

# The Audit Findings for Cheltenham Borough Council

**DRAFT**

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

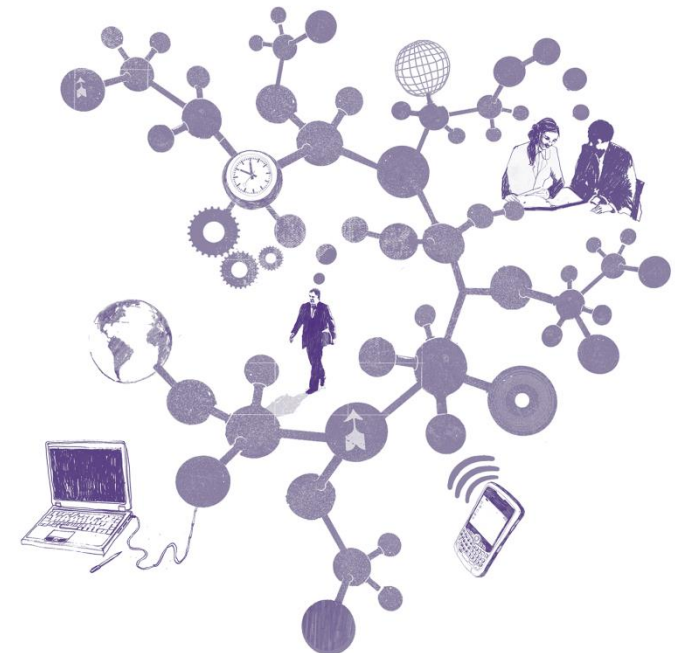
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**Year ended 31 March 2014**

13 September 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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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## Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Cheltenham Borough Council's (the Council) financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 10 March 2014

Our audit is substantially complete although we are finalising our work in the following areas:

- completing testing of accruals, creditors, group entries, financial instruments, debt and equity and Whole of Government Accounts
- obtaining 3<sup>rd</sup> party confirmations for cash and investments
- resolving outstanding queries in relation to PPE, Employees Remuneration, Operating Expenses, Other Revenue and Journals
- review of the final version of the financial statements

- obtaining and reviewing the final management letter of representation
- review of the final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion

We received the draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable. Our queries were dealt with promptly by your financial staff and their flexibility during a period of resourcing difficulties in our team was appreciated. Our audit is behind schedule but we expect it to be completed in time to provide our audit opinion by 30 September as planned.

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified no material errors in the draft financial statements.

To date we have identified one adjustment which affects the Council's reported financial position (details are recorded in section 2 of this report). The item relates to the incorrect charging of £0.746 million of losses on revaluation to the revaluation reserve rather than the Comprehensive Income and Expenditure Account. The total cost of services is therefore understated by £0.746 million and increases to £13.157 million. Total Comprehensive Income and Expenditure net expenditure of £49.466 million remains unchanged. Further details are set out in section 2 of this report.

We have also identified a small number of adjustments to improve the presentation of the financial statements.

We will update members with the latest position at the Audit Committee on 24 September 2014.

**Value for Money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

**Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

**Controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Our work has not identified any control weaknesses which we wish to highlight for your attention

Further details are provided within section 2 of this report.

**The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Resources.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Resources and the finance team.

**Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**13 September 2014**

## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

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# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 26 March 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan dated 11 March 2014 as previously communicated to you on 26 March 2014.

## **Audit opinion**

Subject to the satisfactory resolution of the issue in relation to the accounting treatment of losses on revaluation we anticipate that we will provide the Council with an unmodified opinion. The form of our unmodified audit opinion is set out in Appendix B.



## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>To date our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>To date our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period (relating to both I&E and Balance Sheet)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>substantive testing of operating expenses</li> </ul>	Our work is almost complete and to date our audit work has not identified any significant issues in relation to the risk identified.
<b>Employee remuneration</b>	Employee remuneration accrual understated	<ul style="list-style-type: none"> <li>Document our understanding of the controls operating in the operating expenses system</li> <li>Performed walkthrough to confirm that controls are operating as described</li> <li>Substantive testing of employee remuneration</li> </ul>	Our work is almost complete and to date our audit work has not identified any significant issues in relation to the risk identified.
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>Document our understanding of the controls operating in the welfare expenditure system</li> <li>Performed walkthrough to confirm that controls are operating as described</li> <li>Completion of housing benefits subsidy certification modules.</li> <li>Substantive testing of sample of welfare expenditure</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Housing Rent Revenue Account</b>	Revenue transactions not recorded	<ul style="list-style-type: none"> <li>Document our understanding of the controls operating in the HRA income system</li> <li>Performed walkthrough to confirm that controls are operating as described</li> <li>Reconciliation of HRA Orchard system to the accounts</li> <li>Analytical review of HRA income for the year.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Property, plant &amp; equipment</b>	PPE activity not valid	<ul style="list-style-type: none"> <li>Document our understanding of the controls operating in the PPE system</li> <li>Performed walkthrough to confirm that controls are operating as described</li> <li>Substantive testing of additions and disposals relating to PPE</li> </ul>	<p>Our work to date has identified the following non-material issues.</p> <ul style="list-style-type: none"> <li>Losses on downward revaluations in 2013/14 (value £0.734 million) had been taken to the revaluation reserve when there were none or insufficient positive balances for these assets held in the reserve.</li> <li>The Asset Register module of the accounting system, although separately reconciled to the ledger, is not up to date. This is due to the long term absence of a member of staff. We are satisfied that there is no risk of a material misstatement as a result of this issue.</li> <li>A number of cultural assets (including Playhouse, Everyman Theatre and the main Library) have not been subject to annual depreciation. As these assets were all revalued as at 31 March 2014 the carrying value in the Balance Sheet was correct.</li> </ul>

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Property, plant &amp; equipment</b>	Revaluation measurement not correct	<ul style="list-style-type: none"> <li>• Document our understanding of the controls operating in the PPE system</li> <li>• Walkthrough of the valuation process</li> <li>• Review of the instructions to and report from valuers to confirm process is compliant with the code.</li> <li>• Agreement of valuations to information provided by the valuers</li> </ul>	Our work is complete and to date our audit work has not identified any significant issues in relation to the risk identified.





## Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Cheltenham Borough Homes	Yes	Comprehensive	None	Full scope UK statutory audit performed by Grant Thornton	Work is on-going in this area.
UBICO Ltd	Yes	Targeted	None	Specific (targeted) scope procedures to be performed by Grant Thornton	Our work to date has not identified any significant issues in relation to the risk identified.
Gloucestershire airport	No	Analytical	N/A	Desktop review performed by Grant Thornton	Work is on-going in this area.

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p>Revenue from provision of services is recognised when the council can measure reliably the level of completion of the transaction and it is probable that benefits will flow to the council. It is accounted for in the year that it takes place and not when the payment is made.</p> <p>Revenue grants received are accounted for on an accruals basis when the conditions of their receipt are met.</p>	<ul style="list-style-type: none"> <li>• The accounting policy is appropriate and complies with Code of Practice on Local Authority Accounting (the Code).</li> <li>• Income is not an area that requires significant judgement or estimation.</li> <li>• The disclosure of the accounting policy is adequate.</li> </ul>	 
<b>Judgements and estimates</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>• PPE valuations and revaluations</li> <li>• impairments</li> <li>• useful life of capital equipment</li> <li>• pension fund valuations and settlements</li> <li>• Contingent liabilities.</li> </ul>	<p>Our work is not yet complete. See Property Plant and Equipment estimates below for further details.</p>	 

## Assessment





 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved disclosure

## Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates - PPE</b>	<p>The council values its assets at least every 5 years in accordance with the code requirements.</p> <p>The Council carried out the last full valuation as at 1 April 2010. In 2013/14 an extensive external revaluation of PPE assets was undertaken and in addition the Council's own valuers has valued the majority of the remaining assets.</p> <p>The Council is also compliant with the Code's requirement in paragraph 4.1.2.35 to value all items within a class of property, plant and equipment simultaneously.</p>	We are satisfied that subject to the completion of our PPE testing that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014.	 
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	 

### Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient
-  Accounting policy appropriate but scope for improved disclosure

## Adjusted misstatements

Only one adjustment to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustment arising from the audit which has been processed by management.

### Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 Losses on revaluation of assets have incorrectly been charged to the Revaluation Reserve rather than the CIES.	734	Nil	Nil
<b>Overall impact</b>	<b>£734</b>	<b>£Nil</b>	<b>£Nil</b>



## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	£8,800	Note 20 - PPE	Revaluation figures for assets revalued in the year incorrectly included depreciation. Therefore the total costs or valuation and accumulated depreciation were misstated. The Net Book Value of assets was not affected.
2 Misclassification	Various (largest adjustment £173k)	Movement in Reserves Statement	Some figures within the Movement in Reserves Statement, and the PPE and Capital Financing notes were inconsistent. There is no impact on the CIES or Balance Sheet.

## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We identified no control weaknesses during the course of our audit that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

## Section 3: Value for Money

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# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work highlighted that the Council has satisfactory arrangements in place to secure financial resilience. In particular:

- the 2013/14 outturn reported an underspend against the original budget
- a robust corporate strategy and medium term financial strategy are in place
- the Council is managing its finances well within a challenging climate
- arrangements for governance processes including risk management and the production of the Annual Governance Statement are good
- financial management is sound with effective reporting of variances from plans

### Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that the Council has satisfactory arrangements in place to challenge value for money and in particular: the Council:

- understands its priorities and allocates resources appropriately
- considers alternate methods of delivery to achieve value for money

## Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Key indicators of performance</b>	We reviewed the Council's working capital ratio, levels of borrowing, the gearing between income from locally collected taxes and government grants, sickness absence rates, performance against budgets and level of reserves. Comparison of 2013/14 financial ratios with the previous year show a general improvement e.g. working capital and usable reserves increased during 2013/14. The savings achieved in 2013/14 have enabled the Council to increase the General Fund Balance by £97k to £1.849m at 31 March 2014. Sickness levels have reduced to 6.91 days per year in 2013/14 which is below the Council's target of 7.5 days.	<b>Green</b>	<b>Green</b>
<b>Strategic financial planning</b>	The Council's medium term financial strategy covers the period from 2013/14 to 2017/18 and takes into account the factors we would expect and is updated sufficiently regularly and is response to significant events in the annual financial cycle. The Council does not have a 10 year financial plan but in the current climate we believe this does not adversely affect medium to long term planning. Planned savings are incorporated into the budget and the budget was achieved in 2013/14.	<b>Green</b>	<b>Green</b>
<b>Financial governance</b>	The Council understands its financial environment and there is strong leadership supported by appropriate challenge from members. Financial reporting to members is sound with reporting of financial risks and the out-turn against the budget for 2013/14 being comprehensive.	<b>Green</b>	<b>Green</b>

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Financial control</b>	The Council continues to manage its finances effectively. A saving of £490k was achieved against the 2013/14 revised revenue budget of £14.506m . Budget monitoring and reporting throughout the year was comprehensive and enabled members to understand the ongoing financial position. Spending variances in individual departments were not significant.	Green	Green
<b>Prioritising resources</b>	The Council has a good understanding of the available resources and the priorities for spending.	Green	Green
<b>Improving efficiency &amp; productivity</b>	The Council is increasingly focused on strategic commissioning and considers alternative methods of delivery. Work is currently progressing to transfer the council's Leisure and Culture services to an independent Charitable Trust, with an expected commencement date of 1 <sup>st</sup> October 2014. Performance against Council priorities is monitored through the Council's performance management system.	Green	Green

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission, and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
<b>Understanding impact and outcome of decisions</b>	Reporting of performance against objectives was made to Overview and Scrutiny Committee during 2013/14 and to Cabinet in the Annual Performance Report. Our view is that more regular reporting to Cabinet would strengthen their understanding of performance during the year	Amber

## Section 4: Fees, non audit services and independence

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# Fees, non audit services and independence

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

## Fees

	Per Audit plan £	Actual fees £
Council audit	64,974	65,914
Grant certification	13,300	11,780
<b>Total audit fees</b>	<b>78,274</b>	<b>77,694</b>

- Since our Audit Plan was issued in March 2014 the Audit Commission has revised its scale fee for certification work to £11,780 due to changes in the work required on the Housing Benefits subsidy claim. Also,
- There is additional fee of £940 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for District Council's and is subject to agreement by the Audit Commission.

## Fees for other services

Service	Fees £
Review of overspend on Cheltenham's Museum and Art Gallery.	9,480 (excluding VAT)

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

## Section 5: Communication of audit matters

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# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

<b>Our communication plan</b>	<b>Audit Plan</b>	<b>Audit Findings</b>
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Action plan

**Priority  
Priority**

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Fixed Asset register should be kept up to date	●		

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHELTENHAM BOROUGH COUNCIL

### Opinion on the Authority financial statements

We have audited the financial statements of Cheltenham Borough Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Cheltenham Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Head of Financial Management and auditor

As explained more fully in the Statement of the Responsibilities, the Director: of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director: Strategic Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Cheltenham Borough Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

#### Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Cheltenham Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

**Certificate**

We certify that we have completed the audit of the financial statements of Cheltenham Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Peter Barber  
Associate Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP  
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September 2014



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