

# The Annual Audit Letter For Cheltenham Borough Council

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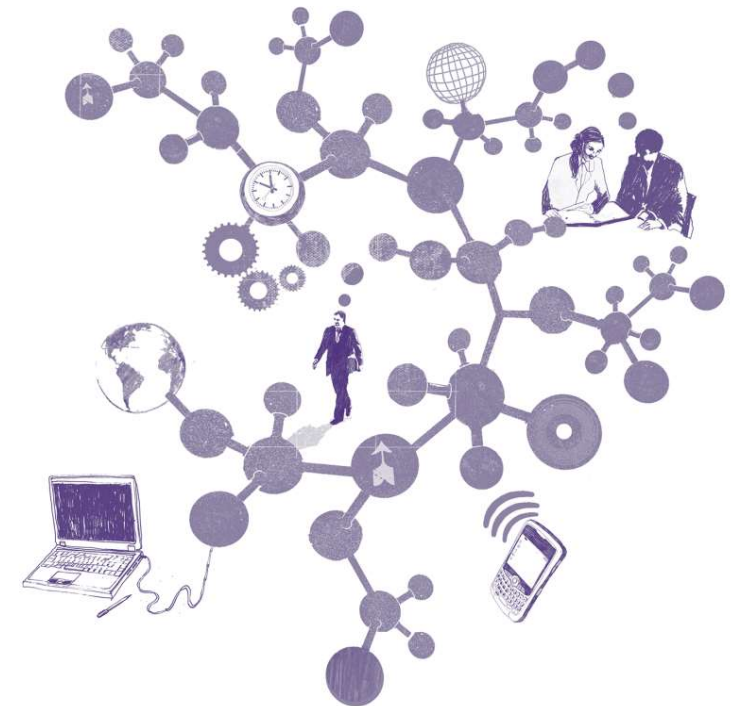
**Year ended 31 March 2017**

18 October 2017

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Cheltenham Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 20 September 2017.

## **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 2017.

### **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 2017. We reflected this in our audit opinion on 21 September 2017.

### **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 2017.

### **Certification of grants**

We also 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 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

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### **Other work completed**

GO Shared Services signed up to CFO Insights, a Grant Thornton tool which provides the Council with instant access to insight on the financial performance, socio-economic context and service outcomes of every council in England, Scotland and Wales. The Council pays a proportion of the cost of this subscription.

We also provided a VAT and Employment Tax Support service to GO Shared Services for the period 1 April 2016 to 31 March 2017. Ethical standards applicable from the 1 April 2017 mean that this is now a blacklisted service and, as a result, the service has been discontinued. The Council paid a proportion of the cost of this service.

The Council received Investors in People Accreditation during the period 1 April 2016 to 31 March 2017. The audit team was not involved in the IIP Accreditation process and the work was undertaken by a team independent to Grant Thornton and the audit team. The fee was not material to the audit and the scope of the work did not include making decisions on behalf of management but provided an assessment against a third party national accreditation framework.

### **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:

- We shared our insight with you and provided regular audit committee updates covering best practice.
- We shared with you our thought leadership publications providing insight on topical issues in the sector including Local Authority Joint Ventures and Integrated Reporting.
- We held quarterly liaison meeting with the Head of Paid Service and Section 151 Officer to discuss emerging issues.

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 2017**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 £1,646,000, 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 of £10,000 for disclosure of audit fees, and disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements.

We set a lower threshold of £82,300, 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 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 the Section 151 Officer 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 included in the Statement of Accounts on which we gave 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	Findings and conclusions
<p><b>Valuation of pension fund net liability</b> The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Identified the controls in place by management to ensure that the pension fund liability is not materially misstated. We concluded that these controls were implemented as expected and they are sufficient to mitigate the risk of material misstatement</li> <li>• Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out</li> <li>• Undertook procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>• Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary</li> </ul>	<p>Our audit work did not identify any work in respect of the pension fund net liability.</p>
<p><b>Valuation of property, plant and equipment and investment property</b> The Council revalues its assets on a rolling basis over a five year period. The Code requires that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate in the financial statements.</p>	<p>As part of our audit work we :</p> <ul style="list-style-type: none"> <li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>• Reviewed the competence, expertise and objectivity of any management experts used.</li> <li>• Reviewed the instructions issued to valuation experts and the scope of their work</li> <li>• Held discussions with the Council's valuer about the basis on which the valuation was carried out, and challenged the key assumptions.</li> <li>• Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• Tested revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>• Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</li> </ul>	<p>Our audit work did not identify any significant issues in relation to this risk.</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	Findings and conclusions
<p><b>Employee Remuneration</b> Payroll expenditure represents a significant percentage of the Council's gross expenditure. We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>• Employee remuneration accruals understated</li> </ul>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Documented our understanding of processes and key controls over the transaction cycle</li> <li>• Undertook a walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• Undertook a trend analysis of months 1-12</li> <li>• Reviewed the reconciliation of the employee remuneration system to the general ledger</li> </ul>	<p>Our audit work did not identify any work in relation to this risk.</p>
<p><b>Operating Expenses</b> Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention: Creditors and accruals understated or not recorded in the correct period.</p>	<p>As part of our audit work we :</p> <ul style="list-style-type: none"> <li>• Documented our understanding of processes and key controls over the transaction cycle</li> <li>• Undertook a walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• Obtained an understanding of the accruals process</li> <li>• Undertook substantive testing of year end creditor and accrual balances.</li> </ul>	<p>Our audit work did not identify any significant issues in relation to this risk.</p>

