

The Annual Audit Letter for Cheltenham Borough Council

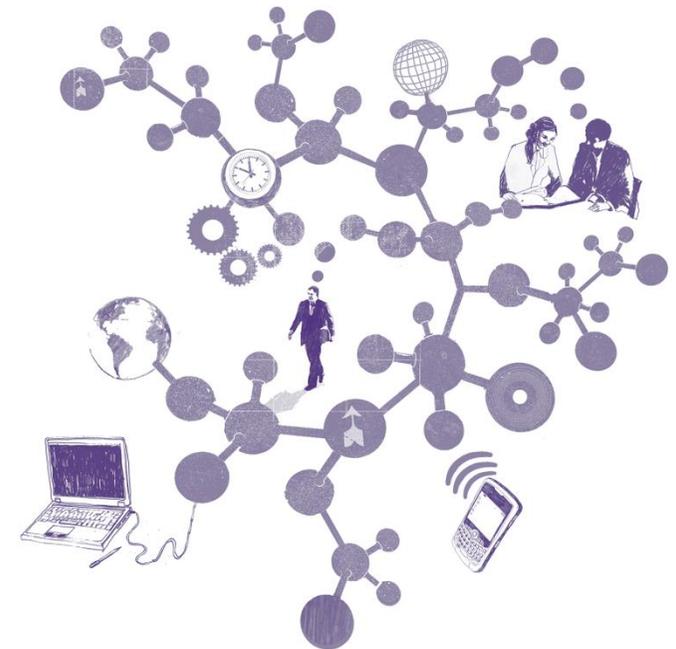
Year ended 31 March 2016

19 October 2016

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Cheltenham Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 21 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 21 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 21 September 2016.

Certificate

We certified that we had completed the audit of the accounts of Cheltenham Borough Council in accordance with the requirements of the Code on 21 September 2016.

Certification of grants

We carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

We also undertake certification of the Council's Pooling of Housing Capital Receipts Return. Work has been completed and the return will be certified by 30 November 2016.

Working with the Council

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

- We delivered an efficient audit, and issued our opinion on the financial statements and value for money conclusion nine days before the deadline and in line with the timescale we agreed with you.
- We shared our insight with you and provided regular audit committee updates covering best practice, along with our thought leadership publications.
- We provided free training on the role of the audit committee and audit committee effectiveness for your members and the other Gloucestershire Councils.
- We provided you with access to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.
- Our advisory team supported you on the accommodation strategy, and our VAT team provided advice to you and the other GO bodies.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1,644,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as senior officer remuneration, salary bandings, members allowances, exit packages and auditors' remuneration.

We set a lower threshold of £82,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Reviewed accounting estimates, judgments and decisions made by management • Tested journal entries and year end adjustments • Reviewed unusual significant transactions <p>We did not identify any issues to report</p>
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Cheltenham Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Cheltenham Borough Council, mean that all forms of fraud are seen as unacceptable. <p>We did not identify any issues to report</p>
<p>Financial statement level risk arising from the systems upgrade of Agresso</p> <p>The Council uses Agresso as its main financial system which was upgraded in February 2016. The upgrade involved data migration from the old system to the new system and therefore there is a risk of loss of data integrity.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Reviewed the arrangements set up to plan and execute the upgrade from a finance and IT perspective. • Reviewed the reconciliations of balances before and after the transfer, and agreed these balances to underlying transactions. <p>We did not identify any issues to report</p>

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of surplus assets and investment property</p> <p>The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13. The basis on which fair value is defined for investment property is also different to that used in previous years. This represents a significant change in the basis for estimation of these balances in the financial statements. There are also extensive disclosure requirements under IFRS 13 which the Council needs to comply with.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Reviewed the competence, expertise and objectivity of the management experts used • Reviewed the instructions issued to valuation experts and the scope of their work • Held discussions with valuer about the basis on which the valuation is carried out and challenged the key assumptions • Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding • Reviewed management's processes and assumptions for the calculation of the estimate • Tested revaluations made during the year to ensure they are input correctly into the Council's asset register • Reviewed the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS13 <p>We did not identify any issues to report</p>
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate • Reviewed the competence, expertise and objectivity of the experts used by management • Reviewed the instructions issued to valuation experts and the scope of their work • Tested revaluations made during the year to ensure they are input correctly into the Council's asset register • Held discussions with the valuer about the basis on which the valuation is carried out and challenged the key assumptions • Evaluated the assumptions made by management for those assets not revalued during the year • Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding • Considered management's assertion that the current value of PPE assets not revalued as at 31 March 2016 are not materially different to their carrying value <p>We identified one material error in the draft accounts. The Council understated the value of its Property, Plant and Equipment in the Balance Sheet by £3.568 million. This was corrected in the revised accounts and was matched by an equal increase in the Revaluation Reserve. This arose due to the assets in question last being valued over 2 years ago, with evidence available to us showing that their fair values were materially different to their carrying values.</p>

