

# The Audit Findings for Cheltenham Borough Council

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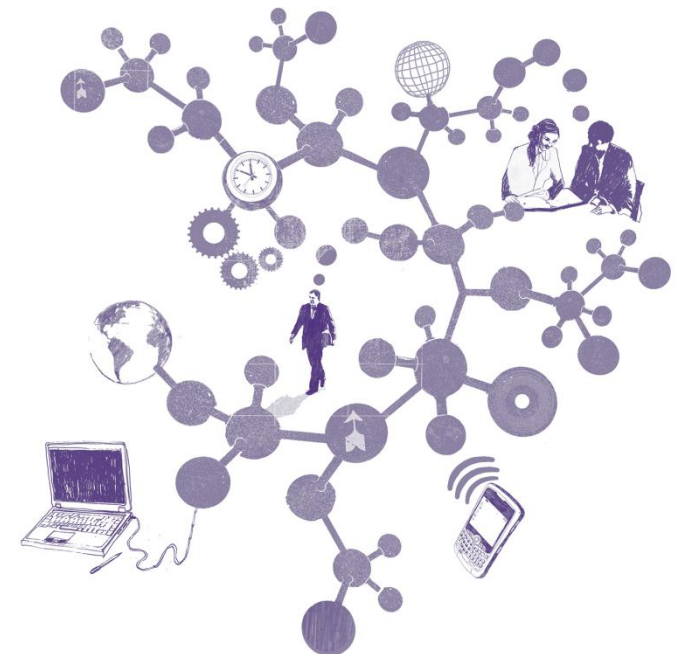
**Year ended 31 March 2013**

**16 September 2013**

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

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Section 1: Executive summary

**01. Executive summary**

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# Executive summary

## **Purpose of this report**

This report highlights the key matters arising from our audit of Cheltenham Borough Council's (the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

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

## **Introduction**

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan on 22 April 2013.

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

- finalising our work in the following areas:
- employee remuneration, group accounts, accounts disclosures and WGA
- obtaining and reviewing the final management letter of representation
- review of the final version of the financial statements
- confirming the final status of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements on 2 July 2013 and accompanying working papers on 5 July which was marginally later than the agreed timetable. We were able to re-arrange our on site visit to commence on Monday 8 July 2013.

## **Key issues arising from our audit**

### **Financial statements opinion**

We have identified no material errors in the accounts. We did however, identify 2 non material errors. The Council has amended the accounts to reduce the value of debtors and creditors as a result of incorrect grossing up but has decided not to adjust the accounts to include Civic Regalia within heritage assets this year, but will include them in future accounts. In addition, a small number of adjustments and changes have been made to enhance disclosures in the accounts.

We anticipate providing an unqualified opinion on the financial statements.

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

- the accounts contained only a small number of non trivial errors
- the Council's accounts were, for the first time, prepared by Go Shared Services (GOSS) under the new shared service arrangement. It was also the first year of our audit appointment. As expected some teething problems were encountered which made the audit process difficult to complete within our planned deadlines. However, we will work with the Council and GOSS to help make the process smoother in future. These problems had no impact on the cost of our audit to the Council.

Further details are set out in section 2 of this report.

### **Value for money conclusion**

We intend to give an unqualified VFM conclusion stating that, in all significant respects Cheltenham Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources

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

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

Work is underway and will be completed before the 4<sup>th</sup> October 2013 in accordance with the national timetable.

### **Controls**

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

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

Whilst our work has not identified any control weaknesses within the Council's financial systems that we wish to highlight for your attention, our preliminary work assessing the Council's IT controls did identify some weaknesses regarding access controls.

Full details are provided within section 2 of this report.

### **The way forward**

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

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

### **Acknowledgment**

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

**Grant Thornton UK LLP**  
**September 2013**

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 20 March 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 22 April 2013.

