



# The Annual Audit Letter for Tewkesbury Borough Council

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**Year ended 31 March 2019**

**20 August 2019**



# Contents



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## Section

1. Executive Summary
2. Audit of the Financial Statements
3. Value for Money conclusion

## Page

- 3  
5  
9

## Appendices

- A Reports issued and fees
- B Action Plan

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# Executive Summary

## Purpose

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 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and 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 and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 24 July 2019.

## Respective 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) (ISAs) and other guidance issued by the NAO.

## Our work

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<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £750,000, which is approximately 2% of the Council's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 30 July 2019.
<b>Whole of Government Accounts (WGA)</b>	We were not required to complete work on the Council's return following guidance issued by the NAO as they were below the audit threshold. We confirmed this in our Assurance Statement to the NAO on 30 July 2019.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

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# Executive Summary

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<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit findings report to the Council on 24 July 2019.
<b>Certification of Grants</b>	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 2019. We will report the results of this work to the Audit and Governance Committee separately.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of Tewkesbury Borough Council in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

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## Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in July, delivering the financial statements before the 31 July deadline.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on the Housing Benefit Certification process and testing.

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

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# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Council's financial statements, 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 the audit of the financial statements to be £750,000, which is approximately 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £37,500, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

### The scope of our audit

Our audit involves obtaining sufficient 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 accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the financial statements and the narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that 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 Financial Statements

## Significant Audit Risks

These are the significant 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><b>Valuation of net pension liability</b> The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated.</li> <li>• assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement;</li> <li>• evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out;</li> <li>• undertook procedures to confirm the reasonableness of the actuarial assumptions made;</li> <li>• checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports; and</li> <li>• gained assurances over the data provided to the actuary to ensure it was robust and consistent with our understanding.</li> </ul>	<p>The Court of Appeal ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p> <p>An adjustment for the McCloud / Sargeant ruling of £174k was not made on the grounds of materiality.</p>

# Audit of the Financial Statements

## Significant Audit Risks - 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	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>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. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness;</li> <li>obtained a full listing of journal entries and identified and subsequently tested any unusual journal entries for appropriateness; and</li> <li>evaluated the rationale for any changes in accounting policies and any significant unusual transactions or estimates.</li> <li>reviewed significant related party transactions outside the normal course of business.</li> </ul>	<p>Our audit work has not identified any issues in respect of management override of controls.</p>
<p><b>Valuation of land and buildings</b></p> <p>The Council revalues its land and buildings each year to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations as a risk requiring special audit consideration.</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 valuer about the valuation basis, 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> <li>confirmed that the prior period adjustment to two of the council's assets was appropriate and tested the revalued amounts were appropriately accounted for.</li> </ul>	<p>Our audit work has not identified any issues in respect of property, plant and equipment valuations.</p>

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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 30 July 2019.

## **Preparation of the financial statements**

The Council presented us with draft financial statements in accordance with the national deadline, 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 financial statements**

We reported the key issues from our audit to the Council's Audit and Governance Committee on 24 July 2019.

Our action plan is outlined in Appendix B of this document.

## **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 alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

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

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

## **Certificate of closure of the audit**

We certified that we have completed the audit of the financial statements of Tewkesbury Borough Council in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

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# Value for Money conclusion

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 risks where we concentrated our work.

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

## **Overall Value for Money 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 2019.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Our 2017-18 VFM conclusion highlighted that the Council must ensure it develops a robust savings plan in order to deliver its annual budgets with sufficient capacity to manage its emerging cost pressures over the duration of its Medium Term Financial Strategy (MTFS). The ongoing challenge of increasing service costs, as well as the reliance on the continuation of the New Homes Bonus and anticipated use of reserves enforces the need to identify additional sources of income in order to secure its financial sustainability for the future.</p>	<p>We reviewed:</p> <ul style="list-style-type: none"> <li>the Council 's arrangements to establish how it is identifying, managing and monitoring these financial risks.</li> <li>the robustness of the Council's financial plans and its key assumptions supporting the development of its MTFP and savings plans.</li> <li>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.</li> </ul>	<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. The MTFS contains important strategic planning in a number of areas and its latest version was reported to members at a meeting of Council on 29 January 2019 which identified a £3.526m funding gap over the 5 year period of the MTFS.</p> <p>Over recent years, the Council has put in place a number of service reconfigurations, shared service arrangements and have already exhausted a number of commercialisation opportunities to reduce costs and generate new income streams.</p> <p>There remains 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. This is not sustainable in the medium to long term.</p> <p>A savings plan is detailed and was approved as part of the MTFS. Due to the limited opportunity to gain savings without impacting on services the focus of 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. The Council have continued to engage members through the Transform Work Group. The group of members consider budgetary matters and comment on new opportunities and schemes that are available to the Council prior to the approval process through Executive Committee and Council. This engagement is vital to the progression of officers' plans to bridge the current forecasted deficit and has seen pay off in the financial year. <i>(continued overleaf)</i></p>

