



The Annual Audit Letter for Tewkesbury Borough Council

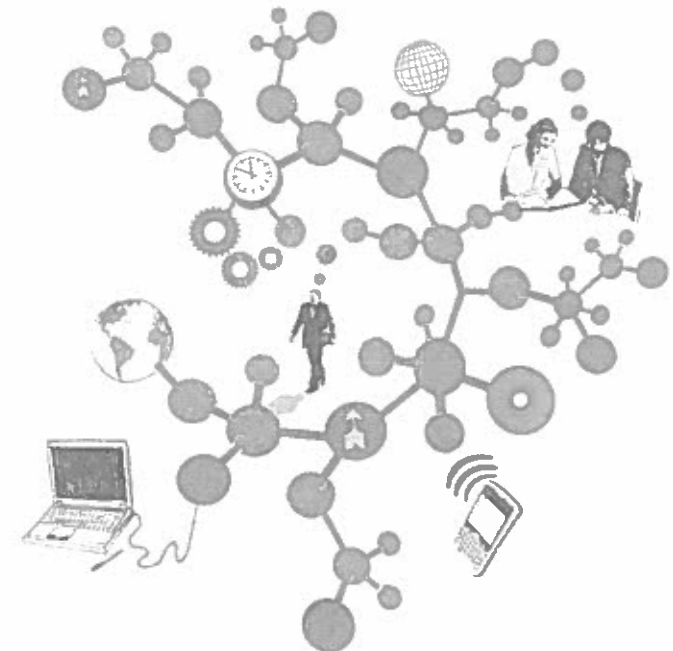
Year ended 31 March 2017

19 October 2017

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Tewkesbury Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 2017.

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 26 September 2017.

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 2017. We reflected this in our audit opinion on 26 September 2017.

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 26 September 2017.

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 2017. 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. The outcomes we have delivered together are:

- We delivered an efficient audit, and issued our opinion on the financial statements and value for money conclusion before the statutory deadline
- We shared our insight with you and provided regular audit committee updates covering best practice, along with our thought leadership publications
- 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 delivered Audit Committee Effectiveness training to members of the audit committee to assist them in discharging their duties.

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 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 £707,000, 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 senior officer remuneration and auditor's remuneration.

We set a lower threshold of £35,000, 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 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 the Head of Finance and Asset 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 included in the Statement of Accounts on which we gave 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 - Council

Table 1: 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	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>Documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated.</p> <ul style="list-style-type: none"> • Walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements. • Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>
<p>Changes to the presentation of local authority financial statements</p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements • reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure • reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) • tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES • tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger • tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements • reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>Testing of the restated 2015-16 CIES and the relevant Expenditure and Funding Analysis (EFA) identified a number of issues. These were:</p> <ul style="list-style-type: none"> • An adjustment made to the CIES required a matching entry in the EFA which was not completed accurately and required further updating • Figures in the expenditure and funding analysis statement did not agree to supporting documentation • There was no prior year comparator for the note to the Expenditure and Funding Analysis. • The Council had not disclosed that the 2015-16 CIES disclosure is restated on the face of the accounts as per the requirements of the code <p>There was no impact on the reported outturn and the Council have made the necessary adjustments to the final signed accounts.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 26 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers to support the financial statements. The draft statements were presented for audit on 31 May 2017 and the Council has achieved the revised statutory deadline a year early. The finance team had undertaken additional work to revise the format of the financial statements this year in line with the code and the requirement of CIPFA's Telling the Story.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 21 September 2017.

We recommended a number of adjustments to improve the presentation of the financial statements. No adjustments affected the Council's reported financial position.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website 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 2016 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 table 2 overleaf.

As part of our Audit Findings report agreed with the Council in September 2017, we agreed the following recommendation to address our findings.