## **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.



# Audit findings against significant risks

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

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

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

# Audit findings against other risks

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

| Transaction cycle            | Description of risk   | Work completed  | Assurance gained & issues arising   |
|------------------------------|---|---|---|
| <b>Operating expenses</b>    | Creditors understated or not recorded in the correct period                         | <ul style="list-style-type: none"> <li>• Documentation of accounting system processes</li> <li>• Identification and walkthrough of, activities-level controls</li> <li>• Detailed substantive testing of the cost of services gross expenditure</li> <li>• Consideration of existence of unrecorded liabilities</li> <li>• Consideration of disclosures made through supporting notes to the accounts</li> </ul>  | Our audit work has not identified any significant issues in relation to the risk identified |
| <b>Employee remuneration</b> | Remuneration expenses not correct<br><br>Employee remuneration accruals understated | <ul style="list-style-type: none"> <li>• Documentation of accounting system processes</li> <li>• Identification and walkthrough of, activities-level controls</li> <li>• Attribute testing of employee remuneration expenses and agreement to source documentation</li> <li>• Detailed substantive testing of employee remuneration expenses</li> <li>• Consideration of the work of the actuary</li> <li>• Consideration of disclosures made through supporting notes to the accounts</li> </ul> | Our audit work has not identified any significant issues in relation to the risk identified |

# Audit findings against other risks

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

| Transaction cycle                      | Description of risk  | Work completed  | Assurance gained & issues arising   |
|--|--|---|---|
| <b>Welfare expenditure</b>             | Welfare benefits improperly computed                                     | <ul style="list-style-type: none"> <li>• Documentation of accounting system processes</li> <li>• Identification and walkthrough of, activities-level controls</li> <li>• Review of Northgate system parameters</li> <li>• Detailed substantive testing of the cost of services gross expenditure</li> <li>• Consideration of the existence of unrecorded liabilities</li> <li>• Consideration of disclosures made through supporting notes to the accounts</li> </ul> | Our audit work has not identified any significant issues in relation to the risk identified   |
| <b>Property, Plant &amp; Equipment</b> | <p>Revaluation measurement not correct</p> <p>PPE activity not valid</p> | <ul style="list-style-type: none"> <li>• Review of the work of the Council's expert property valuer</li> <li>• Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to determine if those controls are designed effectively</li> <li>• Substantive testing of samples of additions and disposals</li> </ul>   | <p>Our audit work has not identified any significant issues in relation to the risks identified</p> <p>However, we note that</p> <ul style="list-style-type: none"> <li>• there is no regular reconciliation between the Orchard Rents system and the Council's property terrier. We are satisfied that this does not create a significant uncertainty or risk of significant error.</li> <li>• although the net book value of assets shown in note 21 is correct the Gross Book Value of some categories of asset do not agree to the fixed asset register. The non trivial differences are Vehicles. Plant and Equipment £1,791k, Surplus Assets £320k and Intangible Assets £272k</li> <li>• We identified a trivial misclassification in relation to statues which suggests that the Council does not include all statues as heritage assets. We are satisfied the impact of not including statues would not result in a material misstatement .</li> </ul> |



# Audit findings against other risks

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

| Transaction cycle                   | Description of risk                | Work completed   | Assurance gained & issues arising   |
|-------------------------------------|------------------------------------|--|---|
| <b>Housing Rent Revenue Account</b> | Revenue transactions not recorded. | <ul style="list-style-type: none"> <li>• Documentation of accounting system processes &amp; walkthrough of controls</li> <li>• Identification and walkthrough of controls.</li> <li>• Substantive testing of HRA income</li> </ul> | Our audit work has not identified any significant issues in relation to the risk identified |

# Accounting policies, estimates & judgements

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

| Accounting area                 | Summary of policy   | Comments  | Assessment  |
|---------------------------------|---|---|---|
| <b>Revenue recognition</b>      | <ul style="list-style-type: none"> <li>• 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.</li> <li>• Government Grants are recognised when there is reasonable assurance that the Council will comply with any conditions attached to the payments</li> </ul> | <ul style="list-style-type: none"> <li>• The Council's policy is entirely appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice</li> <li>• Minimal judgement is involved</li> <li>• Accounting policy is properly disclosed</li> </ul>   |  |
| <b>Judgements and estimates</b> | <ul style="list-style-type: none"> <li>• Key estimates and judgements included:                             <ul style="list-style-type: none"> <li>– useful life of capital equipment</li> <li>– pension fund valuations and settlements</li> <li>– revaluations</li> <li>– impairments</li> <li>– provisions</li> </ul> </li> </ul>  | <ul style="list-style-type: none"> <li>• The Council's policy is entirely appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice</li> <li>• Reliance on experts is taken where appropriate</li> <li>• Accounting Policy is properly disclosed</li> <li>• The Council may wish to consider whether in the current fluctuating property market it is appropriate at least for some categories of non current assets to carry out a rolling programme of property valuations rather than rely on a full valuation every five years</li> <li>• The valuation of Cheltenham Borough Homes non Housing Revenue Account dwellings is included in their accounts at cost. the Council are required, when consolidating the accounts of subsidiaries into the Group Accounts to make adjustments if the valuation is not on the same basis as the Council would value the assets. The Council would use a fair value methodology to value the assets. The Council's view is that there is no significant difference between the two valuation methods in respect of the assets as current cost is an adequate proxy for fair value and has provided evidence that there is no risk of a material error in the Group Accounts. We have recommended that management review the situation for next year.</li> </ul> |  |

