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Addendum to Audit Findings Report for Cheltenham Borough Council issued 11 September 2015

17 September 2015

Dear Members of the Audit Committee

Introduction

Our audit findings report was submitted to the Council for distribution to Audit Committee members dated 11 September 2015.

This reported that no material misstatements had been identified during our audit. During the audit the Council had identified one material misstatement in relation to Property, Plant and Equipment, arising from 2013/14 entries and therefore also affecting the opening and closing 2014/15 entries in the draft financial statements, however another error offset this so that the net impact on the Council's Balance Sheet for both years was not material. A brief description of the errors identified are as follows;

- £2.99 million overstatement of Property, Plant and Equipment in the balance sheet at 31 March 2014 relating to the Wilson building. This also affected the 2014/15 opening and closing balance sheet position in the draft financial statements. The error arose when the asset was revalued in 2013/14 when it became operational. The value relating to assets under construction was not taken into account when calculating the revaluation gain due to this value not being included on the asset register.
- £1.43 million understatement of Property, Plant and Equipment in the balance sheet at 31 March 2014 due to a HRA land asset being held at nil value following demolition of a number of properties in advance of the land asset being used for new housing. Again, this impacted the 2014/15 opening and closing position in the draft financial statements.
- The net impact of these errors was an overstatement of Property, Plant and Equipment within the balance sheet at 31 March 2014 and 31 March 2015 of £1.56 million. This was not material as both the Wilson (other land and buildings) and the HRA land (Surplus Assets) fell within the Property, Plant and Equipment line in the balance sheet.

Updated position

Following the issue of our report on 11 September 2015, the Council concluded that a more appropriate categorisation of the HRA land was as an Asset Held for Sale and not a Surplus Asset. An asset is Held for Sale if its carrying amount will be recovered principally through a sale transaction rather than through continued use. An asset is a Surplus Asset if it is not being used to deliver services, but does not meet the criteria of an investment property or an asset held for sale. The important distinction is that a Surplus Asset falls within Property, Plant and Equipment in long term assets within the balance sheet whilst Assets Held for Sale are classified separately in the balance sheet.

The Council proposed that the asset should be classified as Held for Sale as they had signed an agreement with a developer prior to the end of 2013/14 which would mean that it met the classification criteria of an Asset Held for Sale.

This reclassification results in:

- Property, Plant and Equipment in the balance sheet being materially overstated by £2.99 million at 31 March 2014 and 31 March 2015
- Assets held for sale in the balance sheet being understated by £1.43 million at 31 March 2014 and 31 March 2015

As a result, a material prior period adjustment is required in accordance with accounting standards.

In addition to the above, following a comprehensive review of the asset register by the Council, a small number of additional adjustments were identified which resulted in a further £0.16 million of understatements being identified in relation to Property, Plant and Equipment. None of these were individually significant and were also adjusted. This results in Property, Plant and Equipment being overstated by £2.79 million at 31 March 2014 and 31 March 2015 and assets held for sale being understated by £1.43 million at 31 March 2014 and 31 March 2015. The Council's net assets at both 31 March 2014 and 31 March 2015 were therefore overstated by £1.4 million.

Adjustments to the revised 2014/15 statements

The Council has made the prior period adjustment in its financial statements relating to the 2013/14 errors, and has disclosed the impact of this within Note 44. In accordance with accounting standards, a third Balance Sheet is also included in the financial statements. The 2014/15 entries have also been adjusted from those in the draft financial statements as required.

Our view

After review of the treatment and the adjustments we are satisfied with the approach taken by the Council.

Peter Barber

Engagement Lead

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