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, Compliance and Governance 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 Cheltenham Borough Council's management.

# Fraud risk assessment

Question	Management response
<p>1. Have Cheltenham Borough 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>The council has a robust financial control framework and risk management process, supported by financial regulations, schemes of delegation and an independent Internal Audit function and Counter Fraud Unit. Responsibility for ensuring that fraud and corruption risks are managed sits with the Executive Director Finance and Assets and internal processes require 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 of core financial systems and 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. Any risks identified would be reported to the Executive Leadership Team and the Audit, Compliance and Governance Committee as part of the reporting cycle.</p> <p>The finance team comprises qualified accounting officers who are responsible for regular monitoring of accounts to report income and expenditure against budgeted spend. This process includes the review of any variances with senior management and service leads to identify any instances of fraud or abuse.</p> <p>The CFU is a permanent shared support service tasked with minimising fraud and abuse of public funds, reporting directly to the Executive Director Finance and Assets (Section 151 Officer). The Counter Fraud and Anti-Corruption Policy, the Whistleblowing Policy, and the Internal Audit Charter are formally agreed by the Council (at a meeting of the appropriate Committee/Executive). These documents set out the role of Internal Audit in the prevention and investigation of fraud and as such the work plan and any risks identified are linked to financial reporting.</p>

# Fraud risk assessment

Question	Management response
<p>1. Cont.</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>The work of the Counter Fraud Team is reported to the Audit, Compliance and Governance Committee on a biannual basis. 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. The team can undertake reactive investigation work where a referral is received and where necessary, proactive fraud drives in high risk areas. Internal investigations have taken place by the Counter Fraud Unit and appropriate action has been taken and reported where appropriate.</p> <p>Where an investigation takes place due to the suspicion of fraud, any areas of risk or poor control that are identified will also be reported to the appropriate manager with remedial recommendations. Internal Audit will include a follow up audit in the Audit Plan to ensure the recommendations have been implemented.</p> <p>The Council also employs a number of Enforcement Officers within the various service areas who undertake work to tackle abuse of public funds.</p> <p>The risk registers are used to identify cost or resource pressures or income streams and any significant risks.</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> <ul style="list-style-type: none"> <li>Assets - housing stock / rental properties.</li> <li>Revenue - streams such as Council tax, Business Rates and rental income.</li> <li>Grants / Benefits – Business Grants, Council Tax Reduction Scheme (and Housing Benefit), Track and Trace Support Payments</li> <li>Expenditure - procurement and contract management.</li> </ul>

# Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Cheltenham Borough Council as a whole or within specific departments since 1 April 2020?</p>	<p>Any instances of actual, suspected or alleged fraud, error or other irregularities that are identified are reported to the Executive Leadership Team and the Audit, Compliance and Governance Committee.</p> <p>Benefit fraud is dealt with by the DWP. Abuse of the Council Tax Reduction Scheme is supported by the Revenues and Housing Support Department.</p> <p>The Counter Fraud team investigate allegations of wrongdoing. These matters are managed in line with Council's policies, including disciplinary policy, and will be reported to the police where appropriate.</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>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>In some instances recommendations have been made in respect of control procedures and reports are issued to the appropriate Service Leads and Governance Group.</p> <p>The Audit, Compliance and Governance Committee approves the risk based Annual Audit Plan which includes a risk based system audit of core financial systems and resources for auditing non financial systems on a risk basis.</p> <p>The Counter Fraud team has a similar annual plan for its work which includes an allocation of resources to investigate any alleged fraud. Performance against the Internal Audit Plan and Counter Fraud Plan and any specific issues identified are reported quarterly/half yearly to the Audit, Compliance and Governance Committee. The Council's Overview and Scrutiny Committee also receives the Council's quarterly performance reports, which includes risk registers and financial performance.</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 Cheltenham Borough 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 and due to the pandemic, abuse of Business Grants is a significant fraud risk area.</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 Cheltenham Borough 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. Cont. 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>The Counter Fraud team submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation.</p> <p>On occasions such issues have been raised by both internal and external audit as part of the audit work. Appropriate recommendations for changes to internal controls are made on these occasions for management to implement.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>There is always the potential but we believe appropriate checks and balances are in place within the teams, and through 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>

