



The Annual Audit Letter for Tewkesbury Borough Council

Year ended 31 March 2016

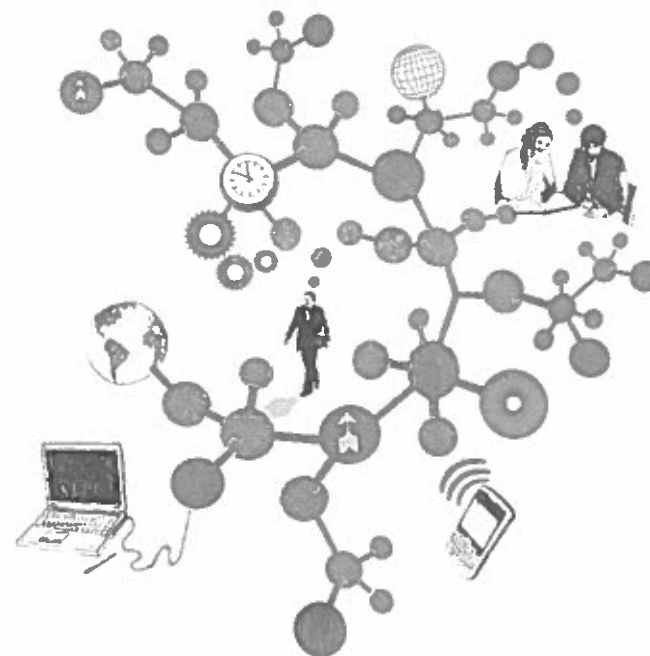
21 October 2016

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Tewkesbury Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 21 September 2016.

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 27 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 27 September 2016.

Certificate

We certified that we had completed the audit of the accounts of Tewkesbury Borough Council in accordance with the requirements of the Code on 27 September 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Working with the Council

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

- We delivered an efficient audit, and issued our opinion on the financial statements and value for money conclusion before the deadline and in line with the timescale we agreed with you.
- We shared our insight with you and provided regular audit committee updates covering best practice, along with our thought leadership publications.
- We introduced you to our Local Government Advisory Team colleagues to discuss future opportunities identified by the Council.
- We held discussions with senior finance team management and provided technical expertise to the Council to consider the impact of group accounting in regards to the new partnership with UBICO.

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

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £698,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as cash, senior officer remuneration and auditor's remuneration.

We set a triviality level of £33,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

This includes assessing whether:

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

We also read the Narrative Report and Annual Governance Statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

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

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

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

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
<p>The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. 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"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Tewkesbury Borough Council, mean that all forms of fraud are seen as unacceptable. <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we have undertaken:</p> <ul style="list-style-type: none"> • testing of journal entries • a review of accounting estimates, judgements and decisions made by management • a review of unusual significant transactions <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>Employee Remuneration Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • Substantive testing of individual employee remuneration transactions including: <ul style="list-style-type: none"> • Testing the reconciliation of employee remuneration expenditure in the financial statements to the general ledger and payroll subsystems • Review of payroll trends for completeness • Sample testing payroll expenditure to source documents <p>Our audit work has not identified any issues in respect of Employee Remuneration</p>

Audit of the accounts (Continued)

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

Risks identified in our audit plan	How we responded to the risk
<p>Operating Expenses</p> <p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none">• documented our understanding of processes and key controls over the transaction cycle• Gained an understanding of the accruals processed for unprocessed invoices and expenditure incurred but not yet invoiced• Substantive testing of operating expenses transactions including:<ul style="list-style-type: none">• Testing a sample of post year-end payments to confirm completeness• Testing a sample of transactions to confirm correct disclosure in the Statement of Accounts <p>Our audit work has not identified any issues in respect of Operating Expenses</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 27 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts to the Council's Audit Committee on 21 September 2016.

In addition to the key audit risks reported above, we identified the following issues during our audit that we have asked the Council's management to address for the next financial year:

- Receipts in advance are recorded at the point of payment rather than the period to which they apply. This can cause both an over and understatement and further work is needed to identify the value of potential variances
- Suspense journals over £10,000 are not subject to review by finance management in line with the Council's policy and reports are run on a 'posted to' rather than 'posted on' basis. This means that journals that are backdated and over £10,000 will not be subject to review.

Management have accepted our recommendations and have taken appropriate action to address them.

Annual Governance Statement and Narrative Report

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

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

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

Key findings

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

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

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Medium Term Financial Strategy 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"> • Council Tax to be increased by 2% for 2016/17 and with 2% increases thereafter. • NHB support to the base budget should not exceed 65% of the total allocation in any one year. • 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. • The Local Council Tax support scheme to remain unchanged in 2016/17 <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> <p>.On that basis we concluded that the risk was sufficiently mitigated for us to conclude that the Council has proper arrangements. We will continue to keep this under review.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need for continued need to identify income generation projects with the continued uncertainty around central government finances. We also noted the proposed use of reserves and that this is a risk that members need to be aware of to ensure that appropriate levels are maintained.

Sharing our insight – we provided regular audit committee updates covering best practice. Areas we covered included Audit Committee effectiveness and Devolution. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – We have shared with you our publication 'Spreading their Wings: Building a successful local authority trading company' and will continue to support you as you consider greater use of alternative delivery models for your services.

Working with you in 2016/17

We will continue to work with you and support you over the next financial year in addition to continuing the support we have provided in 2015/16.

Locally our focus will be on:

- **An efficient audit** – continuing to deliver an efficient audit and working with you to bring forward your accounts closure in advance of the faster close requirement in 2017/18.
- **Understanding your operational and financial health** – we will continue to focus our value for money conclusion work on your financial health, and consider the evolving arrangements to ensure future savings are realised in line with the Medium Term Financial Plan
- We have begun discussion with the finance management team to ascertain whether it is feasible to meet the 2017-18 Accounts submission deadline of 31 May, and subsequent Audit Opinion date of 31 July in 2016-17.

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	44,921	44,921	59,895
Housing Benefit Grant Certification*	8,052	8,052	12,700
Total fees (excluding VAT)	54,031	54,031	72,595

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

Reports issued

Report	Date issued
Audit Plan	14 March 2016
Audit Findings Report	14 September 2016
Annual Audit Letter	21 October 2016



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