

The Audit Findings for Cheltenham Borough Council

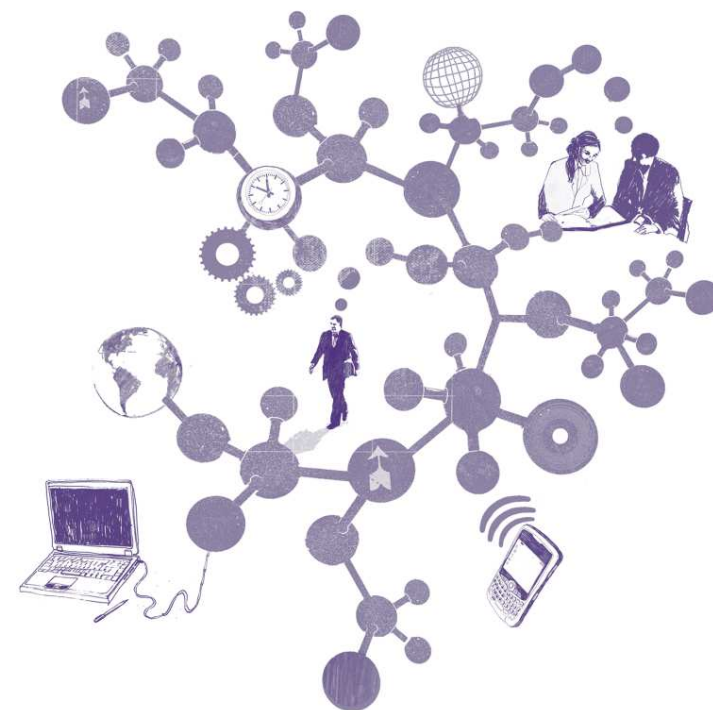
Year ended 31 March 2015

11 September 2015

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11 September 2015

Dear Members of the Audit Committee

Audit Findings for Cheltenham Borough Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Cheltenham Borough Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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 misappropriation 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.

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

Yours sincerely

Peter Barber
Engagement Lead

Chartered Accountants

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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) group and single entity financial statements for the year ended 31 March 2015. 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 UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the group and Council's financial statements present a true and fair view of the financial position and 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 25th March 2015.

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

- Receipt of a letter of assurance from Gloucestershire Pension Fund's auditors
- Receipt of a letter of assurance from UBICO's auditors
- Receipt of a letter of assurance from Cheltenham Borough Home's auditors
- Receipt of bank confirmations from Santander and Bank of Scotland

- Receipt of income transaction testing from the Cotswold District Council auditor, undertaking the work as part of our joined up audit approach with GOSS partners
- Obtaining and reviewing the final management letter of representation
- Review of final version of the Annual Governance Statement; and
- Updating our post balance sheet events review, to the date of signing the opinion; and
- Whole of Government Accounts

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

The draft accounts presented for audit contained no material errors

We received draft financial statements and the majority of the accompanying working papers at the start of our audit, in accordance with the agreed timetable. Working papers were adequate and queries were responded to promptly.

The key messages arising from our audit of the group and Council's financial statements are:

- An overstatement of a PPE asset by £3 million offset by an understatement of another asset by £1.4 million (net impact £1.6 million overstatement).
- A classification error of £2 million between the revaluation reserve and the capital adjustment account at year end.

Neither of these errors has a material impact upon the Balance Sheet.

We have identified no adjustments affecting the group and Council's reported financial position (details are recorded in section 2 of this report). The draft financial statements for the year ended 31 March 2015 recorded total comprehensive income and expenditure of -£10.6 million, no amendments have been proposed to this position as a result of the audit.

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

Further details are set out in section two of this report.

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 three 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

Roles and responsibilities

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.

Findings

We draw your attention in particular to control issues identified in relation to:

- The ability of the Director of Corporate Resources to prepare journals
- The fixed asset register not being updated, leading to manual adjustments and errors

Further details are provided within section two 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 GO Shared Services Head of Finance.

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 GO Shared Services Head of Finance 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
11 September 2015

Section 2: Audit findings

01. Executive summary

02. Audit findings

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05. Communication of audit matters

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 the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 25th March 2015. 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 as previously communicated to you on 25th March 2015.

