

The Audit Findings for Cheltenham Borough Council

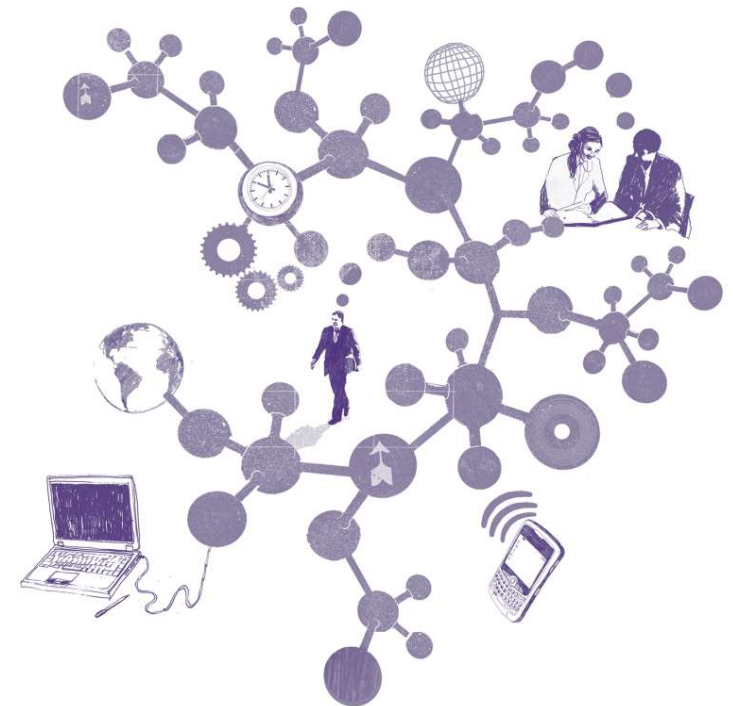
Year ended 31 March 2017

8 September 2017

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8 September 2017

Dear Members of the Audit Committee

Audit Findings for Cheltenham Borough Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Cheltenham Borough Council, the Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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 and giving a value for money conclusion. 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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Purpose of this report

This report highlights the key issues affecting the results of Cheltenham Borough Council ('the Council') and the preparation of the Group and Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2017.

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

- Review of the final version of the financial statements,
- Responses to a number of outstanding queries and completion of final review of these,
- Obtaining and reviewing the management letter of representation; and
- Updating our post balance sheet events review, to the date of signing the opinion; and
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have not identified adjustments affecting the Group's reported financial position. The draft financial statements and the final statements for the year ended 31 March 2017 recorded total comprehensive income of £37.479 million. The draft financial statements for the year ended 31 March 2017 were free from material error. We have recommended a number of adjustments to improve the presentation of the financial statements.

Timing and quality of the draft statements and supporting working papers

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

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

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:

- Minor IT control weaknesses which we wish to highlight for your attention.
- We reported in our Audit Plan that we had identified that journal entries posted by the Deputy Section 151 Officer were not regularly reviewed. We recommend that all journal entries posted by the Deputy Section 151 Officer be reviewed on a one-up basis by the Section 151 Officer. We confirm that this recommendation has now been implemented.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

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

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to Audit Committee which is due in December 2017.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Section 151 Officer.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Section 151 Officer and the finance team.

