

# The Audit Findings for Tewkesbury Borough Council

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**Year ended 31 March 2016**

12 September 2016

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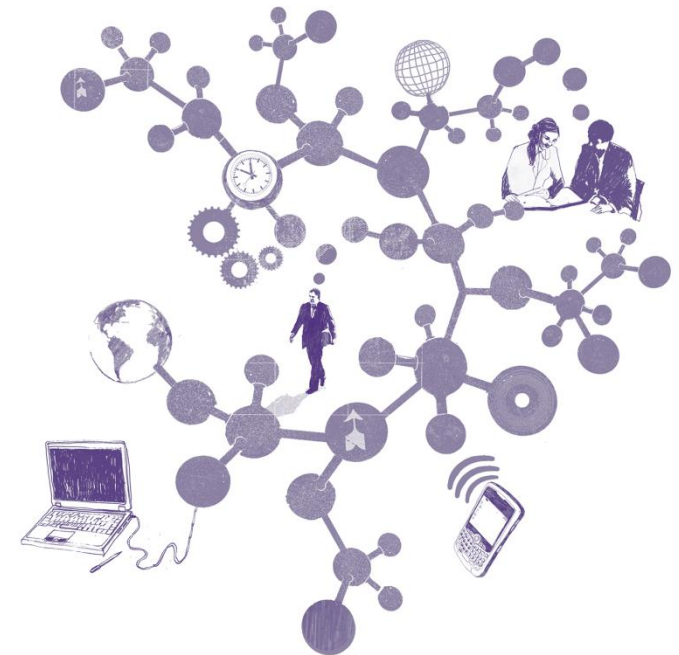
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12 September 2016

Dear Members of the Audit Committee

**Audit Findings for Tewkesbury Borough Council for the year ending 31 March 2016**

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Tewkesbury Borough Council, the Audit Committee), 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 officers.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements 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 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.

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

Alex Walling  
Engagement Lead

**Chartered Accountants**

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# Section 1: Executive summary

**01. Executive summary**

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

## Purpose of this report

This report highlights the key issues affecting the results of Tewkesbury Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 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, whether it is consistent with the financial statements and in line with required guidance.

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 relevant period.

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 14 March 2016.

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

- review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation;
- review of the final version of the Annual Governance Statement; and
- updating our post balance sheet events review, to the date of signing the opinion.

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**

The draft financial statements for the year ended 31 March 2016 recorded net expenditure of £9,038k. The audited financial statements have not identified any adjustments affecting the reported position. Further details are set out in section two of this report.

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

- We received the draft accounts ahead of the statutory deadline and working papers continue to be of a high quality
- The accounts contained only a small number of disclosure errors; which have been adjusted by management.
- Finance staff responded promptly to all audit queries

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 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.

## **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**

Our work has identified two control weaknesses set out on page 17. These were formally reported to the Committee as part of our interim report in March 2016 and have been accepted by officers.

Further details are provided on page 17 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 and we propose to give an unqualified VfM conclusion.

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

### **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 2016. We will report the outcome of this certification work through a separate report to the Audit Committee which is due in December 2016.

### **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 Head of Finance and Asset Management.

### **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**  
**September 2016**

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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



# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 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 £698,000 (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 which misstatements would be clearly trivial to be £33,000. 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
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.	£1,000
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.	£1,000
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1,000

# Audit findings against significant risks

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

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there 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>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Tewkesbury 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"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Tewkesbury Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>• testing of journal entries</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride 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 judgements.</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.


Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• Substantive testing of individual employee remuneration transactions including:                             <ul style="list-style-type: none"> <li>• Testing the reconciliation of employee remuneration expenditure in the financial statements to the general ledger and payroll subsystems</li> <li>• Review of payroll trends for completeness</li> <li>• Sample testing payroll expenditure to source documents</li> </ul> </li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• Gained an understanding of the accruals processed for unprocessed invoices and expenditure incurred but not yet invoiced</li> <li>• Substantive testing of operating expenses transactions including:                             <ul style="list-style-type: none"> <li>• Testing a sample of post year-end payments to confirm completeness</li> <li>• Testing a sample of transactions to confirm correct disclosure in the SOA</li> </ul> </li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified

