



# The Annual Audit Letter for Cheltenham Borough Council

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**Year ended 31 March 2019**

**August 2019**



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Cheltenham Borough Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 25 July 2019.

## Our work

## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £1.59 million for the Group, (£1.56m for the Council), which are 2% of the Council's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 30 July 2019.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Council's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 25 July 2019.
<b>Certification of Grants</b>	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by November 2019. We will report the results of this work to the Audit Committee separately.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of Cheltenham Borough Council in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

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# Executive Summary

## **Working with the Council**

- An efficient audit – we delivered an efficient audit with you in July, delivering the financial statements before the deadline, releasing your finance team for other work
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Financial statements workshop - we invited members of your finance team to our workshop on current developments that impacted the 2018-19 financial statements

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
August 2019

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# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £1.59 million for the Group and £1.56m for the Council, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower level of specific materiality for senior officer remuneration of £20k due to its sensitive nature.

We set a lower figure of £0.80 million for the Group (£0.78 million for the Council), above which we reported errors to the Audit Committee in our Audit Findings Report.

### The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p>The Council revalues its land and buildings on a rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• considered the competence, expertise and objectivity of any management experts used</li> <li>• discussed with the valuer the basis on which the valuation is carried out and challenge of the key assumptions</li> <li>• reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>• tested revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>	<p>Our audit work has identified the following issues in respect of valuation of property, plant and equipment:</p> <ul style="list-style-type: none"> <li>• We note that on revaluation of property, plant and equipment, the carrying amount of that asset is adjusted to the revalued amount and subsequently, any accumulated depreciation and impairment at the date of valuation should be eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. We identified that accumulated depreciation had not been eliminated against the gross carrying amount of the asset for Council Dwellings. Management amended this in the final version of the financial statements.</li> <li>• Our audit work did not identify any other issues in respect of valuation of property, plant and equipment.</li> </ul>

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of investment properties</b> The Council revalues its investment properties on an annual basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of investment property revaluations as a risk requiring special audit consideration.</p>	<p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"><li>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work</li><li>• evaluated the competence, capabilities and objectivity of the valuation expert</li><li>• communicated with the valuer to confirm the basis on which the valuations were carried out</li><li>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li><li>• tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register</li><li>• evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to fair value.</li></ul>	<p>Our audit work has not identified any issues in respect of valuation of investment properties.</p>

# Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of net pension liability</b></p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>identified the controls put in place by management to ensure that the pension fund liability is not materially misstated and assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement</li> <li>evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. And gained an understanding of the basis on which the valuation is carried out</li> <li>undertook procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>Our audit work did not identify any issues in respect of the Pension Fund net liability.</p> <p>The Council requested an estimate from its actuary of the potential impact of the 'McCloud' ruling and GMP equalisation changes. The actuary's estimate was of a possible increase in pension liabilities of £442,000. We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p>
<p><b>Management override of internal control</b></p> <p>We identified management override of controls as a risk requiring special audit consideration</p>	<p>We:</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals</li> <li>analysed the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence</li> <li>evaluated the rationale for any changes in accounting policies, estimates and significant unusual transactions.</li> </ul>	<p>Our work has not any identified any significant issues in respect of management override of controls to bring to your attention.</p> <p>As previously reported to the committee in the prior year, journals posted by finance users do not require authorisation prior to being posted into the system. Our detailed testing of journals did not identify any issues to bring to your attention.</p>



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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 30 July 2019.

## **Preparation of the financial statements**

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the Council's Audit Committee on 30 July 2019.

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

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Whole of Government Accounts (WGA)**

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

## **Other statutory powers**

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

## **Certificate of closure of the audit**

We certified that we have completed the audit of the financial statements of Cheltenham Borough Council in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in July 2019, we agreed recommendations to address our findings.