# Fraud risk assessment

Question	Management response
<p>8. How do Cheltenham Borough 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>The Council communicates and encourages ethical behaviour and business processes of its staff and contractors through its policies and strategies including The Counter Fraud and Anti- Corruption Policy, Employee Code of Conduct and Whistleblowing policy all of which are available on the intranet site. Updates are communicated through inductions and refresher training. 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>Significant contracts are let following a robust process which seeks assurance from the potential contractor that the organisation has appropriate policies and processes in place. The Council monitors performance and quality and adherence to standards of service delivery. 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. Through the continued work the CFU have delivered across the Council relating to awareness and through reputation, staff continue to approach the team. HR colleagues also ensure fraud reports come to the CFU for assessment.</p> <p>No significant issues have been reported in 2020/21. Staff are expected to report any concerns they have about fraud or the misuse of public funds. Any allegations received are referred to the Counter Fraud Unit for investigation. These matters are managed in line with the Council policies, including disciplinary policy, and will be reported to the Council's leadership team where appropriate. In some instances, recommendations will be made in respect of control 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. Officers with significant operational financial responsibilities, such as roles in the Treasury Management team, Chief Finance Officer/Deputy Finance Officer, and roles in Revenues and Benefits are subject to regular security checks, at recruitment and then regularly every three years. Each role is assessed for the requirement to undertake post holder security checks.</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. 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. Prevention methods for bribery and corruption form part of the CFU's work streams and are detailed within the Counter Fraud and Anti-Corruption Policy.</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>On a quarterly basis, the Audit, Compliance and Governance Committee receives monitoring reports from SWAP regarding work carried out by the internal audit team. The report details the work carried out compared to the plan, the level of assurance resulting from the audit, the key issues regarding internal controls or fraud including any breaches. Reporting includes the outcome of internal audit follow-up reviews of the implementation of audit recommendations. 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 Committee is consulted on any proposed changes to relevant Council Policy – e.g. Whistle Blowing Policy, Counter Fraud and Anti-Corruption Policy, Money Laundering Policy, RIPA Policies etc.</p> <p>Changes to the Council's Corporate Risk Register are also reported to the Audit, Compliance and Governance Committee. The Council's Overview and Scrutiny Committee also receives the Council's quarterly performance reports, which includes changes to the Council's risk registers and details of financial performance.</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>The Audit, Compliance and Governance Committee exercise oversight over management processes for identifying and responding to risks of fraud and breaches of internal control through challenge of internal audit and counter fraud, monitoring the implementation of recommendations and seeking additional assurances from operational management.</p> <p>See reports presented to Audit / Overview and Scrutiny Committee.</p>

## Fraud risk assessment

Question	Management response
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	<p>The CFU has not received any referrals via whistleblowing.</p> <p>Any reports would be dealt with correctly and in line with the Whistleblowing Policy and with due consideration to sensitive referral sources. Once the investigation is complete, appropriate recommendations are made for action which may include prosecution, civil penalties, improvements to internal controls, and (where an employee is the subject), consideration of disciplinary action.</p> <p>If warranted a report would be made to the Audit, Compliance and Governance Committee and recommendations for improvements to internal controls issued to Corporate Management to be followed up by internal audit.</p>
13. Have any reports been made under the Bribery Act?	None.

# 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 Cheltenham Borough Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, 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 Cheltenham Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority'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. A contingent liability will continue to be disclosed in the accounts for MMI.</p> <p>Service managers are also requested to highlight any change to the Council's regulatory environment on an annual basis. None of the responses result in any significant impact on the financial statements.</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 2020 with an on-going impact on the 2020/21 financial statements?	No
4. Is there any actual or potential litigation or claims that would affect the financial statements?	No
5. What arrangements does Cheltenham Borough 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

# Related Parties

## Issue

### Matters in relation to Related Parties

Cheltenham Borough Council are required to 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 Cheltenham Borough Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Authority;
- 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 Authority, or of any entity that is a related party of the Authority.