## Significant matters discussed with management

	Significant matter	Commentary
1.	Discussions or correspondence with management regarding accounting practices, the application of auditing standards, or fees for audit or other services.	<p>We have met with management regularly throughout the year to discuss accounting issues. We have held discussions in the following areas:</p> <ul style="list-style-type: none"> <li>• UBICO – The Council became an equal shareholder of Ubico Ltd on the 1st April 2015, membership was made up of five partners each with a one-fifth shareholding. At this point we concluded that group accounts were required. We discussed with officers changes to the structure of Ubico Ltd following the appointment of Stroud District Council as a partner on the 29 January 2016 when the Council's shareholding in Ubico decreased to a one-sixth share. The separate operating practices, management structure, the application of majority-voting on the Ubico board and the reduction in the Council's shareholding no longer constitute the Council having significant influence over the company. The Council's interest has therefore been classified as an investment in Ubico</li> <li>• Virgin Media – Discussions have been held with finance management over the continue to appeal by Virgin Media over business rates and as at 31 March 2016 no further evidence had been provided as to the basis of the appeal. Discussions continue to ensure that this is appropriately accounted for through provisions and to inform our VfM conclusion.</li> </ul>

# 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
<p><b>Revenue recognition</b></p>	<ul style="list-style-type: none"> <li>Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probably that economic benefits or service potential associated with the transaction will flow to the Council.</li> <li>Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council.</li> <li>The Council Tax and Business Rates income recognised in the Comprehensive Income and Expenditure Statement is the Council's share of accrued Council Tax and business rates recognised in the Collection Fund. The transactions contained within the Collection Fund are prescribed by legislation as the Council, as a billing authority, have no discretion to deviate from this, whereas the income is recognised on a full accruals basis in the Comprehensive Income and Expenditure statement.</li> </ul>	<ul style="list-style-type: none"> <li>The accounting policy is appropriate and complies with the Code of Practice on Local authority Accounting (the Code).</li> <li>The extent of judgement involved is minimal as the vast majority of the Council's income is through Central Government funding.</li> <li>The disclosure of the accounting policy is adequate.</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>




**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
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– Useful life of capital equipment</li> <li>– PPE valuations</li> <li>– Impairments</li> <li>– Accruals</li> <li>– Valuation of pension fund net liability</li> <li>– Provision for NNDR appeals</li> </ul> </li> </ul>	Key estimates are appropriately calculated and have been correctly applied to balances within the statement of accounts.	 <b>Green</b>
<b>Going concern</b>	The Head of Finance and Asset Management, 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.	An assessment of the going concern assertion, on which the accounts are based, has been undertaken, and we are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 <b>Green</b>
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA 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.	 <b>Green</b>

**Assessment**

# Accounting policies, Estimates & Judgements – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<ul style="list-style-type: none"> <li>Our review of the bad debt provision considered that the Council had under provided against the outstanding housing benefit debt. This leaves the Council at risk of not having enough resources to meet ongoing obligations should there be a change in the liability. The proposed change to universal credits has not yet identified who will be responsible for outstanding debt and it may be that the Council will no longer be able to reclaim overpayments against ongoing benefit entitlement. The Council should continue to monitor the bad debt provision to ensure it is adequate to meet future needs.</li> </ul>	<ul style="list-style-type: none"> <li>The Council have reviewed the bad debt provision for the outstanding housing benefit debt and have provided for 80% of the liability in the 2015/16 statement of accounts. The policy will remain under review until clarification over the universal credit process has been provided.</li> </ul>

**Assessment**

- ✓ Action completed
- X Not yet addressed

# 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.	<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. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to third parties for bank and investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<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"> <li>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</li> <li>The information in the Narrative Report is materially inconsistent, or otherwise misleading, with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit.</li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<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. In the case of Tewkesbury Borough Council, detailed work is not required as the Council does not exceed the WGA threshold.</p>



# Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 11 above.


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

	Assessment	Issue and risk	Recommendations
1.	●	<p>It was identified that journals over £10,000 are normally reviewed by the finance manager. However, a report is not being produced for Suspense (GLSUSP) journals so these have not been subject to review in line with the Council's requirements.</p> <p>Also, each report for review is produced based on the 'posted to' date rather than 'posted on' date. This means that if a journal was backdated it is not included within this report and therefore not subject to review. We will undertake further work on journals processed at the year end in order to ensure that all journals over £10k are being reviewed.</p>	<p>The Council should ensure that all journals over £10,000 are reviewed by an appropriate member of the finance staff to ensure that all transactions are appropriately processed and recorded.</p> <p><b>Management Response</b></p> <p>Extended monthly reporting criteria have been implemented as part of the Monthly Balancing Routines to ensure that all Journals raised each month over £10,000 are reviewed.</p> <p>Year-end procedures are in place that all Journals raised in year over £10,000 are reviewed again by the Finance Manager</p>



