

# Audit Findings

*Year ending 31 March 2018*

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Tewkesbury Borough Council

9 July 2018



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key issues arising from the statutory audit of Tewkesbury Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

<b>Financial Statements</b>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"><li>the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, and</li><li>have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul>	<p>Our audit work was completed on site during May and June 2018. Our findings are summarised on pages 5 to 12. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an <b>unqualified audit opinion</b> following the Audit Committee meeting on 18 July 2018, as detailed in Appendix E. These outstanding items include:</p> <ul style="list-style-type: none"><li>- <b>Finalisation of our work on the Council's valuation of its Property, Plant and Equipment;</b></li><li>- <b>Finalisation of our work on the compilation of the Expenditure and Funding Analysis</b></li><li>- <b>Finalisation of our review of the Narrative Report and Annual Governance Statement</b></li><li>- <b>receipt of management representation letter;</b></li><li>- <b>review of the final set of financial statements; and</b></li><li>- <b>assessment of any post balance sheet events up to the date of our audit opinion.</b></li></ul>
	<p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>We are in the process of finalising our work to conclude whether the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, is consistent our knowledge of your organisation and with the financial statements we have audited.</p>

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# Headlines (continued)

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## Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')

We have completed our risk based review of the Council's value for money arrangements. We have concluded that Tewkesbury Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, **except for** in relation to the Authority's development of a robust savings plan in order to balance its annual budgets with sufficient capacity to manage its emerging cost pressures over the duration of its Medium Term Financial Strategy (MTFS). We therefore anticipate issuing a **qualified 'except for'** value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 13 to 16.

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## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- certify the closure of the audit

We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

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## Acknowledgements

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.

# Summary

## Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 18 July 2018, as detailed in Appendix E. These outstanding items are set out on page 3.



## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for Tewkesbury Borough Council.

	Council Amount (£)
Materiality for the financial statements	£739,000
Performance materiality	£555,000
Trivial matters	£37,000

# Going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

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## Going concern commentary

### Management's assessment process

The Head of Finance and Asset Management as s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.

### Auditor commentary

In order to support its use of the going concern assumption, management has provided us with details of its Medium Term Financial Plan and cash flow forecasts for the next 12 months showing its has sufficient financial resources to continue for the foreseeable future.

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### Work performed

### Auditor commentary

We have reviewed management's cash flow forecast for the period to June 2019 and confirm that the assumptions underpinning this is reasonable. Based on our review of management's assessment, no material uncertainties have been identified.

As highlighted in our work under the VFM conclusion, the Council's Medium Term Financial Plan does identify a current shortfall in income against expected costs over the MTFS period. Current levels of Council reserves confirm that the Council has sufficient useable reserves to call upon, should this be required to manage the financial position within the foreseeable future.

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### Concluding comments

### Auditor commentary

Based on our work undertaken, we are satisfied with the Council's assessment that the going concern basis is appropriate for the 2017-18 financial statements.

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# Significant audit risks

## Risks identified in our Audit Plan

## Commentary

1

### Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

### Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- The culture and ethical frameworks of local authorities, including Tewkesbury Borough Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Tewkesbury Borough Council.

No unusual transactions were identified. Our audit work has not identified any issues in respect of revenue recognition.

2

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We identified management override of controls as a risk requiring special audit consideration.

### Auditor commentary

We have undertaken the following work in relation to this risk:

- reviewed accounting estimates, judgements and decisions made by management
- tested a sample of journal entries
- reviewed accounting estimates, judgements and decisions made by management
- reviewed unusual significant transactions
- reviewed significant related party transactions outside the normal course of business

No unusual transactions were identified. Our audit work identified one journal where VAT was incorrectly allocated in year.

# Significant audit risks

Risks identified in our Audit Plan	Commentary
<p><b>3 Valuation of property, plant and equipment</b> The Council revalues its land and buildings on an annual basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>We performed the following work:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>• reviewed the competence, expertise and objectivity of any management experts used.</li> <li>• reviewed the instructions issued to valuation experts and the scope of their work</li> <li>• held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>• reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• tested revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>• evaluated the assumptions made by management for any assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</li> </ul> <p>Based on our work to date, we have not identified any issues in respect of the Council's valuation of its property, plant and equipment. However we are still in the process of undertaking our review of the base data provided to the valuer to inform its valuation and the key assumptions applied by the valuer in undertaking its work.</p>
<p><b>4 Valuation of pension fund net liability</b> The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>We performed the following work:</p> <ul style="list-style-type: none"> <li>• Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.</li> <li>• Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>• Gained 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.</li> <li>• Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul> <p>Our audit work has not identified any issues in respect of the valuations of its pension fund net liability.</p>



# Reasonably possible audit risks

## Risks identified in our Audit Plan

## Commentary

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### Employee remuneration

Payroll expenditure represents a significant percentage (21%) of the Council's operating expenses.