# Audit of the accounts (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Changes to the presentation of local authority financial</b></p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affected the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures was also required.</p>	<p>As part of our audit work we :</p> <ul style="list-style-type: none"> <li>• Documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements</li> <li>• Reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they were in line with the Council's internal reporting structure</li> <li>• Reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)</li> <li>• Tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES</li> <li>• Tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger</li> <li>• Tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li> <li>• Reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<p>We requested that the Council update the draft accounts to clearly identify the EFA as a note to the accounts on the contents page of the Statement of Accounts.</p> <p>No further issues have been identified in relation to this risk.</p>



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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 21 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable at the end of May 2017. The accounts were supported by good quality working papers. This is whole month earlier than last year and a year ahead of the statutory timetable change, effective from 2017/18, when all Local Authority draft accounts will need to be presented for audit by 31 May with the auditors work concluded by 31 July

The early production this year places the Council in a strong position to achieve the earlier deadline effective from 2017/18.

The finance team responded promptly and efficiently to our queries during 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 20 September 2017.

We recommended a number of adjustments to improve the presentation of the financial statements. No adjustments were identified that affected the Council's reported financial position.

We recommended that all journal entries posted by the Deputy Section 151 Officer be reviewed by the Section 151 Officer.

We also made recommendations to improve a small number of control weaknesses identified in relation to IT controls.

## **Annual Governance Statement and Narrative Report**

We are 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.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

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# 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 2016 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 risk we identified and the work we performed is set out in the table overleaf.

As part of our Audit Findings report agreed with the Council in September 2017, we agreed two recommendations to address our findings:

- We recommended that management continue to monitor high risk savings within the balanced budget.
- We recommended that management continue to monitor the use of reserves when budget setting to ensure that into the medium term dependency on reserves is reduced.

## **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 2017.

# Value for Money

## Value for money risk

Risk identified	Work carried out	Findings and conclusions
<p><b>Medium term financial strategy</b> The Council have been required to deliver substantial savings since 2010/11, and forecast continued significant savings requirements going forward. The current MTFS includes a balanced position for 2017/18, but includes a number of red-rated savings over the period to 2019/20.</p>	<ul style="list-style-type: none"> <li>• We considered 2016/17 performance against savings plans</li> <li>• We carried out a review of the Medium Term Financial Strategy, including the assumptions that underpin the savings plans</li> <li>• We considered how savings are identified and monitored to ensure that they support the delivery of budgets</li> <li>• We considered the use of reserves in 2017/18 to reach the balanced budget</li> </ul>	<p>Our detailed review of the assumptions underpinning the MTFP concludes that they are satisfactory and reasonable, and the Council has a strong track record of delivering balanced budgets and the in year required savings.</p> <p>Savings for 2016/17 have been achieved, with a projected underspend of £110k (against revised budget, following the December 2016 settlement) for the full year 2016/17, and an actual budget saving, after carry forward requests, of £571k against the revised budget. This saving has been transferred to the Budget Strategy (Support) Reserve pending decisions over its use in 2017/18 and future years.</p> <p>Savings are built into base budgets, and are therefore monitored through the variances reported in quarterly revenue budget monitoring. The savings for 2017/18 have been identified and can be attributed to specific plans, such as the one-off payment holiday on the Voluntary Revenue Provision and the use of reserves to support the balanced budget.</p> <p>Discussions were undertaken with the Deputy S151 officer as to how savings are monitored. The monitoring process appears adequate; we noted that as at December 2016 there was a cumulative shortfall in the savings plans of £436k, mostly in 2018-19. The shortfall mostly arose as a result of the New Homes Bonus settlement in December 2016 which was £381k less than forecast. The gap had only recently opened, and the Council have since identified a number of savings strategies to close this gap. The Council currently has a balanced budget to 2019-20, however the achievement of the balanced budget is dependent on a number of red-rated savings in 2019-20.</p> <p>We considered the use of the Budget Strategy Support Reserve to deliver financial balance in 2017/18. This is part of the Council's medium term strategy and has been appropriately considered by the S151 officer and approved by Council and Cabinet.</p> <p><b>We concluded that the risk was sufficiently mitigated and the Council has proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities.</b></p> <p><b>We made two recommendations in relation to the Council's savings plan as set out on page 10.</b></p>

# Appendix A: Reports issued and fees

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

## Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of the Council	49,406	49,406	49,406
Housing Benefit Grant Certification	9,015	TBC	8,361
<b>Total fees (excluding VAT)</b>	<b>58,421</b>	<b>TBC</b>	<b>57,767</b>

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

## Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017

## Fees for other services

Service	Fees £
<b>Non-audit services</b>	
• CFO Insights subscription *	1,875
• VAT and Employment Tax support *	417
• Investors in People Accreditation	4,279
<b>Non Audit Services</b>	<b>6,571</b>
<b>Audit related services</b>	
• Certification (Pooled Receipts)	TBC
<b>Audit related Services</b>	<b>TBC</b>

\* The services listed above are provided to the Go Shared Services partners. The amount disclosed above is the actual element which relates to Cheltenham Borough Council

## Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.



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