**Assessment**

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

## Internal controls (continued)

	Assessment	Issue and risk	Recommendations
2.		<p>Receipts in advance are made for the subscriptions (as expected) but these are generated based on the payment dates. Substantive testing of a sample of transactions in relation to fees and charges identified that revenue has been incorrectly recognised within the financial year. Revenue has been recognised at the point of payment and not for the period to which it relates. The total value of garden waste as at month 10 is approximately £550k . The recognition at point of payment can cause both an over and understatement and further work will be needed by officers to identify the value of these variances</p>	<p>The Council should review the way that receipts in advance are recorded and ensure that the revenue is recognised in the correct period.</p> <p><b>Management Response</b></p> <p>The calculation of Receipts in Advance in relation to garden waste is an estimation technique based on information available from the financial ledger. The information held in the ledger is not sufficient to identify the renewal date that the payment relates to.</p> <p>In the 2014/15 financial statements the total income from garden waste was approximately £550k and the receipts in advance identified was £159k. Neither figure is material to the statements.</p> <p>To fully allocate receipts to the renewal date would require a significant investment of resources to investigate approximately 15,000 annual payments. To fully allocated all payments would move some of receipts in advance by 1 month, however it is our view that as it would impact on all periods and the year-end figure would therefore not be significantly different from the current Receipt in Advance figure.</p> <p>The Council is satisfied that the estimation technique used is sufficient to produce materially accurate financial statements, whilst making best use of resources available. To ensure that the reader of the statements is aware of this we will make a disclosure about the estimation technique used in the notes, and state that it is not considered to have a material impact on the financial statements.</p>

**Assessment**

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

## Adjusted and Unadjusted misstatements

No such adjustments have been required in 2015/16

## 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	1,299	Contingent Asset	<p>Following the outcome of a European Court judgement a VAT tribunal ruled that local government off street parking is non business and therefore not subject to VAT. Following an appeal by Customs and Excise, of which the Council were notified on 16 December 2015, this decision has been reversed and the outstanding claim by the Council has been dismissed.</p> <p>The date of notification is prior to the balance sheet date and has been incorrectly disclosed in the statement of accounts. Management have removed the disclosure from the audited financial statements.</p>
2 Disclosure	-	Some minor changes were made to the financial statements to improve presentation such as ensuring cross references to other notes within the accounts were correct.	No effect on the overall financial position.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non-audit services and independence

05. Communication of audit matters

## 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 2015. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed 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 March 2016 and identified the following significant risk, which we communicated to you in our Audit Plan dated 14 March 2016.

- The ongoing challenge of meeting the savings outlined by the Chancellor as part of the Autumn Statement continue to put pressures on Local Government finances. The delivery of the financial strategy and associated savings is currently reliant on the continuation of the New Homes Bonus and ongoing transformational changes. The continued appeal by the Council's largest business further enforces the need to identify alternative methods of achieving its financial position for the future.

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 risk 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 risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council achieved a surplus for 2015/16 and has set a balanced budget for 2016/17. The Medium Term Financial Strategy (MTFS) indicates that a balanced budget will be set in 2017/18.
- The total savings required over the five year period of the MTFS is £2.4m.
- Council tax has increased by £5 in 2016/17 and is forecast to increase by 2% for 2017/18 and 2% per annum thereafter, subject to changes in the capping limit. It is envisaged that if the capping limit is retained the increase will be £5 in 2017/18.
- Although New Homes Bonus has been capped at 65% of the total revenue budget, it is considered that there is still an over reliance on this funding as a source of income. It is noted that this is not core funding and that originally it was considered this source of funding would continue importunity. Any change is as a result in change of central government policy rather than Council planning.
- Savings plans identified for 2018/19 and beyond will need further consideration in order to ensure that identified savings are achievable.

We have set out more detail on the risk we identified, the results of the work performed and the conclusions we drew from this work later in this section on pages 24 to 26.

### **Overall conclusion**

Based on the work we performed to address this significant risk, 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.

## Key findings

We set out below our key findings against the significant risk we identified through our risk assessment.