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 Authority's perspective but material from a related party viewpoint then the Authority 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
<p>1. Have there been any changes in the related parties including those disclosed in Cheltenham Borough Council's 2019/20 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> <li>• the nature of the relationship between these related parties and Cheltenham Borough Council</li> <li>• whether Cheltenham Borough Council has entered into or plans to enter into any transactions with these related parties</li> <li>• the type and purpose of these transactions</li> </ul>	<p>There have been no changes to the related parties disclosed in the 2019/20 financial statements.</p>
<p>2. What controls does Cheltenham Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>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 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 are included in a separate note to the accounts.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>The same processes and controls are in place for all significant transactions, related party or otherwise. When senior officers, Cabinet or Full Council are required to approve related party transactions then those individuals who have significant control or influence over any external parties or partners are required to declare a conflict of interest and are excluded from voting or formally endorsing the transaction.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>See 3. above.</p>

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit, Compliance and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

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

# Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The classes of transactions that are significant to the financial statements are give rise to an accounting estimate are all listed and documented in Appendix A.
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	Accounting estimates are not considered by the Authority to be a significant corporate risk in themselves but the uncertainty around them is impacted by wider operation risks. For example, the valuation of investment property is intrinsically linked to the impact of COVID-19 on the town's economy. The Corporate risk register has been reviewed as part of the preparation of the estimates and impact of wider events considered when refreshing our methodology.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The method, assumptions and source data for accounting estimates is reviewed annually for reasonableness in consultation with external audit. The review considers the completeness and accuracy of source data, the robustness of the assumptions and the control framework underpinning the method of calculation. Any changes would be required to be supported by a clearly evidenced justification.
4. How do management review the outcomes of previous accounting estimates?	As part of the preparation for the closure of accounts a full review of the basis, methodology and risk profile of each of the accounting estimates has been undertaken by the Head of Finance. This includes a walkthrough of the working papers and information provided to external audit to determine whether any improvements can be made or whether there are any changes in methodology required.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No significant changes have been made to the estimation processes in 2020/21. Minor changes have been made to the controls in place around the estimation processes including greater scrutiny from the Head of Finance. For the valuation of assets, the recommendation from external audit to re-value the entire investment property portfolio has been actioned.

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>The use of specialised skills and knowledge is considered:</p> <ul style="list-style-type: none"> <li>• where there are high levels of uncertainty in an accounting estimate;</li> <li>• where information required to inform the estimate is not available to the finance team or;</li> <li>• where the calculation of an estimate requires expertise outside that of the finance team.</li> </ul>
<p>7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>A risk based approach is applied to determining the controls in place around accounting estimates. The completeness, reliability, validity and accuracy are considered when reviewing and implementing controls.</p>
<p>8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>The controls are monitored by review of information used and output of the calculations. Controls relating to estimates where a third party is used are subject to internal review within Finance.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<p>All working papers and calculations relating to accounting estimates are produced by the Finance Business Partner team and are reviewed by the Head of Finance.</p> <p>Our accounting policies underpinning estimates are reviewed annually by the Audit, Compliance and Governance Committee.</p> <p>The methods and models used for significant accounting estimates are also reviewed by the Audit, Compliance and Governance Committee as part of the planning process.</p> <p>The accounts, including relevant disclosures, are also reviewed by the same Committee before the draft unaudited accounts are published.</p>

# Accounting Estimates - General Enquiries of Management

Question	Management response
10. 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)?	No other transactions, events or conditions the require significant judgement other than those in Appendix A.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	The arrangements outlined in Appendix A are consistent with those in the prior year, with improved control activities and implementation of recommendations previously made by external audit.
12. How is the Audit, Compliance and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Our accounting policies underpinning estimates are reviewed annually by the Audit, Compliance and Governance Committee.  The methods and models used for significant accounting estimates are also reviewed by the Audit, Compliance and Governance Committee as part of the planning process.  The accounts, including relevant disclosures, are also reviewed by the same Committee before the draft unaudited accounts are published.

## 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?
Land and buildings valuations	Assets are generally valued on a five year rolling programme, including the HRA dwellings, and if not fully valued then a review is completed to provide assurance that there has not been a material change in the value of the asset.	The valuation results are discussed with our CBC internal valuer and supporting documentation is provided to evidence the judgements made. The finance team will review the valuations to confirm that data and assumptions have been applied reasonably and appropriately.	Yes	The high degree of uncertainty in relation to this estimate is considered and addressed through the review of comparable market and other relevant data sources to determine a reasonable estimate for the value of our land and buildings.	No
Investment property valuations	In line with IAS40, all investment properties are subject to annual valuation on a fair value basis. A valuation instruction is provided to both the internal and external valuers to summarise our requirements.	The valuation results are discussed with our CBC internal valuer and supporting documentation is provided to evidence the judgements made. The finance team will review the valuations to confirm that data and assumptions have been applied reasonably and appropriately.	Yes	The high degree of uncertainty in relation to this estimate is considered and addressed through the review of comparable market and other relevant data sources to determine a reasonable estimate for the value of our investment property.	No

