

The Audit Findings for Cheltenham Borough Council

Year ended 31 March 2019

19 July 2019



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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 findings and other matters arising from the statutory audit of Cheltenham Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and• 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. <p>We are also required to report whether 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>Our audit work was completed on site during June and July 2019. Our findings are summarised on pages 4 to 34. We have identified three adjustments to the financial statements which have resulted in £nil adjustment to the Council's Comprehensive Income and Expenditure Account. 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>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion Appendix E or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none">- Receipt of management representation letter;- Receipt of the Cheltenham Borough Homes Group Reporting documents;- Completion of a small number of outstanding queries; and- Review of the final set of financial statements. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unmodified.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, 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').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Cheltenham Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 17 to 22.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and• To certify the closure of the audit.	<p>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/ but are unable to issue our completion certificate until we complete] (please note - subject to completion of our final audit work and receipt of items per page 2).</p>

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 Report 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 have been discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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 group's business and is risk based, and in particular included:

- an evaluation of the group's internal controls environment, including its IT systems and controls;

- an evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for Cheltenham Borough Homes Limited and Gloucestershire Airport were required, which were completed by Bishop Fleming LLP and Hazlewoods LLP respectively; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 23 January 2019.

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 24 July 2019, as detailed in Appendix E. These outstanding items include:

- receipt of management representation letter;
- receipt of the Cheltenham Borough Homes Group Reporting documents;
- completion of a small number of outstanding queries; and
- review of the final set of financial statements.

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 remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Cheltenham Borough Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£1,599,560	1,569,400	This equates to 2% of your gross expenditure.
Performance materiality	£1,199,670	£1,177,050	This equates to 75% of Materiality.
Trivial matters	£79,978	£78,470	ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.
Materiality for Senior Officer Remuneration	£20,000	£20,000	Senior Officers' Remuneration and Members Allowances are balances which require a lower materiality due to the sensitive nature of these balances.

Significant findings – 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 Cheltenham Borough Council, mean that all forms of fraud are seen as unacceptable

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

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. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.

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

Auditor commentary

We have performed the following work in respect of this risk:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any issues in respect of management override of controls.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of property, plant and equipment

The Council revalues its land and buildings on a rolling basis 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 and impairments as a risk requiring special audit consideration.

Auditor commentary

We have performed the following work in respect of this risk:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- communicated with the valuer to confirm the basis on which the valuations were carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested revaluations made during the year to ensure they have been input correctly into the group's asset register
- evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Our audit work has identified the following issues in respect of valuation of property, plant and equipment:

- We note that on revaluation of property, plant and equipment, the carrying amount of that asset is adjusted to the revalued amount and subsequently, any accumulated depreciation and impairment at the date of valuation should be eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. We identified that accumulated depreciation had not been eliminated against the gross carrying amount of the asset for Council Dwellings. Management have agreed to adjust the Statement of Accounts.
- Our audit work has not identified any other issues in respect of valuation of property, plant and equipment.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

4

Valuation of investment properties

The Council revalues its investment properties 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.

We identified the valuation of investment property revaluations as a risk requiring special audit consideration.

Auditor commentary

We have performed the following work in respect of this risk:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- communicated with the valuer to confirm the basis on which the valuations were carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register
- evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to fair value.

Our audit work has not identified any issues in respect of valuation of investment properties.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

5

Valuation of pension fund net liability

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.

Auditor commentary

We have performed the following work in respect of this risk:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;
- agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; and
- obtained assurances from the auditor of the Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data; and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Our audit work has not identified any issues in respect of the Pension Fund net liability.

The Council has requested an estimate from its actuary of the potential impact of the 'McCloud' ruling and GMP equalisation changes. The actuary's estimate was of a possible increase in pension liabilities of £442,000. We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.