Significant risk	Work to address	Findings and conclusions
<p><b>Medium Term Financial Strategy</b> The ongoing challenge of meeting the savings outlined by the Chancellor as part of the Autumn Statement continue to put pressures on Local Government finances. The delivery of the Financial Strategy, and associated savings, is currently reliant on the continuation of the New Homes Bonus and ongoing transformational changes. The continued appeal by the Council's largest business further enforces the need to identify alternative methods of achieving its financial position for the future.</p>	<p>We reviewed the project management and risk assurance frameworks established by the Council to enable it to identify, manage and monitor these risks.</p> <p>We reviewed the robustness of the Council's financial plans and the extent to which the Council is seeking to identify further income generation opportunities and alternative solutions to mitigate the risk of future cuts in resources and government funding.</p>	<p>The Medium Term Financial Strategy (MTFS) is a key element within the Council's overall strategic planning framework. The Strategy takes a five-year perspective and is reviewed, updated and rolled forward annually to set a framework for how budget pressures and priorities will be managed within the best estimates of available capital and revenue resources.</p> <p>The MTFS outlines the budget that will be delivered over the medium to long-term. A further report, specifically on the 2016/17 detailed budget, was presented to both Executive Committee and Council in January 2016 for Member approval. The MTFS also contains important strategic planning in a number of areas including the increase of Council Tax and the use of New Homes Bonus (NHB). The headline recommendations of the Strategy are as follows:</p> <ul style="list-style-type: none"> <li>• Council Tax to be increased by 2% for 2016/17 and with 2% increases thereafter.</li> <li>• NHB support to the base budget should not exceed 65% of the total allocation in any one year.</li> <li>• Tewkesbury Borough Council will operate outside of the Gloucestershire Business Rates Pool in 2016/17 and until such a time as the risk from Virgin Media is mitigated.</li> <li>• The Local Council Tax support scheme to remain unchanged in 2016/17</li> </ul> <p>Following the General Election in May 2015, the new Government announced a Summer Budget which outlined cuts to welfare spending along with further aspirations for tackling tax avoidance and a number of policy changes for pensions and employment. The budget contained no details about unprotected departmental spending including Local Government.</p> <p>Prior to the change in Chancellor, the plan was to allow local authorities to retain 100% of business rates. At the time of writing, no details about how the scheme will work or the additional responsibilities for local government have been confirmed. In addition, there is uncertainty about the elimination of core government funding. A significant risk to the Council will be if NHB is included within the scope, as this is currently worth around £3.3m annually to Tewkesbury Borough Council. In addition Local Government are awaiting the final response, following consultation, on the proposed New Homes Bonus Scheme. The continued delay and lack of information lends further uncertainty to future sources of funding and potential changes in Central Government policy.</p>



**Key findings**

Significant risk	Work to address	Findings and conclusions
<p><b>Medium Term Financial Strategy</b>                      The ongoing challenge of meeting the savings outlined by the Chancellor as part of the Autumn Statement continue to put pressures on Local Government Finances. The delivery of the Financial Strategy, and associated savings, is currently reliant on the continuation of the New Homes Bonus and ongoing transformational changes. The continued appeal by the Council's largest business further enforces the need to identify alternative methods of achieving its financial position for the future.</p> <p>CONTINUED</p>		<p>Tewkesbury Borough Council has benefited from high levels of NHB accumulating in the first five years of operation of the scheme. There has been a resurgence in house building activity in the Borough in recent years and with further substantial expansion planned in a number of locations in forthcoming years, the amount of NHB received on an annual basis could accelerate.</p> <p>2016/17 is the final additional year of the rolling six year support offered by NHB and is therefore the last substantial increase. Future years will either see growth or contraction dependent on the level of NHB generated against the NHB that is lost as the first years from the current scheme start to drop out.</p> <p>Even though a cap of 65% has been set for general support to the budget, this usage to balance the budget presents a risk to the Council. Any changes to the scheme itself or the distribution methodology would have a significant adverse impact on the Council's finances. Although there has been no specific announcement on any changes, it is clear that the NHB scheme is on the government's agenda as it remodels local government finance.</p> <p>The base budget for 2016/17 shows total forecast income of £25,154,349 and therefore NHB income accounts for approximately 13.4% of the total income. Whilst it is accepted that the Council has always been reliant on central government funding this has previously been in the form of core funding and grants that were replaced with other funding streams when phased out. The NHB is not considered core funding and as such could be phased out on any subsequent funding review. Therefore, the continued reliance on a single funding stream is still an area of concern and one that the Council needs to continually review in order that any shortfalls, or potential risks from changes can be mitigated.</p> <p>The Council has recorded a net underspend against its revenue budget of £289k in 2015/16. The underspend has been used to increase earmarked reserves and to cover technical accounting requirements and therefore the impact on the General fund is nil. It should be noted that the majority of these savings were one off and non recurrent and therefore any savings plan needs to identify the need for recurrent savings to ensure there is no reliance on unplanned savings. The Medium Term Financial Plan has acknowledged this and further work is required in this area especially in relation to 2018/19 and beyond.</p>

