

The Annual Audit Letter for Forest of Dean District Council

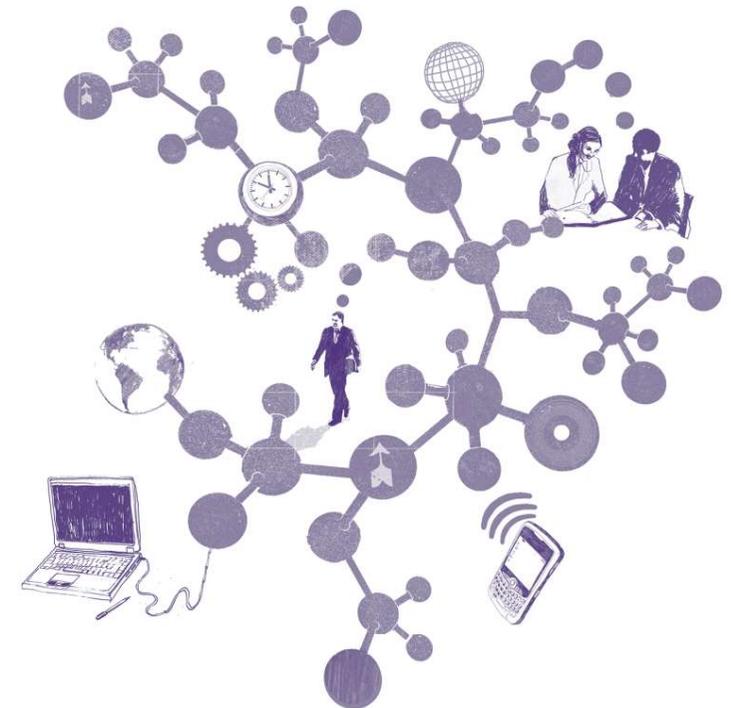
Year ended 31 March 2017

17 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 the Forest of Dean District 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 22 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 22 September 2017.

Certificate

We certified that we had completed the audit of the accounts of the Forest of Dean District Council in accordance with the requirements of the Code on 22 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.

Other work completed

GO Shared Services signed up to CFO Insights, a Grant Thornton tool which provides the Council with instant access to insight on the financial performance, socio-economic context and service outcomes of every council in England, Scotland and Wales. The Council pays a proportion of the cost of this subscription.

We also provided a VAT and Employment Tax Support service to GO Shared Services for the period 1 April 2016 to 31 March 2017. Ethical standards applicable from the 1 April 2017 mean that this is now a blacklisted service and, as a result, the service has been discontinued. The Council paid a proportion of the cost of this service.

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:

- We shared our insight with you and provided regular audit committee updates covering best practice.
- We shared with you our thought leadership publications providing insight on topical issues in the sector including Brexit, Local Authority Joint Ventures and Integrated Reporting.
- We held quarterly liaison meeting with the Head of Paid Service and Section 151 Officer to discuss emerging issues.

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 £812,000, 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 of £10,000 for disclosures of audit fees and senior officer remuneration.

We set a lower threshold of £40,600, 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 Section 151 Officer 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

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 The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> Identified the controls in place by management to ensure that the pension fund liability is not materially misstated. We concluded that these controls were implemented as expected and they are sufficient to mitigate the risk of material misstatement Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out Undertook procedures to confirm the reasonableness of the actuarial assumptions made Reviewed 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 work in respect of the pension fund net liability.</p>
<p>Operating Expenses Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention: Creditors and accruals understated or not recorded in the correct period.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> Documented our understanding of processes and key controls over the transaction cycle Undertook a walkthrough of the key controls to assess whether those controls were in line with our documented understanding Obtained an understanding of the accruals process Undertook substantive testing of year end creditor and accrual balances. 	<p>Our audit work did not identify any significant issues in relation to this risk.</p>