## Assessment


 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements

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

| Accounting area                         | Summary of policy  | Comments   | Assessment  |
|---|--|--|---|
| <p><b>Other accounting policies</b></p> | <ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul> | <ul style="list-style-type: none"> <li>Our review of accounting policies has highlighted that the Council's policies are appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice subject to the following:                             <ul style="list-style-type: none"> <li>the policy for valuing assets was amended to clarify the methodology of valuing non HRA dwellings owned by Cheltenham Borough Homes in the Group Balance Sheet</li> <li>In addition, we identified a number of minor issues from our audit work:</li> <li>we identified a trivial example (Pittville Gates) where the Council had not reviewed whether there were conditions attached to a grant which suggests it may be appropriate to review whether this consideration is being applied to all capital grants and contributions.</li> <li>The accounting policy referring to depreciation was amended to provide specific information on the depreciation basis used in respect of community assets and surplus assets, the range of useful expected lives of each category of asset..</li> </ul> </li> </ul> |  |

**Assessment**

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

# Adjusted misstatements

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

## Impact of adjusted misstatements

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

| Detail  | Comprehensive Income<br>and Expenditure<br>Account<br>£'000 | Balance Sheet<br>£'000 | Impact on total net<br>expenditure<br>£000 |
|---|---|------------------------|--|
| 1 Invoices raised in the Accounts Receivable system before the year end relating to the next financial year were treated as a creditor and then reversed out of the accounts by increasing receipts in advance. Both short term debtors and short term creditors in the Balance Sheet are overstated as a result. |   | 470<br>-470            |  |
| <b>Overall impact</b>   | £NIL  | £NIL                   | £NIL                                       |

## Misclassifications & disclosure changes

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

| Adjustment type | Value<br>£'000 | Account balance              | Impact on the financial statements  |
|-----------------|----------------|------------------------------|---|
| 1 Disclosure    | 478            | Grant Income                 | <p>Within Note 19 an amendment was made as follows:</p> <ul style="list-style-type: none"> <li>Disabled Facilities Grant of £378k has been misclassified as a capital grant when it should have been classified as other partnership funding; and</li> <li>High Street Funding Grant of £100k has been misclassified as being credited to service grants when it should be shown as a non specific grant.</li> </ul> <p>These adjustments ensure consistency with other notes in the accounts..</p> |
| 2 Disclosure    | 181            | Creditors                    | <p>Within Note 31 an amendment was made as follows:<br/>£181k of Go Shared Services (GOSS) and Audit Fees payable to Cotswold DC had been incorrectly classified as sundry creditors rather than Other Local Authority Creditors.</p>   |
| 3 Disclosure    | 187            | PPE                          | <p>Within Note 21 an amendment was made as follows:<br/>£187k of surplus assets were incorrectly disclosed as reclassification of assets rather than as disposals.</p>  |
| 4 Disclosure    | 1,392          | Sources of Capital Financing | <p>Within Note 21 an amendment was made as follows:<br/>£1,392k voluntary set aside from the HRA was incorrectly shown as part of the Minimum Revenue Provision rather than the Voluntary Revenue Provision.</p>  |
| 5 Disclosure    | 107            | Segmental Reporting          | <p>The total net cost of services reported in Note 20 of £13, 608k and the analysis over Directorates is inconsistent with the Council's budget out-turn report which shows a total net cost of services of £13,715k. This is not being amended in the accounts.</p>  |