# Value for Money conclusion

## Value for Money Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Our 2017-18 VFM conclusion highlighted that the Council must ensure it develops a robust savings plan in order to deliver its annual budgets with sufficient capacity to manage its emerging cost pressures over the duration of its Medium Term Financial Strategy (MTFS). The ongoing challenge of increasing service costs, as well as the reliance on the continuation of the New Homes Bonus and anticipated use of reserves enforces the need to identify additional sources of income in order to secure its financial sustainability for the future.</p>	<p>We reviewed:</p> <ul style="list-style-type: none"> <li>the Council 's arrangements to establish how it is identifying, managing and monitoring these financial risks.</li> <li>the robustness of the Council's financial plans and its key assumptions supporting the development of its MTFP and savings plans.</li> <li>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.</li> </ul>	<p>The final General Fund revenue outturn position for the full year was reported as a £2.68m surplus. This was a significant increase against the quarter three position and the outturn of previous years. The budgeted transfer to reserves was £777,720 with an actual outturn transfer totalling £3,463,217. Total useable reserves now stands at over £14m which puts the council in a great position moving forward. This surplus was aided by the increase of Council Tax by the maximum 5% in year, with an assumption in the MTFS that this will continue for the next 5 years. This is vital to the financial sustainability of the Council. During the year, several other opportunities and schemes have been utilised which have had a positive impact on the outturn position. This includes a positive position on the retained business rates scheme with a surplus against budget of £1,179,391 in year. In addition to this base position the Council were also able to take advantage of the 100% Business Rate Retention Pilot in Gloucestershire for 2018/19. resulting in additional income for Tewkesbury of £882,000.</p> <p>Other positive steps that have been taken include the success of the garden waste stickering system which performed above expectations and the launch of the carpool pilot to reduce mileage and other travel costs. The Council also had their Garden Town status bid approved which aims to help the Council deliver up to 10,000 houses over the period to 2041. Councils and groups from around the country submitted more than 100 ambitious proposals with the 5, including Tewkesbury's, taken forward resulting in an initial £750,000 investment to help develop plans for vibrant, thriving settlements where people can live, work and raise families.</p>

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and **provision of non-audit services**.

## Reports issued

Report	Date issued
Audit Plan	March 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

## Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	34,589	39,089	44,921
<b>Non-Audit Services</b>			
Housing Benefit Grant Certification	7,795	TBC	13,421
<b>Total fees</b>	<b>42,384</b>	<b>TBC</b>	<b>58,342</b>

### Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £34,589 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
<b>Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£1,500
<b>Pensions – IAS 19</b>	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£1,500
<b>PPE Valuation – work of experts</b>	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£1,500
<b>Total</b>		£4,500

Fee variations are subject to PSAA approval.

## B. Action Plan

We have identified two recommendations 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 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	●	<ul style="list-style-type: none"> <li>As noted above, we extended our sample of Fees and charges due to identifying an error within the sample population. We identified that a large proportion of one of the sample items related to 2019/20, but the whole balance was included as 2018/19 income.</li> </ul>	<ul style="list-style-type: none"> <li>We recommend that management review their processes for identifying receipts in advanced in order to reduce the level of errors in future periods.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>There is already a robust procedure in place to review all invoices raised in the year for receipts in advance. There are few non-invoiced income amounts that would require apportionment however we will review all such items and ensure these are all included in our receipts in advance process.</li> </ul>
2	●	<ul style="list-style-type: none"> <li>As noted above, we identified one £25,000 item within the cashflow statement that could not be verified to an external source. Without this item, the cash flow statement would not balance.</li> </ul>	<ul style="list-style-type: none"> <li>We recommend that management undertake a retrospective review of the 2018/19 cash flow statement in order to identify the reasons behind the balancing item as well as to ensure this difference will not be brought forward into 2019/20.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>This has been identified as an area for review and we have identified ways to automate this process more (so requiring less human analysis at the year end). We will endeavour to review the 2018-19 cash flow and implement improved procedure in future years.</li> </ul>

### Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice



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