Audit of the accounts (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Employee Remuneration Payroll expenditure represents a significant percentage of the Council's gross expenditure. We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> • Employee remuneration accruals understated 	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Documented our understanding of processes and key controls over the transaction cycle • Undertook at walkthrough of the key controls to assess whether those controls were in line with our documented understanding • Trend analysis of months 1-12 • Reviewed the reconciliation of the employee remuneration system to the general ledger 	<p>Our audit work did not identify any work in relation to this risk.</p>
<p>Changes to the presentation of local authority financial statements 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 affected 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 was also required.</p>	<p>As part of our audit work we :</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 were 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>We requested that management clearly identify the EFA as a note to the accounts on the contents page of the Statement of Accounts.</p> <p>No further issues have been identified in relation to this risk.to this risk.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 22 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 at the end of May 2017. The accounts were supported by good quality working papers. This is whole month earlier than last year and a year ahead of the statutory timetable change, effective from 2017/18, when all Local Authority draft accounts will need to be presented for audit by 31 May with the auditors work concluded by 31 July

The draft accounts were subsequently revised in June 2017 to reflect discussions on the accounting treatment in respect of the BIFFA lease. Despite this, the early production this year places the Council in a strong position to achieve the earlier deadline effective from 2017/18.

The finance team responded promptly and efficiently to our queries during the audit.

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 were identified that affected the Council's reported financial position.

We made recommendations to improve a small number of control weaknesses identified in relation to IT controls.

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.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

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 on page 10-13.

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

- We recommend that the full MTFS including detailed assumptions should be presented to Council on an annual basis.

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

Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Medium term financial position The Council have been required to deliver substantial savings since 2010/11, and forecast continued significant savings requirements going forward. The current MTFS includes a balanced position for 2017/18, but includes a number of unidentified savings over the period to 2019/20.</p> <p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities.</p>	<ul style="list-style-type: none"> Reviewed achievement of savings in 2016/17 Reviewed the MTFS, including the assumptions that underpin the strategy. Understood how savings are identified and monitored to ensure that they support the delivery of budgets 	<p>The updated MTFS extract 'Budget Strategy for Closing the Funding Gap 2016-2020 was presented to Cabinet and approved by Council in February 2017 and includes a total savings and increased income target of £2,781k. A savings target of £165k was set for 2016/17 and additional savings of £447k were achieved. The original budget set by Council in February 2017 included a contribution of £418k from the future deficit reserve in order to set a balanced budget. The end of year financial results meant the Council has not had to draw on this reserve and has instead made a net contribution to the future deficit reserve of £29k.</p> <p>The Council has set a balanced revenue budget for 2017/18. The Council's proportion of Council Tax has increased by 2% in 2017/18.</p> <p>The Council has identified a savings target of £713k for 2017/18 plus an income improvement target of £415k from business rates and additional recycling income. £679k (95%) of the savings target and £250k (60%) of the income target has already been achieved. The MTFS identifies a further savings and income growth requirement of £1,488k for the two years 2018/19 to 2019/20. The Council plans to achieve the bulk of these savings through further joint working with 2020 Vision partners via the newly established Publica Group. A 2% annual increase in council tax until 2019/20 and the Council's deficit reduction reserve means the Council is well positioned to tackle the financial risks facing it in the medium term.</p> <p>Budgets are supported until 2018/19 through the use of £815k of the future deficit reserve. The General Fund Balance is expected to remain at its current level of £851k.</p> <p>A high level review of the planning process and assumptions underpinning the budget including the basis of the new homes bonus and business rate income gives assurance that the process is robust and comprehensive, considering both the risks and opportunities at a strategic and operational level across the Council.</p> <p>Savings are monitored on a quarterly basis through reporting to Cabinet. Savings in relation to the 2020 Partnership are also monitored through the 2020 Partnership Joint Committee that includes Council member representation.</p>

Value for Money

Value for money risks (continued)