Audit opinion

Our proposed 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 (UK&I) 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 is one significant risk

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1	<p>Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We rebutted this as a significant risk in our Audit Plan. We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions. 	<p>Our audit work has not identified any issues in relation to revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions • Review of assurances from the Audit Committee and management in relation to fraud and regulations. 	<p>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. However, we noted that Director of Corporate Resources has the ability to raise journals, although in practice no journals have been raised by him in 2014/15.</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
Operating expenses	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • Documented our understanding of the controls operating in the operating expenditure system • Performed walkthrough to confirm that controls are operating as described • Tested payments after the year end for any un-accrued liabilities. • Review and assessment of process for raising accruals at year end and testing of accrued expenditure. 	No issues were identified from our audit work relating to the risk of creditors understated or not recorded in the correct period.
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> • Documented our understanding of the controls operating in the employee remuneration system • Performed walkthrough to confirm that controls are operating as described • Tend analysis on the full year payroll • Reconciliation of payroll system to general ledger and financial statements. 	No issues were identified from our audit work relating to employee remuneration accrual understated.



Group audit scope and risk assessment

ISA (UK&I) 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
Ubico Ltd	Yes	Comprehensive	None	Full scope UK statutory audit performed by Grant Thornton UK LLP	Our audit work has not identified any issues in respect of Ubico Ltd
Cheltenham Borough Homes Ltd	Yes	Comprehensive	None	Full scope UK statutory audit performed by Grant Thornton UK LLP	Our audit work has not identified any issues in respect of Cheltenham Borough Homes
Gloucestershire Airport	No	Analytical	N/A	Desktop review performed by GT UK LLP	Our audit work has not identified any issues in respect of Gloucestershire Airport.

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
Revenue recognition	<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"> Accounting policies are appropriate and compliant with the Code of Practise on Local Authority Accounting 2014/15 (the Code) and accounting standards The revenue recognition policy covers all material revenue streams including non-exchange transactions (Council tax and non-domestic rates) We have undertaken substantive testing of grants and other revenues and are satisfied that the Council has recognised income in accordance with its accounting policies. The disclosure of accounting policies are adequate. 	 Green
Estimates and judgements	<p>PPE Revaluations</p> <ul style="list-style-type: none"> Note 22 of the accounts set out the Authority's revaluation programme where the Council revalues its land and buildings with a 5 year period. This approach is similar to many other authorities and we are satisfied that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2015. 	<p>Compliance with the Code</p> <ul style="list-style-type: none"> In our view this does not meet the Code's requirement in paragraph 4.1.2.35 to value all items within a class of property, plant and equipment simultaneously. This paragraph of the Code, which is based on IAS 16 Property, Plant and Equipment, does permit a class of assets to be revalued on a rolling basis provided that: <ul style="list-style-type: none"> - the revaluation of the class of assets is completed within a '<i>short period</i>' - the revaluations are kept up to date We would normally expect this '<i>short period</i>' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets covers more than one financial year 	 Amber


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
Estimates and judgements	Other estimates and judgements <ul style="list-style-type: none"> • NDR Provisions • Depreciation and asset values • Pension fund valuations and settlement 	<ul style="list-style-type: none"> • The Council has appropriately disclosed its significant judgements and estimates. • The Council has appropriately relied upon the work of experts for pension fund valuations. • Our review of other estimates and judgements did not identify any issues. 	 Green



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 continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	Officers have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed management's assessment and are satisfied with their assessment that the going concern basis is appropriate for the 2014/15 financial statements.	 Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	<p>Accounting policies included within the statement of accounts have been reviewed to ensure:</p> <ul style="list-style-type: none"> • accounting policies cover all material transactions and balances • policies for non-existent or immaterial transactions have been excluded • the Council's accounting policies are followed in practice • all terminology used is in line with the Local Government Code of Practice. <p>From our review a number of immaterial and non-applicable accounting policies have been included within the Statement of Accounts. We recommend that these are reviewed year on year and only applicable and material policies are included.</p> <p>It is deemed to be good practice for accounting policies to be reviewed and approved by members, a recommendation has been raised regarding this.</p> <p>Our review of accounting policies has not highlighted any other issues which we wish to bring to your attention.</p>	 Amber