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

## Key findings

We set out 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	Findings
<p><b>Medium Term Financial Plan</b></p> <p>In our audit plan dated January 2019, we highlighted the following risk.</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 indicates that the Council proposes to fund a gap of £2.019m with £1.6m of savings plans and additional income, with the residual gap to be funded from the Budget Strategy (Support) Reserve during 19/20, and also includes a number of unidentified savings over the period to 2022/23.</p>	<ul style="list-style-type: none"> <li>• Our detailed review of the assumptions underpinning the MTFS concludes that they are satisfactory and reasonable.</li> <li>• The Council has a strong track record of delivering balanced budgets and identifying required savings. Savings for 2018/19 have been achieved and the Council has delivered an underspend of £40k during the year, although as part of this, use of the Budget Strategy (Support) Reserve totalling £913k was required. There were no material variances to budget and the forecast underspend for the year as at Q3 is similar to actual - £43k forecast vs £40k actual.</li> <li>• Savings are monitored by Finance on a monthly basis. Savings are built into base budgets, and are therefore monitored through the variances reported in quarterly revenue budget monitoring. Any new capital scheme or projects with a financial implication have to be subject to a business case. Financial services will be involved in this process and have to sign off the financial business case, including the impact on the MTFS. Cabinet Members are involved on the project board, which is set up for all major schemes and are fully briefed and included in the project process, prior to a committee report being submitted for approval. This process is well established and has not significantly changed for a number of years.</li> <li>• The savings for 2019/20 have been identified and can be attributed to specific plans, such as the car parking strategy. The savings plans of £1.934m include £256k reliance on reserves.</li> <li>• The Budget Strategy (Support) Reserve is part of the Council's medium term strategy and was set up in 2015 specifically for the purpose of supporting the budget. The use of this reserve has been appropriately considered by the Section 151 Officer and approved by Cabinet and Council. We have considered the use of reserves in 2018/19 to deliver financial balance. The Council plan to use £256k of the Budget Strategy (Support) Reserve in 2019/20. The level of reserves is sufficient to support the budget for 2019/20 but beyond this it will have to be replenished.</li> <li>• We therefore note this as a recommendation within the AFR as the reserve will require replenishment by 2020/21 under current plans. 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.</li> </ul> <p><b>We concluded that the risk was sufficiently mitigated and the Council has proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities.</b></p>

## Key findings

We set out 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	Findings
<p data-bbox="64 321 518 349"><b>Publica Group (Support) Ltd</b></p> <p data-bbox="64 364 518 435">In our audit plan dated January 2019, we highlighted the following risk.</p> <p data-bbox="64 449 518 606">The Council transferred a number of services to Publica from 1 November 2017. Publica provides ICT, HR and finance services for Cheltenham Borough Council.</p>	<p data-bbox="518 321 1951 349"><b>Background</b></p> <ul data-bbox="518 364 1951 635" style="list-style-type: none"> <li data-bbox="518 364 1951 464">• The company, Publica Group was registered in the latter part of 2016/17. Executive and Non-Executive Directors were appointed to the Board in March 2017, and the first monthly Publica Board meeting took place in April 2017. The majority of staff transferred to the Company on the 1st November 2017.</li> <li data-bbox="518 478 1951 564">• For three of the member councils, not including Cheltenham Borough Council, Publica directly manages public services. Publica provides reduced-scope services to Cheltenham Borough Council which include ICT, HR and finance functions.</li> <li data-bbox="518 578 1951 635">• The Council hold 25% of the voting rights of Publica, and service delivery is managed within the company in accordance with the service contracts agreed by the Council.</li> </ul> <p data-bbox="518 649 1951 706"><b>Contract monitoring processes in place to ensure performance and quality standards are delivered in line with the original Business Plan:</b></p> <ul data-bbox="518 721 1951 1235" style="list-style-type: none"> <li data-bbox="518 721 1951 892">• The company provides a mechanism to bring employees from across the partner Councils under a single employment arrangement. The company is independent of individual councils but accountable equally to all partners. As part of the establishment of Publica a number of items were identified as reserved matters for council approval to ensure that member councils retained an element of control over their company. The reserved matters were approved in October 2016 as part of the governance principles underpinning the establishment of Publica.</li> <li data-bbox="518 906 1951 1021">• Frequent informal and formal reporting is provided by Publica to enable the Councils to monitor performance and quality standards (including, for example, standards around data protection). This also includes informal, regular meetings and correspondence with the s151 Officer at the Council; providing an additional platform for issues to be discussed.</li> <li data-bbox="518 1035 1951 1120">• Cabinet and the Overview and Scrutiny Committee continue to receive quarterly performance and finance reports which provide members with an understanding of the performance and quality of services delivered. Any underperformance issues would be addressed and challenged at these key meetings.</li> <li data-bbox="518 1135 1951 1235">• Reports provided by Publica also provide a review of outturn against budget which include savings to be achieved through Publica. Explanations are provided for significant under and over spends. The Council has also included a risk around Publica service delivery within their corporate risk register which is reported to Cabinet.</li> </ul> <p data-bbox="518 1249 1951 1303"><b>We concluded that the Council has appropriate arrangements in place to monitor Publica's performance against quality standards in line with the original Business Plan.</b></p>

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**Significant risk****Findings**

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**Publica Group (Support) Ltd (cont.)****The arrangements in place at the Council to ensure Publica is delivering required financial savings while maintaining agreed service standards:**