## Key findings

Significant risk	Work to address	Findings and conclusions
<p><b>Medium Term Financial Strategy</b> The ongoing challenge of meeting the savings outlined by the Chancellor as part of the Autumn Statement continue to put pressures on Local Government Finances. The delivery of the Financial Strategy, and associated savings, is currently reliant on the continuation of the New Homes Bonus and ongoing transformational changes. The continued appeal by the Council's largest business further enforces the need to identify alternative methods of achieving its financial position for the future.</p>		<p>The Council has undertaken an extensive process for identifying savings and has looked at opportunities for further income generation. The Council are limited as a small District Council as to how further savings can be made and are potentially more susceptible to changes in Government funding. The exercise undertaken will require further review to ensure that potential savings are realised. It is noted from the savings identified that the Council propose to use approximately £661k from reserves to meet the 2017/18 savings target which the Council intend to replace the following year. The use of reserves is a risk that the members need to be aware to ensure that appropriate levels of reserves are being maintained. This risk should be assessed in line with the ongoing financial uncertainties in future Central Government funding and the Council should ensure that this is the most appropriate option having due consideration of other alternatives.</p> <p>It is considered that the Council has robust processes in place for identifying and achieving short term savings, identified through the Medium Term Financial and that the requirements of savings programmes driven by central government will be met. The Council has undertaken a detailed review of potential savings and should continue to review and monitor this going forwards. On this basis we conclude that the risk has been sufficiently mitigated and that the Council has proper arrangements in place. We will continue to keep this under review.</p>

## Significant matters discussed with management

There were no other significant matters from our work in relation to our consideration of your arrangements to secure value for money in your use of resources that we wish to draw to your attention.

**Significant matters discussed with management**

There were no other significant matters from our work in relation to our consideration of your arrangements to secure value for money in your use of resources that we wish to draw to your attention.

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## 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. We confirm there were no fees for the provision of non audit services.

### Fees

	Proposed fee £	Final fee £
Council audit	44,921	44,921
Grant certification*	9,110	9,110
<b>Total audit fees (excluding VAT)</b>	<b>54,031</b>	<b>54,031</b>

### 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.

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.

\*This work is ongoing and may be subject to a change in the final fee based on the work required to certify the claim

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## 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

International Standards on Auditing 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.

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 Public Sector Audit Appointments Limited (<http://www.psa.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		✓
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	The Council should review the way that receipts in advance are recorded and ensure that the revenue is recognised in the correct period.	Low	<p>The calculation of Receipts in Advance in relation to garden waste is an estimation technique based on information available from the financial ledger. The information held in the ledger is not sufficient to identify the renewal date that the payment relates to.</p> <p>In the 2014/15 financial statements the total income from garden waste was approximately £550k and the receipts in advance identified was £159k. Neither figure is material to the statements.</p> <p>To fully allocate receipts to the renewal date would require a significant investment of resources to investigate approximately 15000 annual payments. To fully allocated all payments would move some of receipts in advance by 1 month, however it is our view that as it would impact on all periods and the year-end figure would therefore not be significantly different from the current Receipt in Advance figure.</p> <p>The council is satisfied that the estimation technique used is sufficient to produce materially accurate financial statements, whilst making best use of resources available. To ensure that the reader of the statements is aware of this we will make a disclosure about the estimation technique used in the notes, and state that it is not considered to have a material impact on the financial statements.</p>	<p>April 2016 Finance Manager</p>

# 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
2	The Council should ensure that all journals over £10,000 are reviewed by an appropriate member of the finance staff to ensure that all transactions are appropriately processed and recorded.	Medium	<p>Extended monthly reporting criteria have been implemented as part of the Monthly Balancing Routines to ensure that all Journals raised each month over £10,000 are reviewed.</p> <p>Year-end procedures are in place that all Journals raised in year over £10,000 are reviewed again by the Finance Manager</p>	Implemented

# Appendix B: Audit opinion

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

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

We have audited the financial statements of Tewkesbury Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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 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 Head of Finance and Asset Management and auditor**

As explained more fully in the Statement of the Head of Finance and Asset Management's Responsibilities, the Head of Finance and Asset Management 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 2015/16, 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's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Head of Finance and Asset Management 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 and the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 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 is consistent with the 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 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources**

**Respective responsibilities of the Authority and 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 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 value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code of Audit Practice"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, 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 value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

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 to secure value for money through economic, efficient and effective use of its 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 2015, we are satisfied that in all significant respects, the Authority has put in place proper arrangements for securing value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

**Certificate**

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Alex Walling  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

xx September 2016



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