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other comments

Area	Comments
<p>De-cluttering of the Statement of Accounts</p>	<p>We identified a number of areas within the Statement of Accounts where we believe the Council can de-clutter the content of the accounts. Whilst we recognise that the Council have made positive progress in relation to this since the prior year, there are a number of immaterial notes and areas within the accounts which can be further simplified. We believe this is an area which is important to consider in 2015/16 as it will help to achieve the early closedown deadline in 2017/18. A recommendation has been made in relation to this.</p>

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

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.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Chair of the Audit Committee. We are aware of housing benefit frauds and 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.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none"> A number of minor disclosure changes were proposed and amended in the statement of accounts
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from the PWLB for loans and requested from management permission to send confirmation requests for confirmation for borrowing, bank and investment balances . This permission was granted and the requests were sent.. The following are still outstanding <ul style="list-style-type: none"> - Santander - Bank of Scotland

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 considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 10 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	 Amber	<ul style="list-style-type: none"> The Section 151 officer has the ability to post journals, although has not done so during 2014/15. It is good practice for senior financial reporting staff to not have the ability to post journals as their adjustments would not be subject to authorisation by a more senior officer. 	<ul style="list-style-type: none"> We recommend that the S151 Officer's ability to raise journals should be removed
2.	 Red	<ul style="list-style-type: none"> The Council encountered a number of issues in 2014/15 with their fixed asset module. This led to a number of errors within the PPE disclosures in the statement of accounts due to the fixed asset module not being up to date as at 31 March 2015.. 	<ul style="list-style-type: none"> A recommendation was made in the prior year around ensuring the fixed asset register is kept up to date. Due to a number of issues encountered by the finance team during 2014/15 closedown of the accounts, the asset register was not fully updated to reflect 2014/15 movements in PPE balances. We recommend that a review is undertaken of the effectiveness of the fixed asset module and a decision to be made by the GO Shared Services Head of Finance on how to move forward with this to ensure that the fixed asset register is able to be used effectively in 2015/16.

Assessment

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

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have 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 Other land and buildings overstated by £2.99 million as a result of a the Wilson Art Gallery and Museum revaluation gain being incorrectly calculated due to the assets under construction balance relating to the asset not being included in the calculation. PPE was understated by £1.4 million due to HRA land being incorrectly held at nil value following the demolition of a number of properties. The net impact of these errors is an overstatement of PPE in the Balance Sheet of £1.6 million.	0	Cr Property, Plant and Equipment 1,590 Dr Revaluation Reserve 1,590	0
2 A number of downward revaluations of Property, Plant and Equipment had been taken to the Revaluation Reserve when there were insufficient or no balances for these assets held in the reserve. The losses should have been charged to the Comprehensive Income and Expenditure Account. There is no effect on the Council's General Fund balance as statutory adjustments mean this charge would be reversed to the Capital Adjustment Account through the Movement in Reserves Statement.	Dr Cost of Services 2,005 Cr Surplus on the revaluation of non-current assets 2,005	Cr Revaluation Reserve 2,005 Dr Capital Adjustment Account 2,005	0
Overall impact	£0	£1,590k	£0

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have 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
3 Revaluation gains relating to assets which were disposed of in 2013/14 have not been reversed out of the revaluation reserve and into the capital adjustment account on their disposal. This is a movement between Unusable Reserves which has not impact upon the reported balance Sheet.	0	Cr Revaluation Reserve 4,210 Dr Capital Adjustment Account 4,210	0
Overall impact	£0	£0	£0

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 Disclosure	Various amendments to movements within the property, plant and equipment note 22	Property, plant and equipment – Note 22	<p>Note 22 property, plant and equipment has been updated to show correct movements in 2014/15. These changes have no impact on the carrying value of PPE in the Balance Sheet. The following adjustments were made;</p> <ul style="list-style-type: none"> - Reversal of council dwelling accumulated depreciation of £23,180k due to the properties being revalued as at 31 March 2015. This results in a movement between unusable reserves (decrease revaluation reserve, increase capital adjustment account) - Depreciation charged for other land and buildings was understated by £181k and the revaluation decrease was overstated by £181k due to the incorrect coding of depreciation to revaluation loss. - Revaluation losses incurred at 31 March 2015 for other land and buildings of £2,323k were incorrectly disclosed as impairment losses
2 Disclosure	Various amendments within the financial instruments note	Financial Instruments – Note 29	<p>The Note has been updated for the following;</p> <ul style="list-style-type: none"> - Cash and cash equivalents have been included within the note as a financial asset - The analysis of PWLB loans by maturity has been updated to show the correct figures - Creditor and debtors figures have been updated to remove amounts which are outside the definition of financial instruments due to them being statutory in nature and not arising from contracts.