As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention

### Auditor commentary

We have undertaken the following work in relation to this risk:

- documented our understanding of processes and key controls over the transaction cycle
- undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding
- performed a substantive analytical procedure looking at total payroll, pension and NI costs, forming an expectation and comparing this against the actual expenditure.

Our audit work has not identified any issues in respect of employee remuneration.

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### Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non- pay expenses as a risk requiring particular audit attention:




### Auditor commentary

We have undertaken the following work in relation to this risk:




- evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;
- gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls;
- evaluated the completeness of the population and identified all true (non accounting) operating expenses.

Our audit work has not identified any issues in respect of operating expenses.

# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p>Activity is accounted for in the year that it takes place, not simply when cash payments are received. In particular:</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 probable 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 economic benefits or service potential associated with the transaction will flow to the Council.</li> <li>Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than cash flows fixed or determined by the contract.</li> <li>Where revenue has been recognised but cash has not been received a debtor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.</li> </ul>	<p>Review of the revenue recognition policies adopted by the Council as part of our audit work identified that:</p> <ul style="list-style-type: none"> <li>Appropriate policies had been used</li> <li>Accounting policies had been adequately disclosed</li> <li>Revenue had been appropriately recognised</li> <li>The policies are in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice.</li> </ul>	
<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 PPE</li> <li>Revaluations</li> <li>Impairments</li> <li>Accruals</li> <li>Valuation of pension fund net liability</li> <li>Provision for NNDR appeals</li> <li>Other provisions</li> </ul> </li> </ul>	<p>We have reviewed the accounting areas where the Council has exercised judgement and used estimates. Based on work undertaken to date, we found that:</p> <ul style="list-style-type: none"> <li>Appropriate policies had been used</li> <li>Accounting policies had been adequately disclosed</li> <li>Areas where judgement had been used were supported by the work of an expert or third party.</li> </ul>	
<b>Other critical policies</b>	<p>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.</p>	<p>The Council's accounting policies are appropriate and consistent with previous years.</p>	

## Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# 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 and have formally written to the Chair of the Audit Committee to confirm the Council's arrangements in relation to fraud. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or 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>All third party confirmation requests for bank, investments and loan balances have been received. In addition, we have received appropriate assurance over the arrangements in place in relation to the processing of pensions information at Gloucestershire Pension Fund.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements. Disclosure changes are outlined in Appendix C.</li> </ul>
⑦ <b>Audit evidence and explanations</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management were provided.</li> </ul>
⑧ <b>Significant difficulties</b>	<ul style="list-style-type: none"> <li>No significant difficulties were found during the audit with the draft accounts nor the working papers.</li> </ul>

# Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
① <b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Whilst our work is ongoing in this area, no issues have been identified to date and we anticipate issuing an unqualified opinion in this respect – refer to appendix E.</p>
② <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of 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 other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>Based on work carried out to date, we have nothing to report on these matters</p>
③ <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.</p> <p>Work is not required as the Council does not exceed the threshold.</p>
④ <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2017/18 audit of Tewkesbury Borough Council in the audit opinion, as detailed in Appendix E</p>