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation Gained an understanding of the basis on which the valuation is carried out Undertook procedures to confirm the reasonableness of the actuarial assumptions made Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the report from the actuary <p>We did not identify any issues to report</p>
<p>Completeness of employee remuneration expenditure</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> Documented our understanding of controls operating in the employee remuneration system Performed a walkthrough to confirm that controls are operating as described Performed a reconciliation of the payroll system outputs to the general ledger and financial statements Performed trend analysis on payroll expenditure data for the year to identify any areas that require further investigation <p>We did not identify any issues to report</p>
<p>Completeness of operating expenditure</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> Documented our understanding of the controls operating in the operating expenditure system Performed a walkthrough to confirm that controls are operating as described Obtained an understanding of the accruals process and sample tested accruals to ensure that these are calculated on a reasonable basis Tested for unrecorded liabilities through a review of payments made after the year end <p>We did not identify any issues to report</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 21 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 21 September 2016.

In addition to the key audit risks reported above, we identified the following issues during our audit that we have asked the Council's management to address for the next financial year:

- A number of IT recommendations were made and management were requested to implement these
- We recommended that the Council should consider the rolling valuation programme, to ensure that high value property, plant and equipment assets are valued with sufficient regularity to ensure that they remain materially stated in the Balance Sheet.

Management accepted both of these recommendations.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Medium term financial position</p> <p>The Council have been required to deliver substantial savings since 2010/11, and forecast continued significant savings requirements going forward.</p> <p>The current Medium Term Financial Strategy (MTFS) includes a balanced position for 2016-17, but includes a number of unidentified savings over the period to 2019-20.</p>	<p>We:</p> <ul style="list-style-type: none"> Reviewed the MTFS, including the assumptions that underpin the plan. Reviewed how savings are identified and monitored to ensure that they support the delivery of budgets. 	<p>A Medium Term Financial Strategy (MTFS) paper was presented to Cabinet in October 2015, which included financial projections to 2019/20. The projections showed a funding gap of £3.903m over the period 2016/17 to 2019/20, with a gap of £1.825m in 2016/17. During the budget setting process, the MTFS was updated to reflect the proposed funding settlement and other known changes. The update taken to Cabinet and Council meetings in February 2016 showed a deficit to 2019/20 of £4.198m and a funding gap of £1.881m in 2016/17. The changes were mainly driven by a funding settlement that was lower than expected.</p> <p>The updated MTFS identified proposed savings, which are detailed by area and linked to specific projects. The latest 'Bridging the Gap Strategy' for 2016/17 to 2019/20, included in the February 2016 Cabinet and Council papers, identifies total savings of £3.964m, leaving savings of £0.234m still to identify. The 2016/17 year is balanced, with a £0.671m shortfall currently identified in 2017/18. Savings are 'RAG' rated, with all but two of the 2016/17 projects rated as green. As would be expected, savings further into the future are rated amber or red.</p> <p>Savings are identified as part of the budget build and MTFS planning and are clearly linked to projects. Key savings in 2016/17 relate to the Leisure & Culture Trust, with the identified savings included within the contract, and in relation to 2020 Vision Shared Services. These savings in 2016/17 have already been identified, and are linked to the change in the Council's management structure as a result of moving toward the 2020 Vision. The savings strategy includes a total of £0.808m in relation to 2020 Vision to 2019/20. This programme is considered over the page. The potential changes to the Council's involvement in the 2020 Vision Programme will have to be considered, and additional savings identified to cover any shortfalls. Should these or any other savings not be realised, the Council will either have to use general fund balances or cut discretionary services. Discussions with the Council have identified other potential savings or income growth areas, however these have not been fully identified or quantified.</p> <p>In 2015/16 the 'Budget Strategy (Support) Reserve' was created totalling £0.973m. The current funding strategy relies on £0.400m and £0.337m of this reserve to balance the revenue budgets in 2016/17 and 2017/18. The use of New Homes Bonus received by the Council is also increased in 2016/17, with 81% of the total expected income of £2.152m being used to support the revenue budget. In 2014/15, 65% of the New Homes Bonus was used to support the revenue budget. The Government has consulted on changes to the New Homes Bonus scheme, and there is therefore a risk that future New Homes Bonus funding will change. The Council recognise this in the 2016/17 budget paper.</p> <p>The Council's MTFS takes into account the factors we would expect, is updated sufficiently regularly and is responsive to significant events in the annual financial cycle. The assumptions employed within the projections appear to be appropriate and reasonable, and are based upon known contractual obligations where these are known. The Council has also explored alternatives before deciding on the medium term financial strategy.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Value for Money

