

# The Annual Audit Letter for Forest of Dean District Council

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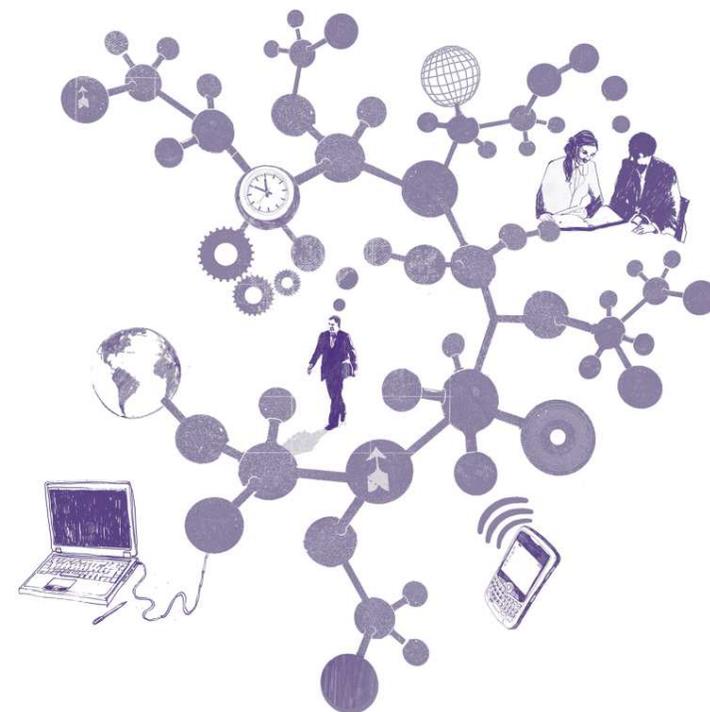
**Year ended 31 March 2016**

19 October 2016

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# Executive summary

## **Purpose of this letter**

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

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

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 22 September 2016.

## **Our responsibilities**

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

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

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

## **Our work**

### **Financial statements opinion**

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

### **Value for money conclusion**

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

### **Certificate**

We are currently unable to certify that we have completed the audit of the accounts of Forest of Dean District Council as we have not yet completed work in respect of an objection received from a local elector.

### **Certification of grants**

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

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## **Working with the Council**

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

- We delivered an efficient audit, and issued our opinion on the financial statements and value for money conclusion before the deadline and in line with the timescale we agreed with you.
- We shared our insight with you and provided regular audit committee updates covering best practice, along with our thought leadership publications.
- We provided free training on the role of the audit committee and audit committee effectiveness for your members and the other Gloucestershire Councils.
- We have provided you access to our tax and VAT helpline to support you and the other GO Shared Services bodies with tax 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 2016**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

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

We determined materiality for our audit of the Council's accounts to be £810,100, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as senior officer remuneration, salary bandings, members allowances, exit packages and auditors' remuneration.

We set a lower threshold of £40,505, above which we reported errors to the Audit Committee in our Audit Findings Report.

### **The scope of our audit**

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

This includes assessing whether:

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

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

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

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

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

# Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Reviewed accounting estimates, judgments and decisions made by management</li> <li>• Tested journal entries and year end adjustments</li> <li>• Reviewed unusual significant transactions</li> </ul> <p><b>We did not identify any issues to report</b></p>
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Forest of Dean District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Forest of Dean District Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p><b>We did not identify any issues to report</b></p>
<p><b>Financial statement level risk arising from the systems upgrade of Agresso</b></p> <p>The Council uses Agresso as its main financial system which was upgraded in February 2016. The upgrade involved data migration from the old system to the new system and therefore there is a risk of loss of data integrity.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Reviewed the arrangements set up to plan and execute the upgrade from a finance and IT perspective.</li> <li>• Reviewed the reconciliations of balances before and after the transfer, and agreed these balances to underlying transactions.</li> </ul> <p><b>We did not identify any issues to report</b></p>

# Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of surplus assets and investment property</b></p> <p>The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13. The basis on which fair value is defined for investment property is also different to that used in previous years. This represents a significant change in the basis for estimation of these balances in the financial statements. There are also extensive disclosure requirements under IFRS 13 which the Council needs to comply with.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Reviewed the competence, expertise and objectivity of the management experts used</li> <li>• Reviewed the instructions issued to valuation experts and the scope of their work</li> <li>• Held discussions with valuer about the basis on which the valuation is carried out and challenged the key assumptions</li> <li>• Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>• Reviewed management's processes and assumptions for the calculation of the estimate</li> <li>• Tested revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>• Reviewed the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS13</li> </ul> <p><b>We did not identify any issues to report</b></p>
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>As part of our audit work 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. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement</li> <li>• Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation</li> <li>• Gained an understanding of the basis on which the valuation is carried out</li> <li>• Undertook procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>• Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the report from the actuary</li> </ul> <p><b>We did not identify any issues to report</b></p>

# 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
<b>Completeness of employee remuneration expenditure</b>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"><li>• Documented our understanding of controls operating in the employee remuneration system</li><li>• Performed a walkthrough to confirm that controls are operating as described</li><li>• Performed a reconciliation of the payroll system outputs to the general ledger and financial statements</li><li>• Performed trend analysis on payroll expenditure data for the year to identify any areas that require further investigation</li></ul> <p><b>We did not identify any issues to report</b></p>
<b>Completeness of operating expenditure</b>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"><li>• Documented our understanding of the controls operating in the operating expenditure system</li><li>• Performed a walkthrough to confirm that controls are operating as described</li><li>• Obtained an understanding of the accruals process and sample tested accruals to ensure that these are calculated on a reasonable basis</li><li>• Tested for unrecorded liabilities through a review of payments made after the year end</li></ul> <p><b>We did not identify any issues to report</b></p>

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# Audit of the accounts

## **Audit opinion**

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

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

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 22 September 2016.

In addition to the key audit risks reported above, we identified a small number of control weaknesses we identified during our review of IT general controls that we have asked the Council's management to address for the next financial year. Management have accepted our recommendation.

## **Annual Governance Statement and Narrative Report**

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

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

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# Value for Money conclusion

## **Background**

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

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

## **Key findings**

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

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

## **Overall VfM conclusion**

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

# Value for Money

## Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p><b>Medium term financial position</b></p> <p>The Council have been required to deliver substantial savings since 2010/11, and forecast continued significant savings requirements going forward.</p> <p>The current Medium Term Financial Strategy (MTFS) includes a balanced position for 2016-17, but includes a number of unidentified savings over the period to 2019-20.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>Reviewed the MTFS, including the assumptions that underpin the plan.</li> <li>Reviewed how savings are identified and monitored to ensure that they support the delivery of budgets.</li> </ul>	<p>The Council's current MTFS presented to Cabinet in October 2015 and updated in February 2016, runs to 2019/20. The MTFS financial gap between what the Council needs to spend to maintain services and the funding available over the period 2016/17 – 2019/20 was identified as £2.039m including £0.464m in 2016/17. The MTFS included a budget strategy for closing the funding gap resulting in a balanced budget to 2019/20. During the budget setting process, the MTFS was updated to reflect the proposed funding settlement and other known changes. The 2016/17 budget proposal taken to Cabinet and Council meetings in February showing a cumulative funding gap to 2019/20 of £2.368m and a funding gap of £0.659m in 2016/17. The changes were mainly driven by a funding settlement that was lower than expected.</p> <p>The MTFS has three key methods of dealing with the projected budget gap:</p> <ul style="list-style-type: none"> <li>A number of savings initiatives including 2020 Vision to close the budget gap. £993k of the £2.368m savings required in the next five years are reliant on savings which are expected to be achieved via shared services. Savings are 'RAG' rated, with all but two the 2016/17 and 2017/18 projects rated as green. As would be expected, savings further into the future are rated amber or red.</li> <li>The use of the future deficits earmarked reserves to provide greater resilience and time for savings expected through the 2020 partnership to be established. The draw on this reserve over the years 2016/17 to 2019/20 equates to £1.024m but this will allow time for the work-streams to deliver the necessary savings in a managed way.</li> <li>Increased Council tax by 1.99% in 2016/17; the first increase to be made in five years.</li> </ul> <p>The Council are also using 100 per cent of their projected New Homes Bonus (NHB). Although based on prudent and reasonable assumptions, in common with a number of other authorities, this level of utilisation leaves the Council exposed to any further changes in government policy surrounding NHB. The Council recognise this in the 2016/17 budget paper.</p> <p>The MTFS takes into account the factors we would expect, is updated sufficiently regularly and is responsive to significant events in the annual financial cycle. The assumptions employed within the projections appear to be appropriate and reasonable, and are based upon known contractual obligations where these are known.</p> <p>The Council has a proven track record of delivering savings to contain expenditure within available resources. Savings and efficiencies have already been established through sharing back office support (HR and Finance via the GOSS partnership) and via a shared ICT service as well as through the transfer of the management of leisure services to Freedom Leisure in October 2015. Should the savings required via the 2020 Programme not be realised the Council will either have to use general fund balances or cut discretionary services. Progress made in the development of the 2020 Vision partnership is considered below.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</b></p>