- The Council should ensure that a robust process exists for management and monitoring of the UBICO contract with third parties and, that all financial information is provided on a timely basis to allow identification of potential overspends

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 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Medium Term Financial Strategy</p> <p>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, ongoing transformational change and increased income from its investment property portfolio through significant capital expenditure. The continued appeal by the Council's largest contribution of business rates further enforces the need to identify alternative methods of achieving its financial position for the future.</p>	<p>We will review the project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these financial risks.</p> <p>We will review 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>As in previous years it is clear that the reduction in core funding will need to be covered by greater income generation although it should be noted that the agreed RSG funding is continuing a year further than previous iterations. From conversation with management it is clear that there is a tendency towards being prudent and that some forecasts are deliberately pessimistic in order to allow for the 'worst case' scenario.</p> <p>The spending review introduced a number of changes to the New Homes Bonus (NHB) policy and the amount of funding that reduced the payments for occupied new homes. This has resulted in a reduction of forecast income by approximately £160k.</p> <p>Funding for the Council shows a continual decline until 2020/21 when the funding increases again. The Medium Term Financial Strategy (MTFS) has been rolled forward and covers the period 2017/18 to 2021/22. A balanced budget has been set for 2017/18 and the Council has a good record of setting and achieving balanced budgets over the past number of years although this is caveated through the number of one off savings and revenue receipts that have been received.</p> <p>There is a continued reliance on new homes bonus income which accounts for 8.7% of the total income, and the Council has undertaken an extensive process for identifying savings and has looked at opportunities for further income generation.</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. 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>

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>UBICO Contract Monitoring</p> <p>The UBICO contract represents a significant source of expenditure for the Council and current contract monitoring arrangements are considered inadequate. A recent internal audit review has highlighted that, with the exception of the financial review undertaken by Financial Services, quarterly budget monitoring is not undertaken for significant part of the contract service and key performance indicators are neither monitored or enforced. There is a risk that the Council will fail to identify increasing costs or potentially fraudulent transactions and that the contract requirements are not being enforced.</p>	<p>We will review the contract monitoring processes in place to determine how the Council has established that all costs are appropriate and that services are being provided in line with the requirements of the contract.</p> <p>We will review communication with UBICO to ensure that the Council is working with the service provider to ensure all information is provided and that issues are being appropriately addressed in a timely manner.</p>	<p>As of 1 April 2015 Tewkesbury Borough Council joined the local authority owned company Ubico Ltd, as an equal partner with five other authorities. Alongside waste and recycling collections the contract also provides for street cleansing and grounds maintenance for the borough. Internal Audit undertook a review of monitoring of the contract in 2016 which was reviewed as part of audit's risk assessment.</p> <p>Arrangements in place at time of Internal Audit Review</p> <p>The monitoring of the contract is undertaken at both a financial and performance level. Financial control is done through budget monitoring whilst performance is measured using a number of Key Performance Indicators (KPIs). Performance monitoring is based on six KPIs. These are monitored by the Head of Community Services and reported to the Overview and Scrutiny Committee (O&S). Of the six KPIs outlined in the contract, all six related to Waste Services. Further, of the six as outlined in the contract three were not being properly monitored. The budget information received was considered to be at a high level and is split at service level.</p> <p>There were some issues with ad-hoc invoices and where the responsibility for those services that have been provided lay. The lack of activity monitoring and detailed performance reporting did not provide sufficient evidence or support to these costs.</p> <p>Update of arrangements as at August 2017</p> <p>Discussion with the Head of Corporate Services and the Head of Finance and Asset management identified that there is a fragmented monitoring process with limited effective communication and no real ownership of the process.</p> <p>In response to the issues outlined the Council have put a number of processes in place to address the key risks. These include:</p> <ul style="list-style-type: none"> • A permanent Head of Community Services has been appointed with overall service responsibility • A review of KPIs is currently being undertaken by the Joint Waste Team to identify those that will be of best use for contract monitoring purposes. • Resources made available to recruit a dedicated Grounds Maintenance & Fleet Client Officer • Improved financial information <p>The above, alongside the progress against audit recommendations, and discussion with management, provide assurance that risks have been sufficiently mitigated. 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>

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

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	44,921	44,921	44,921
Housing Benefit Grant Certification	9,110	TBC	9,110
Total fees (excluding VAT)	54,031	TBC	54,031

We can confirm that no non-audit or audited related services have been undertaken for the Council

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

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'. We will report to you our final fees in relation to this work through our grant certification report once this has been completed in November 2017.

Reports issued

Report	Date issued
Audit Plan	13 March 2017
Audit Findings Report	21 September 2017
Annual Audit Letter	3 October 2017



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