Value for money risks continued

Risk identified	Work carried out	Findings and conclusions
<p>2020 Vision</p> <p>The Council continues to progress the 2020 Vision partnership arrangement with Cotswold, West Oxfordshire and Forest of Dean District Councils.</p> <p>The success of 2020 Vision, through the members working together effectively, is critical to the medium term financial plan at Cheltenham.</p>	<p>We:</p> <ul style="list-style-type: none"> Reviewed the progress made in the development of the 2020 Vision Understood how the Joint Committee is operating and how the Councils are working together to deliver the planned savings 	<p>In early 2015 the four Councils involved in the 2020 Vision partnership established a Member Governance Board and an interim management team (made up of a Partnership Managing Director, a Lead Commissioner and a Programme Director) to progress the 2020 Vision programme prior to creating more permanent arrangements. All partner councils voted to go forward with the 2020 Vision programme.</p> <p>A Joint Committee for all partner Councils came into operation in February 2016. Each Partner has appointed two of its elected members as its representatives on the Joint Committee, one of whom will be a member of that Partner Council's Executive, and the other a member of the Partner Council. The 2020 Programme has appointed a number of 'Group Managers' to plan business cases to incorporate a cross section of services from the partner Councils into the 2020 Programme. The overall business case for the Programme is currently being reviewed and updated and initial indications are that the original savings programme will be achieved. Some savings have already been taken by partner Councils.</p> <p>Savings have already been achieved through the establishment of the 'core' 2020 project team to which a number of staff were seconded. As a result of share of the employment cost of the Chief Executive, Strategic Director and Business Improvement manager have been funded by the 2020 Project. Further savings from the programme have been delivered earlier than anticipated. Cashable savings to date are on profile with savings already delivered in 2015/16 and 2016/17 of £2.3m. Programme spend to date is within budget.</p> <p>Governance arrangements are developing, a Constitution and Scheme of Delegation was approved by the Joint Committee in February 2016.</p> <p>At the public Joint Committee meeting in June 2016, a Councillor of Cheltenham Borough Council delivered a statement confirming that Cheltenham Borough Council would not vote to agree a proposal to set up a company operating model for discussion with the partner Councils and develop detailed implementation plans to establish the new companies. The statement indicated that Cheltenham Borough Council may not wish to include their Revenues and Benefits and Customer Services in the 2020 Vision programme as had been originally indicated. This has an implication of the savings that can be delivered for Cheltenham and the other Councils through the programme. These potential changes to the Council's involvement in the 2020 Vision Programme will have to be considered, and if applicable additional savings identified, with detailed plans developed to cover any shortfalls.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit nine days before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Sharing our insight – we provided regular audit committee updates covering best practice. Areas we covered included Audit Committee effectiveness and Devolution. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – We have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services. You will be attending our free income generation workshop in September 2016.

Providing training and free workshops – we provided your teams with training on financial accounts and annual reporting. We also provided your Audit Committee members with free training on the role of the Audit Committee and Audit Committee effectiveness.

Providing information – We provided you with access to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

Support outside of the audit – our advisory team supported you on the accommodation strategy, and our VAT team provided advice to you and the other GO bodies.

Working with the Council

Working with you in 2016/17

We will continue to work with you and support you over the next financial year in addition to continuing the support we have provided in 2015/16.

Locally our focus will be on:

- An efficient audit – continuing to deliver an efficient audit and working with you to bring forward your accounts closure in advance of the faster close requirement in 2017/18.
- Understanding your operational and financial health – we will continue to focus our value for money conclusion work on your financial health, and consider the evolving arrangements over the 2020 Vision Programme with your neighbouring Councils.

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	49,406	49,406	65,974
Audit of subsidiary company Cheltenham Borough Homes	18,650	18,650	15,800
Housing Benefit Grant Certification	8,361	TBC	12,020
Total fees (excluding VAT)	76,417	TBC	93,794

Reports issued

Report	Date issued
Audit Plan	2 March 2016
Audit Findings Report	12 September 2016
Annual Audit Letter	18 October 2016

Fees for other services

Service	Fees £
Audit related services:	
• Certification of Pooling of Housing Capital Receipts Return	2,100
Non-audit services	
• VAT helpline	417
• Accommodation Strategy workshop	3,000



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