- Publica's business plan includes a number of objectives, ambitions and key tasks against which their performance (and in particular, delivery of financial targets) can be measured and highlights the importance of providing robust data and performance metrics to the Councils' so that they can track their performance. The 2019/20 Business Plan was presented to Cabinet in May 2019.
- Cabinet and the Overview and Scrutiny Committee continue to receive quarterly performance and finance reports which provide members with an understanding of the performance and quality of services delivered. Reports also provide a review of outturn against budget which include savings to be achieved through Publica.
- The Q3 performance report identified that over 90% of KPIs are on or exceed target. We also note that the contract size for Cheltenham is significantly lower for Cheltenham than any of the other partners, being £1.339m for Cheltenham in 2019/20. The Plan notes that Publica delivered £0.48m of savings across the 2018/19 financial year for all four Councils in total and have a target of £0.93m for 2019/20. In addition to these business case savings, there are additional savings of £1.25m (again across all partners) for 2018/19. Publica are aiming to deliver a further £1.536m of savings across all four Councils for 2019/20.
- However for Cheltenham, the planned 2019/20 savings are negligible with a saving of £0.39m planned for 2019/20.
- Overall, this demonstrates the process by which the Council hold Publica to account through the Overview and Scrutiny Committee (which is responsible for monitoring performance, quality and improvement). Weekly meetings are held between officers of the Council and Publica, and briefings are provided to members on a regular basis.

**We concluded that the Council has appropriate arrangements in place to ensure Publica is delivering required financial savings while maintaining agreed service standards.**

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**Significant risk****Publica Group (Support) Ltd (cont.)****Findings****The Council's Governance arrangements to provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified:**

- We have considered the Governance arrangements of the Council over Publica, to provide appropriate oversight as one of the partnership organisations. In October 2016, the Council agreed the detailed governance principles applicable to Publica. These principles were incorporated within the Company's Articles and Association and the Members' Agreement, providing Councillors with rights to monitor the operational performance of the company.
- The 2019/20 Publica Business Plan was presented by the Publica Managing Director to Cabinet for consideration by members. This plan is based upon the principles and targets set out in business case which was approved by Council in 2016.
- Internally, the Council hold to account the managing director of Publica, and monitor the partnership through the Overview and Scrutiny Committee – this Committee is responsible for monitoring performance, quality and improvement. Weekly meetings are held between officers of the Council and Publica and briefings are provided to members.
- A Member Group comprised of the Chairmen of the Overview and Scrutiny Committees, representatives of the Cabinet and the Leaders of the Political Groups had been established to review the work of Publica, agreed as part of the year end performance meeting in May 2018. This Group represents a member platform for queries and discussions around Publica's performance and operations.
- In 2017/18 we raised a recommendation that arrangements for Council members to formally liaise and communicate with Publica should be agreed following the year anniversary of the operation of Publica. We understand that the first meeting has taken place in June 2019.
- The Council's Peer Review noted one recommendation around the governance of Publica. The report states: "...the council needs to be clear on what it expects Publica to provide. The history before and after 2016 means that there has been understandable uncertainty. Members and staff need clarity on respective client and contractor roles and responsibilities. Developing this clarity will enhance the relationship with increased certainty on respective expectations and will enable the model to begin to realise its potential to deliver community benefits and further efficiencies."

**We concluded that the Council has appropriate arrangements in place to provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified.**

**We recommend that the Council continue to develop clarity on respective roles and responsibilities and continue to strengthen the communication process with Publica Group (Support) Ltd officers.**

# A. Reports issued and fees

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

## Reports issued

Report	Date issued
Audit Plan	January 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

Audit fee	Actual 2017/18 fee £	Planned 2018/19 fee £	Final 2018/19 fee £
<b>Council Audit</b>	49,406	38,043	38,043
<b>Additional Audit Fee *</b>	-		4,500
<b>Total audit fees (excl VAT)</b>	<b>49,406</b>	<b>38,043</b>	<b>42,543</b>

\* Additional audit fees are subject to confirmation by PSAA.

## Fees for other services

	Fees £
<b>Audit related services:</b>	
• Certification of PHCR	£2,100
• Certification of Housing Benefit	£19,906
<b>Non-audit services:</b>	£3,750
• <b>CFO Insights</b>	
<b>Total fees for other services</b>	<b>£25,756</b>

## Non-audit services

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

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor

# A. Reports issued and fees

## Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £38,043 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed significantly, which has led to additional work. These are set out in the following table and were discussed at the Audit Committee on 25 July 2019.

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling	June - July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statement along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	1,500
Pensions – IAS 19	June - July 2019	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	1,500
PPE Valuation – work of experts	June - July 2019	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,500

Fee variations are subject to PSAA approval.





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