# Value for Money

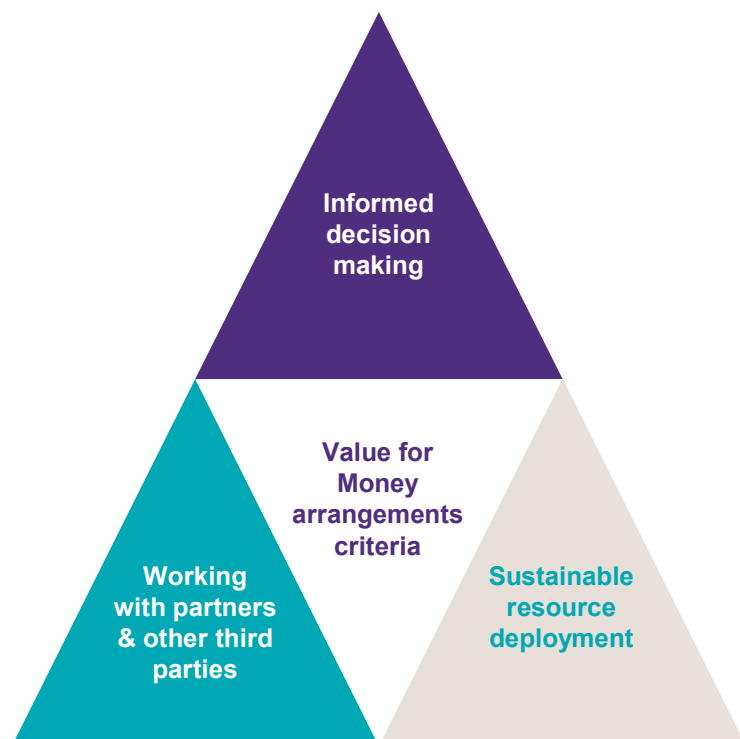
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single 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."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in February 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2018.

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 risks 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.

# Value for Money

## Our work

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

- The latest version of the Council's Medium Term Financial Strategy (MTFS) was reported to members on 5 December 2017 identifying a £2.99m funding gap over the 5 year period of the MTFS from 2018-19 to 2022-13.
- The Council is in the process of reviewing a number of assumptions in the MTFS specifically around New Homes Bonus and Business Rate retention. Whilst, these assumptions would look to reduce the expected level of deficit to £1.5m, the Authority's savings plan is still in the process of being formalised to bridge the remaining MTFS funding gap and any proposals are still subject to agreement with members. It is therefore uncertain whether sufficient savings or additional income sources will be identified to deliver its MTFS.
- There continues to be a high reliance on the use of uncertain future income streams such as the New Homes Bonus, which makes up almost 30% of the income forecasts.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 15 to 16.

## Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources, **except for** the matter we identified in relation to the Authority's development of a robust savings plan in order to balance its annual budgets with sufficient capacity to manage its emerging cost pressures over the duration of its Medium Term Financial Strategy (MTFS).
- We therefore propose to give a **qualified 'except for'** conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The text of our proposed report can be found at Appendix E.

## Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There are no matters to report where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p><b>1 Sustainable Resource Deployment - Medium Term Financial Strategy</b></p> <p>The ongoing challenge of meeting savings requirements continues to put pressure on Local Government finances. This along with the reliance on the continuation of the New Homes Bonus, proposed use of reserves to smooth deficits and 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 will review the Council's arrangements to establish how it is identifying, managing and monitoring these financial risks. We will review the robustness of the Council's financial plans and its key assumptions supporting the development of its MTFP and savings plans.</p> <p>We will aim to understand 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 Council's 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 contains important strategic planning in a number of areas and its latest version was reported to members on 5 December 2017 which identified a £2.99m funding gap over the 5 year period of the MTFS.</p> <p>The Council has over the past few years put in place a number of service reconfigurations, shared service arrangements and so have already exhausted a number of commercialisation opportunities to reduce costs and generate new income streams. Further ideas and plans are in the process of being put in place to mitigate this funding gap during the course of the MTFS period. However, there is a high reliance on the use of uncertain income such as the New Homes Bonus, which makes up almost 30% of the income forecasts. Where the Council is unable to identify and deliver further savings or additional income streams to bridge the current MTFS funding gap, use of the council's general reserves would be required in order to manage its financial position.</p> <p>Therefore, the main focus for the council has been the growth agenda and looking for further commercialisation opportunities through investment property diversification, commercial opportunities through the UBICO contract and the use of council buildings for encouraging business growth through new business growth incubator units on site at the Council's offices in Tewkesbury.</p>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>Whilst the current review of assumptions would look to reduce the expected level of deficit to £1.5m, the Council's savings plan is still in the process of being formalised to bridge the MTFS funding gap and any proposals are still subject to agreement with members. It is therefore uncertain whether sufficient savings or additional income sources will be identified to deliver its MTFS.</li> <li>We are therefore unable to conclude that a robust savings plan is in place to balance its annual budgets with sufficient capacity to manage its emerging cost pressures over the duration of its Medium Term Financial Strategy (MTFS).</li> </ul> <p><b>Management response</b></p> <p><b>The timetable for reviewing the Council's VfM position has been brought forward as part of the early closure of accounts process. This has resulted in our MTFS cycle being out of sync with the new VfM timetable for this year and the Council is therefore unable to evidence that its MTFS planning has been seen and endorsed by members. Officers will need to make amendments to next year's planning to ensure that the two timetables are once again synchronised and the Council can adequately demonstrate its sound financial planning.</b></p>