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
3 Misclassification	2,511	Revaluation losses - CIES	£2,511k of revaluation losses originally disclosed on the face of the Comprehensive income and expenditure statement should have been disclosed within the 'surplus/deficit on revaluation of non-current assets' line and not disclosed separately.
4 Disclosure	-	Leases – Note 26	The lease disclosure within the draft statement of accounts did not disclose the future minimum lease payments as required by the CIPFA Code. The narrative was also updated to reflect the lease arrangements that the Council has in place.
5 Disclosure	1,443	Grants Received in Advance – Revenue – Note 22	The balance of £1,443k was disclosed as relating to Commuted Grounds Maintenance contributions. The balance consists of £1,037k affordable housing contribution, £222k other balances and £184k commuted grounds maintenance.
6 Disclosure	(2,086)	Non-Domestic Rates income and expenditure – Note 14	Income and expenditure were shown as a net figure of (£2,086k). As income and expenditure are individually material, they have been split to show income of (£21,709k) and expenditure of £19,623k.
7 Misclassification	245	Heritage Assets – Note 22.1	£245k of Heritage Assets held via long term loans were identified by the Council as not being owned by them, and were written out of the Balance Sheet with the loss taken to the CIES. This adjustment was shown as a revaluation loss. The write out should have been identified as a restatement amendment within the Heritage Assets note.

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
8 Disclosure	2,511	Termination Benefits – Note 17	The CIPFA Code requires this disclosure to be split between compulsory departures and other departures, which was not done in the draft financial statements.
9 Disclosure	-	External Audit Costs – Note 19	The 2013-14 supplementary fee for Business Rates, as set by the Audit Commission, was incorrectly shown as a 2014-15 cost. The National Fraud Initiative work undertaken by the Audit Commission was also disclosed as being undertaken by the Appointed Auditor.
10 Disclosure	-	-	A small number of other minor disclosure issues were identified within the Statement of Accounts to improve their readability or to ensure that they were compliant with the CIPFA Code.

Section 3: Value for Money

01. Executive summary

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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 undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

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

- The 2014/15 outturn reported an underspend against the original budget
- a robust medium term financial strategy is in place
- finance management is sound with effective reporting of variances from plans.

Further reductions in Local Government funding are likely and the Council's Medium Term Financial Strategy (MTFS) identifies £1.5 million of required savings in the next four years which have yet to be identified. Some of these savings will be dependent on the success of the 2020 Vision Programme which is still subject to Council approval.

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 arrangement in place to challenge value for money and in particular the Council:

- understands its priorities and allocates resources appropriately
- works in partnership with other authorities to achieve efficiencies and value for money
- is exploring innovative ways of delivering high quality services whilst making savings through shared services with other local district councils.

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 2015.

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:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

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

Theme	Summary findings	RAG rating
Key indicators of performance	We reviewed the Council's performance against budgets and the level of reserves. At 31 March 2015, the General Fund balance was £1.6 million and Earmarked General Fund Reserves were £5.311 million. Total useable reserves increased by £1.043 million over the prior year, largely due to increases in the Housing Revenue Account of £1.354 million and the Capital Receipts Reserve of £1.037 million, offsetting reductions in the General Fund and Earmarked General Fund balances of £0.152 million and £1.128 million respectively. We are of the view that the Council continues to be financially viable and stable.	Green
Strategic financial planning	The Council's medium term financial strategy (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 Council has explored alternatives before deciding on the medium term financial strategy. The MTFS requires £3.727 million of savings to be delivered over the next four years to 2018/19. The Council has already identified a number of savings initiatives which close this gap to £1.543 million. The Council has a number of additional savings initiatives including 2020 Vision to close the remaining budget gap. Should these savings not be realised the Council will either have to use general fund balances or cut discretionary services.	Green
Financial governance	The Council understands its financial environment. Financial reporting to members is sound and, in particular, both the explanation of the financial strategy and reporting of the revenue outturn for the year was clear and comprehensive. Revenue monitoring is reported to the Cabinet throughout the year and facilitate a good level of challenge, including reviewing service performance.	Green
Financial control	The Council continues to manage its finances effectively. The revenue budget was £0.253 million underspent in 2014/15, with £0.009 million residual savings made in 2014-15. Budget monitoring and reporting throughout the year was comprehensive and enabled members to understand the on-going financial position.	Green