Acknowledgement

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
8 September 2017

Section 2: Audit findings

01. Executive summary

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,646,000 (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £82,300. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Audit fees	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Cheltenham Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Cheltenham Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Cheltenham Borough Council.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries in months 1-12 and year end adjustments • Review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any issues in respect of pension fund net liability.</p>
<p>Valuation of property, plant and equipment and investment property</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Review of management's processes and assumptions for the calculation of the estimate. Review of the competence, expertise and objectivity of any management experts used. Review of the instructions issued to valuation experts and the scope of their work Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>Our audit work has not identified any issues in respect of property, plant and equipment and investment property valuation.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The expenditure cycle includes fraudulent transactions</p> <p>Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets.</p>	<p>As set out in the Audit Plan, we do not consider this to be a significant risk for the audit as our experience shows that expenditure is well controlled and monitored.</p>	<p>Our audit work has not identified any issues in respect of expenditure.</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	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> • Creditors and accruals understated or not recorded in the correct period 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Documented our understanding of processes and key controls over the transaction cycle • Undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • Year end testing of creditor balances and accruals 	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> • Employee remuneration accruals understated 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Documented our understanding of processes and key controls over the transaction cycle • Undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • Trend analysis • Review of the reconciliation of employee remuneration system to the general ledger 	Our audit work has not identified any significant issues in relation to the risk identified.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

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

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that the going concern assumption is appropriate for the 2016/17 financial statements.

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
Gloucestershire Airport	Yes*	Targeted	<ul style="list-style-type: none">• Risk of management override• Pension liability valuation• Completeness of operating expenditure• Completeness of employee remuneration expenditure	Group instructions were issued to the component auditor. We have reviewed the findings of the component auditor and no issues have arisen.	Our audit work has not identified any issues in respect of Gloucestershire Airport.
Cheltenham Borough Homes	Yes	Targeted	<ul style="list-style-type: none">• Risk of management override• Pension liability valuation• Completeness of operating expenditure• Completeness of employee remuneration expenditure	Group instructions were issued to the component auditor. We have reviewed the findings of the component auditor and no issues have arisen.	Our audit work has not identified any issues in respect of Cheltenham Borough Homes.

* In the Audit Plan Gloucestershire Airport was not identified as a significant component. In 2016/17 Gloucestershire Airport commenced reporting under the FRS102 financial reporting framework. This change resulted in a significant increase in the value of the Airport's assets which lead to the Airport now being treated as a significant component of the Group.

Accounting policies, estimates and 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 the 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 conditions of their receipt are met.</p>	The revenue recognition policy and disclosure have been reviewed and are in accordance with the requirements set out in the CIPFA Code of Practice.	
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> – Useful life of PPE – Revaluations – Accruals – Valuation of pension fund net liability – Provision for NNDR appeals 	Key judgements relating to useful life of PPE, revaluation, accruals, valuation of pension fund net liability, and NNDR appeals provision are deemed appropriate, and appropriate disclosure of key judgements have been made in the statement of accounts.	

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Section 151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	●
Other accounting policies	We have reviewed the Council's accounting policies against the Code and accounting standards.	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	●

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● 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, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests for bank and investment balances. This permissions was granted and the requests were sent. We are awaiting one outstanding confirmation (£4m).
6.	Disclosures	<ul style="list-style-type: none"> A number of disclosure issues were identified during the course of the audit. These are discussed later in the report.
7.	Matters on which we report by exception	<p>We have not identified any issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>The Council does not exceed the specified group reporting threshold and therefore a detailed review of the WGA is not required to be completed.</p>

Internal controls

	Assessment	Issue and risk	Recommendations
1.	 Deficiency	<ul style="list-style-type: none"> We reported in our Audit Plan that we had identified that journal entries posted by the Deputy Section 151 Officer were not regularly reviewed. 	<ul style="list-style-type: none"> We recommend that all journal entries posted by the Deputy Section 151 Officer be reviewed on a one-up basis by the Section 151 Officer. This recommendation has now been implemented.

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.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	In Progress	<p>We reported a number of IT control weaknesses in our 2015/16 Audit Findings Report and made the following recommendations:</p> <p>Management should</p> <ul style="list-style-type: none"> • Review all user access based on segregation of duties principles. • Restrict administration duties to the independent system administration team and ICT. • Remove elevated access from those that have responsibility for functional and operational management of financial services, HR and Payroll. • Restore service processes to system accounts only • Implement a risk based security log review process with independent review. • Ensure an effective change management procedure is implemented to review system changes processed. 	<ul style="list-style-type: none"> • A review of the Agresso Business World (ABW) system is currently being undertaken as part of the move towards GO Shared Services forming part of Publica and becoming operational in 2017. • Officers have confirmed that our recommendations from 2015/16 have been used to inform the project plan for developing the ABW system. The build of the new Publica client in ABW is nearing completion in preparation for the new company becoming operational. • Once the Publica client has been successfully tested, the experience will be used to make the necessary changes within the Council's ABW client to address the recommendations raised in 2015/16.