## Misclassifications & disclosure changes

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

| Adjustment type | Value<br>£'000 | Account balance | Impact on the financial statements                                    |
|-----------------|----------------|-----------------|---|
| 6 Disclosure    | 130            | HRA disposals   | Within Note 3 of the HRA a further £130k of disposals has been added. |

## Unadjusted misstatements

The table below provides details of adjustments identified during the audit but which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:


| Detail  | Comprehensive<br>Income and<br>Expenditure Account<br>£'000 | Balance Sheet<br>£'000 | Reason for not adjusting                                 |
|---|---|------------------------|--|
| 1 Civic Regalia has been excluded from Heritage Assets when it was included in the previous year move to unadjusted |   | 141<br>-141            | Not material to the financial performance of the Council |
| <b>Overall impact</b>   | <b>£NIL</b>   | <b>£NIL</b>            |  |

# Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. 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.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

|    | Assessment  | Issue and risk  | Recommendations   |
|----|---|---|---|
| 1. |  | <p>Our work on reviewing high level IT controls identified that:</p> <ul style="list-style-type: none"> <li>• there is no review of audit logs or user account access in relation to Civica Finance, Civica Open Revenues and Benefits or the network.</li> <li>• Some staff involved in systems development still have administrative access rights</li> <li>• It is not clear whether the Council has adopted any change management and patching process for the elements of its own network and internal applications on the same lines as agreed with GOSS for operation by the centre of excellence</li> <li>• There are a number of areas within the GOSS centre of excellence where the high level controls are not as strong as they could be i.e.                             <ul style="list-style-type: none"> <li>• Password security does not enforce the use of complex passwords and password expiry is not enabled</li> <li>• There is no formal review of access to GOSS or review of access or level of authority on the GOSS Agresso system</li> </ul> </li> </ul> | <p>Management should :</p> <ul style="list-style-type: none"> <li>• identify the more critical audit logs and review them on a periodic basis for any anomalies.</li> <li>• Implement a regular, formal review of user access rights (e.g. quarterly) to ensure access rights are appropriate to individual roles</li> <li>• Ensure that there is clarity over the change management and patching process which apply to Cheltenham's own network and applications</li> <li>• Discuss the issues identified in relation to GOSS with GOSS management to ensure that there is no significant risks to the Council's overall IT security</li> </ul> |

## Assessment

 Significant deficiency – risk of significant misstatement

 Deficiency – risk of inconsequential misstatement

# Other communication requirements

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

|    | Issue  | Commentary  |
|----|--|---|
| 1. | <b>Matters in relation to fraud</b>                | <ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee and been made aware of a number of instances of potential benefits claimant fraud. We are satisfied that these have no impact on our opinion.</li> <li>No other issues have been identified during the course of our audit procedures.</li> </ul>  |
| 2. | <b>Matters in relation to laws and regulations</b> | <ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>  |
| 3. | <b>Written representations</b>                     | <ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>  |
| 4. | <b>Disclosures</b>                                 | <ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> <li>However, <ul style="list-style-type: none"> <li>Heritage assets are not analysed between donated and purchased assets as the information is not available</li> <li>Note 27 Financial Instruments was amended to show the investment with Glitnir as a fair value through profit and loss transaction rather than loans and receivables</li> </ul> </li> </ul> |
| 5. | <b>Matters in relation to related parties</b>      | <ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed</li> </ul>  |
| 6. | <b>Going concern</b>                               | <ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>  |

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## Section 3: Value for Money

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# Value for Money

## Value for Money conclusion

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

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

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

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

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

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

Our overall conclusion is that whilst the Council faces challenges, particularly in 2013/14 and 2014/15, its current arrangements for securing financial resilience are good.

### Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. We have completed the following work:

Our work concentrated on how the council performed against its £480k savings plan for 2012/13 and its plans for delivering further savings of £3.299m over the next five years.

Our overall conclusion is that the Council is responding well to the challenges of the Local Government Finance Settlement, delivering savings and targeting its resources effectively.