**Significant risk (continued)**

**Sustainable Resource Deployment - Medium  
Term Financial Strategy**

**Findings (continued)**

During the course of our work, we have received additional information from officers on its current proposals under consideration to address the MTFS shortfall. A key area for consideration relates to the current levels of Council Tax income within the Borough, where Tewkesbury Council remains one of the lowest levels in the Country.

The Council is in the process of reviewing a number of assumptions in the MTFS specifically around New Homes Bonus and Business Rate retention. These assumptions are anticipated to reduce the expected level of deficit in the MTFP to £1.5m and a number of further initiatives for growth and financial savings are currently being discussed and agreed by officers. The Council's savings plan to bridge the MTFS funding gap is still in the process of being formalised and its proposals are still subject to agreement with members.



# Independence and ethics

## 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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. No non-audit services were identified.

# Action plan

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those matters that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

**Recommendations**

- 1
- The Council should ensure that a robust savings plan is in place to balance its annual budgets with sufficient capacity to manage its emerging cost pressures over the duration of its Medium Term Financial Strategy (MTFS). This savings plan should be reviewed and agreed by members.

**Management response**

The timetable for reviewing the Council's VfM position has been brought forward as part of the early closure of accounts process. This has resulted in our MTFS cycle being out of sync with the new VfM timetable for this year and the Council is therefore unable to evidence that its MTFS planning has been seen and endorsed by members. Officers will need to make amendments to next year's planning to ensure that the two timetables are once again synchronised and the Council can adequately demonstrate its sound financial planning.

# Follow up of prior year recommendations

We identified the following issues in the audit of Tewkesbury Borough Council's 2016/17 financial statements, which resulted in three recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations and note one item is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 ✓	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	<p>In response to the issues outlined the Council have put a number of processes in place to address the key risks.</p> <ul style="list-style-type: none"> <li>• A permanent Head of Community Services has been appointed with overall service responsibility</li> <li>• A half yearly report will be provided and will include review of the annual report.</li> <li>• 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.</li> <li>• Controls have been put in place to closely monitor ad-hoc payments which are now approved by the Head of Community Services.</li> <li>• Discussions are being held with UBICO to identify costs associated with future house building in the area and these costs are being built into future cost projections.</li> <li>• The UBICO contract is standing item in Senior Management Team meetings.</li> <li>• Improved financial information with comprehensive budget monitoring information</li> <li>• Senior appointments at UBICO including the Managing Director and Senior Operations Manager</li> </ul>
2 X	The Council should ensure that the Corporate Risk Register is reviewed on a regular and timely basis to ensure that all risks identified are relevant and appropriate to the Council.	Review of the Corporate Risk Register is ongoing and has been a standing item on the Audit Committee Work Programme. This has been deferred several times and a series of member workshops are in the process of being scheduled in order to consider the Council's risk appetite in its refresh of its risk management arrangements.
3 ✓	Where restatements and adjustments to the accounts are required as a result of Code changes the Council should ensure that sufficient time is allowed for final checks to ensure accuracy and that any adjustments are considered within the notes to the accounts as well as within the primary statements.	Based on the review of the draft financial statements received for audit and the outcomes of our work to date, we are satisfied with the quality of the financial statements prepared by officers and that these have been subject to appropriate review.

## Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Misclassification 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.