Theme	Summary findings	RAG rating
Prioritising resources	The Council has a good understanding of the available resources and the priorities for spending. The Council is challenging the way services are delivered and through the 2020 Vision programme is exploring innovative and new ways of delivering services across the Council, building on shared service arrangements already in place with The Forest of Dean, Cotswold and West Oxfordshire District Councils. The Council has consulted with the public about shared service arrangements and alternative means of delivering savings.	Green
Improving efficiency & productivity	The Council is continuing to focus effort on its corporate priorities including making best use of resources. Savings and efficiencies have already established through sharing back office support for Finance and HR functions through the GOSS partnership ,a shared ICT service with the Forest of Dean District Council, a joint waste and environmental services company (UBICO) with Cotswold District Council, Cheltenham Borough Homes and the Cheltenham Trust, established in 2014-15. These arrangements result in improved efficiencies, productivity and savings for the Council.	Green

Areas for development

Our assessment against each of the 6 risk areas concluded that the Council has adequate arrangements in place (green) as set out on pages 24-25. Our work has identified one area requiring further attention. The table sets out this area in more detail which falls within the 'Strategic Financial Planning' risk area.

Residual risk identified	Summary findings	RAG rating
Strategic Financial Planning		
Focus of the MTFS	<p>The Council's MTFS indicates a currently unfunded budget gap of £1.543 million to 2018/19. The Council proposes to close the budget gap through a number of savings initiatives, including its 2020 Vision Programme. A risk remains that should these savings initiatives not come to fruition the Council will have no alternative but to dip into its general fund balance or cut its discretionary services.</p> <p>The Council has limited general fund balances compared to some other Authorities, and is therefore not able to fall back on this option should required savings not be achieved over a prolonged period.</p>	Amber

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Fees, non-audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Council audit	65,974	65,974
Grant certification on behalf of Audit Commission	12,020	TBC
Total CBC audit fees	77,894	77,894

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 Financial Reporting Council'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

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) 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).

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.

Our communication plan	Audit Plan	Audit Findings
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		✓
Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Section 151 Officer's ability to post journals should be removed.	Medium	The Finance System user roles embedded within the system are complicated and it will be difficult to remove this access in isolation from other access rights which are required. However, the system is due to be upgraded in November 2015 and the Section 151 Officer has requested that his access be reviewed in order for this isolated ability to post journals be removed. In the meantime, the Section 151 Officer will not post any journals as can be demonstrated since the new system went 'live' in December 2011.	November 2015 ERP Business Partner
2	A review is undertaken of the effectiveness of the fixed asset module and a decision made by the S151 Officer on how to move forward with this to ensure that the fixed asset register is able to be used effectively in 2015/16	High	The fixed asset module has now been reconciled to the balance sheet for all assets held. A review will be done in 2015/16 to consider the level of integration of the fixed asset module to the General Ledger module within Agresso to ensure their effectiveness and ongoing accuracy.	December 2015 GOSS Business Partner
3	The Council should ensure the 2015/16 statement of accounts are de-cluttered including a review of accounting policies to ensure they are applicable.	Medium	Agreed. A fundamental review will be undertaken between January and March 2016	April 2016 GOSS Business Partner Manager (West)
4	Accounting policies should be reviewed and approved by members.	Low	Agreed.	June 2016 Audit Committee Section 151 Officer

Appendix B: Audit opinion

We anticipate we will provide the Council with a modified audit report

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

We have audited the financial statements of Cheltenham Borough Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the 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 2014/15.

This report is made solely to the members of Cheltenham Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. 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 Section 151 Officer and auditor

As explained more fully in the Statement of the Section 151 Officer's Responsibilities, the Section 151 Officer 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 2014/15, 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 also 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 and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Section 151 Officer; and the overall

presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and the Group's 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 2015 and of its expenditure and income for the year then ended;
give a true and fair view of the financial position of the Group as at 31 March 2015 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 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory forewords 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 are required to 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; or we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or we designate under section 11 of the Audit Commission Act 1998 a 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 in October 2014.

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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, 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 2015. 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 2014, 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 2015.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.



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