### Overall VFM conclusion

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

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

| Residual Risk identified   | Assurances obtained   | Conclusion on residual risk  |
|--|---|--|
| <p>The Council has a negative working capital ratio when the comparator group average is a positive working capital ratio.</p> | <p>Although the Council has a negative working capital ration it has a higher value of non current assets than similar authorities and a reported positive balance on its Total Comprehensive Income and Expenditure with net income of 9k as at 31.3.2013. It is unlikely that all the current liabilities will be payable at once and the Council has access to additional borrowing if required.</p> | <p>We are satisfied that the risk is being addressed and there is no adverse impact on our VfM conclusion.</p> |

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

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# Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

## Fees

|                         | Per Audit plan<br>£ | Actual fees<br>£ |
|-------------------------|---------------------|------------------|
| Council audit           | 64,974              | 64,974           |
| Grant certification*    | 12,750              | 12,750           |
| <b>Total audit fees</b> | <b>77,724</b>       | <b>77,724</b>    |

\*Certification work is on-going. The final fee will reported to the Audit Committee later in the year in our annual certification report.

## Fees for other services

| Service | Fees £ |
|---------|--------|
| None    | Nil    |

## Independence and ethics

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

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

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## Section 5: Communication of audit matters

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# Communication of audit matters to those charged with governance

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

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

## Respective responsibilities

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

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

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

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

| 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.<br>Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged<br>Details of safeguards applied to threats to independence | ✓          | ✓              |
| Material weaknesses in internal control identified during the audit  |            | ✓              |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements   |            | ✓              |
| Compliance with laws and regulations   |            | ✓              |
| Expected auditor's report  |            | ✓              |
| Uncorrected misstatements  |            | ✓              |
| Significant matters arising in connection with related parties   |            | ✓              |
| Significant matters in relation to going concern   |            | ✓              |

# Appendices

# Appendix A: Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

| Rec No. | Recommendation   | Priority | Management response | Implementation date & responsibility |
|---------|--|----------|---------------------|--------------------------------------|
| 1.      | A reconciliation should be made on a regular basis between the Council's Orchard Housing Rents System and the property terrier.        | Medium   |                     |                                      |
| 2       | The differences in gross book values between the Fixed Asset Register and the Ledger should be investigated                            | Medium   |                     |                                      |
| 3       | A review should be undertaken to ensure that all statues in the Council's ownership are included in the schedule of heritage assets    | Medium   |                     |                                      |
| 4       | The Council should consider carrying out a rolling revaluation of its assets   | Medium   |                     |                                      |
| 5       | A review of whether capital grants and contributions carry any conditions should be undertaken to ensure correct accounting treatment. | Medium   |                     |                                      |
| 6       | Consideration should be given to the internal control issue included in this report  | Medium   |                     |                                      |

# Appendix A: Action plan

**Priority**

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

| Rec No. | Recommendation   | Priority | Management response | Implementation date & responsibility |
|---------|--|----------|---------------------|--------------------------------------|
| 7       | When consolidating the Group Accounts in future the Council should make appropriate disclosures and adjustments where accounting policies are not aligned. | Medium   |                     |                                      |

# Appendix B: Audit opinion

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

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

### **Opinion on the financial statements**

We have audited the financial statements of Cheltenham Borough Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

### **Respective responsibilities of the Director of Resources and auditor**

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

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements:  
 give a true and fair view of the financial position of Cheltenham Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended;  
 give a true and fair view of the financial position of the Group as at 31 March 2013 and of its expenditure and income for the year then ended; and  
 have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

### **Opinion on other matters**

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

### **Matters on which we report by exception**

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

We have nothing to report in these respects.

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

***Respective responsibilities of the Authority and the auditor***

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:  
securing financial resilience; and  
challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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

***Conclusion***

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Cheltenham Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

***Certificate***

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

Peter A Barber  
Associate Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
Hartwell House  
55-61 Victoria Street  
Bristol BS1 6FT

August 2013



## Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

### Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 20 April 2013.