Risk identified	Work carried out	Findings and conclusions
		<p>The Strategic Overview and Scrutiny Committee that comprises of fifteen councillors, challenges the Cabinet member, Head of Paid Service and Deputy Section 151 Officer over the assumptions and savings plans underpinning the 2017/18 budget. This process provides a good level of scrutiny to the budget before Cabinet and full Council approval.</p> <p>The Council has demonstrated a robust planning process and challenge of expenditure assumptions. This together with the cushioning provided by the future deficits reserve and proven track record of delivering savings to contain expenditure within available resources means the Council is well positioned to tackle the financial risks facing it in the medium term.</p> <p>Should the savings required via the 2020 Programme not be realised the Council will either need to use general fund balances or cut discretionary services. Progress made in the development of the 2020 Vision Partnership is considered below.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities.</p>

Value for Money

Value for money risks (continued)

Risk identified	Work carried out	Findings and conclusions
<p>2020 Vision The Council continues to progress its 2020 Vision partnership arrangement with Cheltenham Borough Council, West Oxfordshire and Cotswold District Councils. The success of 2020 Vision, through the members working together effectively, is critical to the medium term financial strategy at Forest of Dean District Council. This links to the Council's arrangements for working with third parties effectively to deliver strategic priorities, managing risks effectively, maintaining a sound system of internal control and demonstrating and applying the principles and values of sound governance.</p>	<ul style="list-style-type: none"> • Reviewed progress made in the development of the 2020 Vision programme and formation of a local authority owned company. • Understood how the councils are working together to deliver the planned savings whilst maintaining quality • Reviewed the level of programme delivery, including the timescale and scope of implemented efficiencies. 	<p>A decision was taken by the 2020 partner authorities in September and October 2016 to establish a 'Teckal' company as recommended by the 2020 Joint Committee. Publica Group (Support) Ltd has been registered with Companies House. The Council will be entering into contracts with the company to deliver joint services. Preparation work including legal documentation and agreements based on governance are being drafted. The local authority companies were incorporated in April 2017, and are planning to deliver services for the partner councils from Autumn 2017.</p> <p>Each partner has representation on the 2020 Joint Committee. The Joint Committee provides political direction and guidance, oversees the delivery of shared services, determines HR, Finance and ICT policies under delegation from councils and ensures the 2020 Vision business case benefits are delivered for each individual Council as well as the partnership. Quarterly meetings are held and reports presented include Client Officer Group updates which consider the performance of shared services being delivered across the partnership, as well as updates in relation to the governance arrangements being progressed.</p> <p>A Partnership Commissioning Group which includes representatives from all four councils has also been in place during 2016/17 to support the Joint Committee and is collectively accountable for the realisation of the 2020 Vision benefits. A Programme Team has also been in place to deliver the 2020 Vision, supported by strategic advisors and programme resources and is responsible for the management and delivery of the programme, projects, activities and benefit realisation.</p> <p>The savings target from the 2020 Vision Programme has been increased to reflect the 2020 Partnership Updated Business Case for a Company Model presented to Cabinet in October 2016 and have been re-profiled to latest anticipated outcomes including revised annual savings of £1,527k for the Council. Additional set up costs of £594k are to be funded from budget savings.</p>

Value for Money

Value for money risks (continued)

Risk identified	Work carried out	Findings and conclusions
		<p>The Shared Public Protection Project has been completed and the new Environmental and Regulatory Services (ERS) Group went 'live' in August 2016. The benefits outlined in the business case have been achieved, including annual savings in excess of £236k attributable to the Forest of Dean District Council. Overall, the key priorities in the service delivery plan are on track to be delivered.</p> <p>Cashable savings to date are on profile with savings already delivered in 2015/16 and 2016/17 across the partnership of £2.3 million. Programme spend to date is within budget.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for working with partners.</p>

Appendix A: Reports issued and fees

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

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	46,913	46,913	46,913
Housing Benefit Grant Certification	9,368	TBC	7,590
Challenge work*		3,639*	0
Total fees (excluding VAT)	56,218	TBC	54,503

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

* Work in respect of an objection received from a local elector in 2015/16

Reports issued

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

Fees for other services

Service	Fees £
Non-audit services	
CFO Insight subscription	1,875
VAT and Employment Tax Support	417
Audit related services	Nil

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. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.



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