# Value for Money

## Value for money risks continued

Risk identified	Work carried out	Findings and conclusions
<p><b>2020 Vision</b></p> <p>The Council continues to progress the 2020 Vision partnership arrangement with Cheltenham Borough, Council Cotswold and West Oxfordshire District Councils.</p> <p>The success of 2020 Vision, through the members working together effectively, is critical to the medium term financial plan at Forest of Dean District Council.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>Reviewed the progress made in the development of the 2020 Vision</li> <li>Understood how the Joint Committee is operating and how the Councils are working together to deliver the planned savings</li> </ul>	<p>In early 2015 the four Councils involved in the 2020 Vision partnership established a Member Governance Board and an interim management team (including a Partnership Managing Director and a Programme Director) to progress the 2020 Vision programme prior to creating more permanent arrangements. All partner councils voted to go forward with the 2020 Vision programme in October 2015. A Joint Committee for all partner Councils came into operation in February 2016. The Joint Committee is now responsible for a number of core activities which include:</p> <ul style="list-style-type: none"> <li>Financial rules and procedures.</li> <li>HR policies and procedures.</li> <li>Developing a common ICT platform and applications.</li> <li>Customer focussed service redesign.</li> </ul> <p>Each partner has appointed two elected members as its representatives on the Joint Committee. The 2020 Programme has appointed a number of 'Group Managers' to plan business cases to incorporate a cross section of services from the partner councils into the 2020 Programme. The overall business case for the programme is currently being reviewed and updated and initial indications are that the original savings programme will be achieved. Some savings have already been taken by partner councils and the Public Protection Project is now largely complete with a phased implementation up to August 2016 when the new structure will be fully operational.</p> <p>Savings have already been achieved through the establishment of the 'core' 2020 project team to which the Council's Strategic Director was seconded, this team was funded through 2020 project government funding. Further savings from the programme have been delivered earlier than anticipated. Cashable savings to date are on profile with savings already delivered in 2015/16 and 2016/17 of £2.3m. Programme spend to date is within budget.</p> <p>Governance arrangements are developing, a Constitution and Scheme of Delegation was approved by the Joint Committee in February 2016.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</b></p>

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# Working with the Council

## **Our work with you in 2015/16**

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

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

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

Thought leadership – We have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services. You attended our free income generation workshop in October 2016.

Providing training and free workshops – we provided your teams with training on financial accounts and annual reporting. We also provided your Audit Committee members with free training on the role of the Audit Committee and Audit Committee effectiveness.

Support outside of the audit – Our tax and VAT team provided advice to you and the other GO bodies.

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# Working with the Council

## **Working with you in 2016/17**

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

Locally our focus will be on:

- An efficient audit – continuing to deliver an efficient audit and working with you to bring forward your accounts closure in advance of the faster close requirement in 2017/18.
- Understanding your operational and financial health – we will continue to focus our value for money conclusion work on your financial health, and consider the evolving arrangements over the 2020 Vision Programme with your neighbouring Councils.
- We will provide you with access to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.
- We have provided you access to our Internal Audit specialists to offer you independent advice and support as you have evaluated your options for the future provision of internal audit services to the Council.

# Appendix A: Reports issued and fees

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

## Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	46,913	TBC	62,550
Housing Benefit Grant Certification	7,590	TBC	13,243
<b>Total fees (excluding VAT)</b>	<b>54,503</b>	<b>TBC</b>	<b>75,040</b>

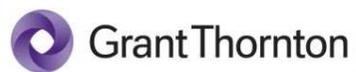
Actual fees for 2015/16 still to be confirmed as we have not yet completed work in respect of an objections received from a local elector and work to certify the Council's Housing Benefit subsidy claim

## Reports issued

Report	Date issued
Audit Plan	April 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016

## Fees for other services

Service	Fees £
<b>Non-audit services</b>	
VAT and Employment Tax Support	<b>417</b>



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