| Account  | Transaction cycle             | Material misstatement risk? | Description of risk                       | Change to the audit plan | Audit findings              |
|--|-------------------------------|-----------------------------|---|--------------------------|-----------------------------|
| Cost of services - operating expenses              | Operating expenses            | Other                       | Operating expenses understated            | No                       | None                        |
| Cost of services – employee remuneration           | Employee remuneration         | Other                       | Remuneration expenses not correct         | No                       | None                        |
| Costs of services – Housing & council tax benefit  | Welfare expenditure           | Other                       | Welfare benefits improperly computed      | No                       | None                        |
| Cost of services – other revenues (fees & charges) | Other revenues                | None                        |   | No                       | None                        |
| Cost of services – Housing revenue                 | HRA                           | Other                       | Housing revenue transactions not recorded |                          | See our comments on Page 11 |
| (Gains)/ Loss on disposal of non current assets    | Property, Plant and Equipment | None                        |   | No                       | None                        |
| Payments to Housing Capital Receipts Pool          | Property, Plant & Equipment   | None                        |   | No                       | None                        |
| Precepts and Levies                                | Council Tax                   | None                        |   | No                       | None                        |

| Account  | Transaction cycle           | Material misstatement risk? | Description of risk | Change to the audit plan | Audit findings             |
|--|-----------------------------|-----------------------------|---------------------|--------------------------|----------------------------|
| Interest payable and similar charges   | Borrowings                  | None                        |                     | No                       | None                       |
| Pension Interest cost  | Employee remuneration       | None                        |                     | No                       | None                       |
| Interest & investment income   | Investments                 | None                        |                     | No                       | None                       |
| Return on Pension assets   | Employee remuneration       | None                        |                     | No                       | None                       |
| Dividend income from Joint Venture   | Revenue                     |                             |                     | No                       | None                       |
| Impairment of investments  | Investments                 | None                        |                     | No                       | None                       |
| Investment properties: Income expenditure, valuation, changes & gain on disposal | Property, Plant & Equipment | None                        |                     | No                       | None                       |
| Income from council tax  | Council Tax                 | None                        |                     | No                       | None                       |
| NNDR Distribution  | NNDR                        | None                        |                     | No                       | None                       |
| PFI revenue support grant and other Government grants                            | Grant Income                | None                        |                     | No                       | None                       |
| Capital grants & Contributions (including those received in advance)             | Property, Plant & Equipment | None                        |                     | No                       | See our comment on page 14 |

| Account  | Transaction cycle           | Material misstatement risk? | Description of risk                  | Change to the audit plan | Audit findings                          |
|--|-----------------------------|-----------------------------|--------------------------------------|--------------------------|---|
| (Surplus)/ Deficit on revaluation of non current assets        | Property, Plant & Equipment | None                        |                                      | No                       | None                                    |
| Actuarial (gains)/ Losses on pension fund assets & liabilities | Employee remuneration       | None                        |                                      | No                       | None                                    |
| Other comprehensive (gains)/ Losses                            | Revenue/ Operating expenses | None                        |                                      | No                       | None                                    |
| Property, Plant & Equipment                                    | Property, Plant & Equipment | Other                       | PPE activity not valid               | No                       | See our comments on pages 11, 13 and 14 |
| Property, Plant & Equipment                                    | Property, Plant & Equipment | Other                       | Revaluation measurements not correct | No                       | None                                    |
| Heritage assets & Investment property                          | Property, Plant & Equipment | None                        |                                      | No                       | See our comment on page 17              |
| Intangible assets  | Intangible assets           | None                        |                                      | No                       | None                                    |
| Investments (long & short term)                                | Investments                 | None                        |                                      | No                       | None                                    |
| Debtors (long & short term)                                    | Revenue                     | None                        |                                      | No                       | None                                    |
| Assets held for sale   | Property, Plant & Equipment | None                        |                                      | No                       | None                                    |
| Inventories  | Inventories                 | None                        |                                      | No                       | None                                    |

| Account                        | Transaction cycle     | Material misstatement risk? | Description of risk   | Change to the audit plan | Audit findings                     |
|--------------------------------|-----------------------|-----------------------------|---|--------------------------|------------------------------------|
| Borrowing (long & short term)  | Debt                  | None                        |   | No                       | None                               |
| Creditors (long & Short term)  | Operating Expenses    | Other                       | Creditors understated or not recorded in the correct period | No                       | See our comment on pages 13 and 15 |
| Provisions (long & short term) | Provision             | None                        |   | No                       | None                               |
| Pension liability              | Employee remuneration | None                        |   | No                       | None                               |
| Reserves                       | Equity                | None                        |   | No                       | None                               |



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