Unadjusted misstatements

We have not identified any adjustments identified during the audit which have not been made within the final set of financial statements.

Adjusted misstatements

We have not identified any adjustments to the draft accounts during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassifications and 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	2	Note 16 – External Audit Costs	The draft accounts did not disclose £2,291 of non audit fees incurred. The fees are for CFO Insights and VAT Helpline.
2 Disclosure	313	Note 12 – Officers' Remuneration	The draft accounts omitted the 2015/16 remuneration details for the Chief Executive/Head of Paid Service. Explanation should be added to clarify the change in role between 2015/16 and 2016/17.
3 Disclosure	(3,621)	Note 18 – Property, plant and equipment	The draft accounts incorrectly stated the 2015/16 'Derecognition – other' as Nil.
4 Disclosure	(944)	Note 26 – Financial Instruments	The draft accounts incorrectly stated the fair value of Long term debtors – loans and receivables as £10,971k. This should be stated as £10,027k.
5 Disclosure	-	Various	There were a number of other minor presentational adjustments made to improve the quality of disclosures in the accounts.

Section 3: Value for Money

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Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

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

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2017 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main consideration was:

- The Council's medium term strategy (see findings on page 26)

In addition we reviewed the financial outturn position for 2016/17 to inform our VFM conclusion.

Financial Outturn 2016/17

The Council have been required to deliver substantial savings since 2010/11, and forecast continued significant savings requirements going forward.

The Council manages its finances well and has a good track record of achieving its financial plans including a small underspend in 2016/17.

The current MTFS includes a balanced position for 2017/18, but includes a number of unidentified savings over the period to 2019/20.

It was identified that there is a cumulative shortfall in the savings plans of £436k to 2019/20.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 26-27.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix B.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

- At as December 2016 there was a cumulative shortfall in the savings plans of £436k, mostly in 2018-19. The shortfall mostly arose as a result of the New Homes Bonus settlement in December 2016 which was £381k less than forecast. The gap had only recently opened, and the Council have since identified a number of savings strategies to close this gap. The Council currently has a balanced budget to 2019-20, however the achievement of the balanced budget is dependent on a number of red-rated savings in 2019-20. We recommend that management continue to monitor high risk savings within the balanced budget.
- In order to set a balanced budget for 2017/18, the Council plans to use of £882k of its Budget Strategy (Support) reserve. This reserve was created in October 2015 specifically for future challenges around budget setting. We recommend that management continue to monitor the use of reserves when budget setting to ensure that into the medium term dependency on reserves is reduced.

Management's response to these can be found in the Action Plan at Appendix A.

Key findings

We set below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

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

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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

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

Fees

	Proposed fee £	Final fee £
Council audit	49,406	49,406
Grant certification	9,015	TBC
Total audit fees (excluding VAT)	58,421	TBC

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

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all other services which were identified.

Fees for other services

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

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

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place. Please note the figures disclosed below have been updated from the figures reported in our Audit Plan.