## 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?
Valuation of defined benefit net pension fund liabilities	Ten months of actual payroll data was provided to the actuary who use this to estimate the remaining two months of the year. These estimates will be compared to the actual contributions paid out at year end.	Data disclosed in the IAS 19 report provided by the Actuary to the Council is reviewed by the finance team for reasonableness and any unexplained variances challenged or queried with the actuary and GCC.	Yes	The degree of uncertainty in this estimate is high.. The estimate is based upon a number of factors and judgements applied by the scheme's actuary including discount rate used, rate of salary increases, and change in retirement age, mortality rates and expected return on Pension Fund Investments. Estimate are made upon judgements and conditions as seen by the actuary at a point in time.	No
Fair value estimates	The inputs are based on observable data, but where this not possible judgement is required to establish fair values based on unobservable inputs. The authority employs relevant experts to identify the most appropriate valuation techniques used.	All valuation results are discussed with the expert valuers. The finance team will review the valuations to confirm that data and assumptions have been applied reasonably and appropriately.	Yes	The main sensitivity of the estimate to the methods and assumptions would be if the category or valuation basis of an asset or an asset class was changed. Where this is the case, we would provide evidence to demonstrate why the change had been made and why the in year approach was judged to be more appropriate.	No

## 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?
Depreciation	Depreciation is provided for all PPE with a remaining useful life and is charged on a straight-line basis as outlined in the accounting policies. PPE is recorded on the fixed asset register together with value and the remaining useful economic life.	Asset lives are included in the asset register and are updated on receipt of the valuation report received from our valuers. A detailed valuation report is provided to support the external valuers and reviewed by finance.	Yes	The degree of uncertainty of the estimate is deemed to be judged.  If the useful economic life of an asset is reduced, depreciation increases and the carrying value of an asset will fall.  Management ensure that experts appointed are independent, professional, suitably experienced and qualified.	No
Council dwelling valuations	The Council dwellings are valued on an EUV basis on a five year rolling basis. If a full valuation is not due then an uplift is applied based on the Land Registry index to determine whether there has been a material change.	See controls for land and buildings and investment property.	Yes	The uncertainty of this estimate is high. It is addressed through the use of the Land Registry index to determine a reasonable estimate for the value of the Council dwellings. If a full revaluation is not undertaken on an asset then a review will be completed to determine whether there have been any material movements.	No

## 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?
Accruals	Accruals are based on expenditure incurred that has not yet been paid or income due that has not yet been received. Activity is accounted for in the year it takes place, not when money is paid or received. Where accruals are estimated they are based on the latest information available with the assumptions and calculations clearly documented.	All estimated accruals require a peer review. To ensure the completeness of our accruals, checks are undertaken throughout April on expenditure to ensure it is recorded in the correct period.	No	Accruals are largely based on known values, where estimates are used the level of uncertainty is not deemed to be material.	No
Provision for NNDR Appeals	The provision is based on an expected success rate of appeals submitted at 31 March and on an estimated reduction in rateable value. The expected success rate is based on previous three years data.	The provision is calculated and checked by the Business Partner Accountant.	No	There is a significant level of estimation uncertainty in relation to business rate appeals due to the volume of outstanding appeals and the sensitivity of the provision to the inputs.  The value of provision is assessed using information on outstanding appeals rates.	No

## 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?
Credit loss and impairment allowances	Collective lifetime ECL's are calculated based on the credit risk, the credit status of the instrument and whether there has been any change in the credit risk since initial recognition.	Monthly aged debt reports are produced by the Accounts Receivable team.  Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts.	No	The uncertainty is considered as part of the loss provision calculation at year end. We will select the point estimate based on the data available and communications with customers at year end.	There have been no changes to these methods but specific factors in the calculation will be reviewed in light of the risks identified.
Finance lease liabilities	The calculation is based on a spreadsheet model previously reviewed by external audit.	The inputs are validated back to supporting information. The accuracy of the calculation is reviewed by the Head of Finance.	No	The uncertainty and sensitivity of the estimate is low as the inputs are agreed to supporting documentation and no judgement is used by management.	No



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