Disclosure	Detail	Auditor recommendations	Adjusted?
<b>Note 19 Financial Instruments</b>	Short Term Debtors were understated by £58k in error Short Term Creditors were overstated by £36k in error. Error only affects disclosure in Note 19 - no errors identified in underlying data.	<ul style="list-style-type: none"> <li>Client to consider restating the note with the correct figures</li> </ul> <b>Management response</b> <ul style="list-style-type: none"> <li>To amend at final draft.</li> </ul>	✓
<b>Note 31 Officers Remuneration</b>	The 2016-17 comparator for the Borough Solicitor and Section 151 Officer are incorrectly stated and do not agree with the prior year audited accounts. The correct values are £85k and £68k respectively. Error only affects disclosure - no errors identified in underlying data.	<ul style="list-style-type: none"> <li>Client to consider restating the note with the correct figures</li> </ul> <b>Management response</b> <ul style="list-style-type: none"> <li>To amend at final draft.</li> </ul>	✓
<b>Note 33 Grant Income</b>	The line balance for S31 Grants and Contributions of the note is understated by £43k due to the omission of DCLG grants. Correct line total should be £295k with a total note balance of £22,407k. Error only affects disclosure - no errors identified in underlying data.	<ul style="list-style-type: none"> <li>Client to consider restating the note with the correct figures</li> </ul> <b>Management response</b> <ul style="list-style-type: none"> <li>To amend at final draft.</li> </ul>	✓
<b>Note 1 Accounting Policies</b>	Disclosures relating to 1.7 Government Grants and 1.8 Intangible Assets were omitted in error from the draft accounts.	<ul style="list-style-type: none"> <li>Client to consider inserting the missing policies into the note.</li> </ul> <b>Management response</b> <ul style="list-style-type: none"> <li>To amend at final draft.</li> </ul>	✓
<b>General Amendments</b>	Various spelling, grammar, syntax and other minor disclosure errors were identified.	<ul style="list-style-type: none"> <li>Client to consider making corrections to the final draft</li> </ul> <b>Management response</b> <ul style="list-style-type: none"> <li>To amend at final draft.</li> </ul>	✓

# Fees

We confirm below our final fees charged for the audit.

## Audit Fees

	Proposed fee	Final fee
Council Audit	£44,921	£44,921
Grant Certification	£9,110	TBC
Total audit fees (excluding VAT)	£54,031	£TBC

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 housing benefit subsidy certification only, which falls under the remit of Public Sector Audit Appointments Limited.

# Audit opinion

**We anticipate we will provide the Council with an unmodified audit report in relation to its financial statements.  
We anticipate providing an 'except for' audit report in relation to the Value for Money conclusion.**

## Independent auditor's report to the members of Tewkesbury Borough Council Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Tewkesbury Borough Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including the accounting policies, and include the Collection Fund Statement and notes to the Collection Fund. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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 Authority's 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.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Head of Finance and Asset Management's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The Head of Finance and Asset Management has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The Head of Finance and Asset Management is responsible for the other information. The other information comprises the Financial Statements for the year ended 31 March 2018, the Narrative Report and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

# Audit opinion (continued)

## Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Financial Statements for the year ended 31 March 2018, the Narrative Report and the Annual Governance Statement, for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

## Responsibilities of the Authority, the Head of Finance and Asset Management and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 1, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Finance and Asset Management. 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 2017/18, which give a true and fair view, and for such internal control as the Head of Finance and Asset Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Finance and Asset Management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit Committee is Those Charged with Governance.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements – Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the effects of the matter described in the basis for qualified conclusion section of our report we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### Basis for qualified conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness in its use of resources we identified the following matter:

The Authority's latest version of its Medium Term Financial Strategy (MTFS) was reported to members on 5 December 2017 identifying a £2.99 million funding gap over the 5 year period of the MTFS from 2018-19 to 2022-23.

The Authority is in the process of reviewing a number of assumptions in the MTFS specifically around New Homes Bonus and Business Rate retention. Whilst these assumptions would look to reduce the expected level of deficit to £1.5 million, the Authority's savings plan is still in the process of being formalised and any proposals are still subject to agreement with members. It is therefore uncertain whether sufficient savings or additional income sources will be identified to deliver its MTFS. Where the Authority is unable to identify and deliver further savings or additional income streams to bridge the current MTFS funding gap, use of the Authority's general reserves would be required in order to manage its financial position.

# Audit opinion (continued)

This matter identifies weaknesses in the Authority’s arrangements for developing a robust savings plan in order to balance its annual budgets with sufficient capacity to manage its emerging cost pressures over the duration of its Medium Term Financial Strategy (MTFS).

This matter is evidence of weaknesses in proper arrangements for sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

## Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

## Auditor’s responsibilities for the review of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 criterion 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 economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[Signature]

**Julie Masci**  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

2 Glass Wharf, Bristol, BS2 0EL

[Date]