	Service provided to	Fees	Threat?	Safeguard
Audit related services				
Certification (Pooled Receipts)	Cheltenham Borough Council	TBC	No	Assurance Report on the quarterly Pooling of Housing Capital Receipts, specified by the DCLG. The fee will not be material to the audit. The scope of the work does not include making decisions on behalf of management.
Non-audit services				
CFO Insights subscription	Go Shared Services (Cheltenham Borough Council)	£1,875*#	No	We have provided subscription services only; any decisions are made independently by the Council. The work is undertaken by a team independent to the audit team.
VAT and Employment Tax Support	Go Shared Services (Cheltenham Borough Council)	£417*	No	We have provided advisory services only; any decisions are made independently by the Council. The work is undertaken by a team independent to the audit team.
Investors in People Accreditation	Cheltenham Borough Council	£4,279	No	The audit team will not be involved in the IIP Accreditation process. The work is undertaken by a team independent to Grant Thornton and the audit team. The fee is not material to the audit. The scope of the work does not include making decisions on behalf of management but is providing an assessment against a third party national accreditation framework.
	TOTAL	£6,571		

- * The services listed above are provided to the Go Shared Services partners. The amount disclosed above is the element which relates to Cheltenham Borough Council.
- # Go Shared Services subscribed to this service from 1 October 2016. This is the cost of the service for the six months October 2016 to March 2017
- The VAT and Employment Tax Support service disclosed above related to the period 1 April 2016 to 31 March 2017. Ethical standards applicable from the 1 April 2017 mean that this is now a blacklisted service and will be discontinued in future periods. The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

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 to those charged with governance

ISA (UK&I) 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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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 Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

- A. Action Plan
- B. Audit Opinion

A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	The Council should implement the recommendations arising from our 2015/16 IT review as set out on page 20.	Medium	The Auditors recommendations have been used to inform the project plan for developing the Business World system. The build of the new "Publica" client in Business World is nearing completion in preparation for the new company becoming operational. Once the Publica client has been successfully tested, the experience will be used to make the necessary changes within the Council's Business World client to address the auditor's recommendations.	On-going Business World system
2	At as December 2016 there was a cumulative shortfall in the savings plans of £436k, mostly in 2018-19. The shortfall mostly arose as a result of the New Homes Bonus settlement in December 2016 which was £381k less than forecast. The gap had only recently opened, and the Council have since identified a number of savings strategies to close this gap. The Council currently has a balanced budget to 2019-20, however the achievement of the balanced budget is dependent on a number of red-rated savings in 2019-20. We recommend that management continue to monitor high risk savings within the balanced budget.	Medium	Management continue to monitor all savings targets at least monthly. A member of the Executive Management Team and a member of the Cabinet have been nominated as leads for each work-stream. Updates are provided to both the Senior Leadership Team and the Cabinet via a monthly highlight report which is populated by the Executive Management Team on a monthly basis.	On-going Executive Board
3	In order to set a balanced budget for 2017/18, the Council plans to use of £882k of its Budget Strategy (Support) reserve. This reserve was created in October 2015 specifically for future challenges around budget setting. We recommend that management continue to monitor the use of reserves when budget setting to ensure that into the medium term dependency on reserves is reduced.	Medium	Under Section 25 of the 2003 Local Government Act, there is a legal requirement for the Section 151 Officer to make a report to the authority when it is considering its budget, covering the robustness of estimates and adequacy of reserves. The Act requires councillors to have regard to the report in making decisions at the Council's budget and council tax setting meeting. The Section 151 Officer will continue to monitor the use and adequacy of reserves and as a minimum will report to Full Council through the budget setting process and as part of the financial out-turn report.	On-going Chief Finance Officer

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

A. Action plan (continued)

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
4	We reported in our Audit Plan that we had identified that journal entries posted by the Deputy Section 151 Officer were not regularly reviewed.	Medium	This recommendation has now been implemented.	June 2017 Chief Finance Officer

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

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

We have audited the financial statements of Cheltenham Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Movement in Reserves Statement, the Group Movement in Reserves Statement, 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 Statement 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's 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 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 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 Narrative Report and the Annual Governance Statement 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 present a true and fair view of the financial position of the Authority and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report on the above matters.

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

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 the Authority's arrangements for securing economy, efficiency and effectiveness in its 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 issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that 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 2017.

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 has put in place proper arrangements for securing 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 issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

Signature to be added

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

Hartwell House
55-61 Victoria Street
Bristol
BS1 6FT

[Date]



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