Significant findings arising from the group audit


Component	Component auditor	Findings	Group audit impact
Cheltenham Borough Homes Ltd	Bishop Fleming LLP	<ul style="list-style-type: none"> The audit opinion of Cheltenham Borough Homes is due to be issued by Bishop Fleming LLP on 25 July 2019. At the date of this report, no significant issues were identified, subject to receipt of the final Group Reporting documents and the receipt of the audit opinion. We have performed audit procedures over the consolidation adjustments within the Group accounts. No issues have been identified as a result of our audit procedures. 	Auditor view <ul style="list-style-type: none"> Our audit work has not identified any issues in respect of the specified procedures performed, subject to receipt of the final Group Reporting documents and the receipt of the audit opinion.
Gloucestershire Airport Ltd	Hazlewoods LLP	<ul style="list-style-type: none"> An unqualified audit opinion of Gloucestershire Airport Ltd was issued by Hazlewoods LLP on 10 July 2019. No significant issues were identified. We have performed audit procedures over the consolidation adjustments within the Group accounts. No issues have been identified as a result of our audit procedures. 	Auditor view <ul style="list-style-type: none"> Our audit work has not identified any issues in respect of the specified procedures performed.
Publica Group (Support) Ltd	N/A - Analytical review performed by Grant Thornton UK LLP	<ul style="list-style-type: none"> The Council jointly owns (with Cotswold District Council, the Forest of Dean District Council and West Oxfordshire District Council) Publica Group (Support) Limited, a wholly owned company, limited by guarantee, operating with Mutual Trading Status to deliver services on behalf of the Council and services to other members Councils under contract. We reported in our Audit Plan that group accounts would be prepared in 2018/19 to reflect this arrangement. While the Council has an interest in the Company the Council's share of profit for the year and net assets at the balance sheet date have not been consolidated into the Council's single entity accounts. The figures involved are not material to the accuracy of the accounts. Officers concluded that consolidation would not provide the reader of the accounts with any more information than is already provided within the narrative report, related party transaction and critical judgement note. The Council has not prepared Group Accounts on this basis The Council will continue to monitor this position on an annual basis to see if the position changes. 	Auditor view <ul style="list-style-type: none"> After consideration of both materiality and qualitative considerations of the Council, we concur with their view that it is reasonable to not prepare group accounts. The Council have included their consideration of qualitative and quantitative factors within the Critical Judgements note.
Ubico Ltd	N/A - Analytical review performed by Grant Thornton UK LLP	<ul style="list-style-type: none"> No significant issues were identified. 	Auditor view <ul style="list-style-type: none"> Our audit work has not identified any issues in respect of the specified procedures performed

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	
<p>1 Potential impact of the McCloud judgement</p> <p>The Court of Appeal has 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>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £313k, and an increase in service costs for the 2019/20 year of £139k.</p> <p>Management's view is that the impact of the ruling is not material for Cheltenham Borough Council, and will be considered for future years' actuarial valuations.</p>	<p>We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p> <p>We have included this as an uncertainty within Appendix C.</p>

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals - £1.628m	<p>The Council are responsible for repaying a proportion of successful rateable value appeals.</p> <p>A provision of £1.628m has been estimated for Cheltenham Borough Council for 2018/19 (£1.130m in 2017/18).</p> <p>The Council's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.</p>	<ul style="list-style-type: none"> From our review of the Provision for NNDR appeals, no issues were identified in regard to the valuation basis. The Council have estimated that if the assumed success rate of appeals were to increase by 1%, then the Council's share of its appeals provision would increase by £87,500. Overall we consider management's process and key assumptions to be reasonable. The estimate is adequately disclosed in the financial statements. 	 Green
Group Accounts	<p>In assessing the need for Group accounts, the Council has made a number of judgements to establish the boundaries of the Group.</p> <p>The Council has made a judgement not to consolidate the interest in Publica Group (Support) Ltd on the basis of immateriality.</p>	<ul style="list-style-type: none"> From our review of the Council's judgement not to consolidate Publica Group (Support) Ltd, no issues were identified. Overall we consider management's process and key assumptions to be reasonable. The estimate is adequately disclosed in the financial statements. 	
Leases	<p>In assessing the classification of leases in accordance with the Code, the Council has made a number of judgements to establish the nature of such leases.</p> <p>The Council has made a judgement to include the leases of vehicles and plant to Ubico as finance leases.</p>	<ul style="list-style-type: none"> From our audit work over Leases, no issues were identified. (Conclusion subject to completion of our final audit work). Overall we consider management's process and key assumptions to be reasonable. The estimate is adequately disclosed in the financial statements. 	
Fair value measurements	<p>In assessing the fair values of assets and liabilities in accordance with the Code, the Council has made a number of judgements to establish the fair values.</p> <p>The Council includes a number of judgements such as rent growth and discount rates where unobservable inputs are used.</p>	<ul style="list-style-type: none"> From our audit work over Financial Instruments, no issues were identified. Overall we consider management's process and key assumptions to be reasonable. The estimate is adequately disclosed in the financial statements. 	

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Property, Plant and Equipment Values- £371.9m	<p>The Council revalues its land and buildings on a rolling 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>The Council owns HRA dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. HRA dwellings are revalued every five years. In interim years the dwelling valuation is updated by reference to Existing Use Value for Social Housing. The year end valuation of Council Housing was £209.9m, a net increase of £10.9m from 2017/18 (£199.0m).</p> <p>Other land and buildings comprises £133.2m of assets. The council formally re-values its land and buildings on a rolling programme to ensure they are revalued at least every five years, however in accordance with the Code all land and building values are reviewed annually for material changes and re-valued at 31st March if necessary. Valuations have been carried out both internally by the council's property section and externally. Valuations of land and buildings were carried out using the methodologies and bases of estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council holds a number of specialised assets which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUUV) at year end.</p> <p>Surplus assets (£5.2m) are valued at their "highest and best use" and are deemed to be level 2 Valuations. All other assets are valued at Historical Cost, including Infrastructure (£10.7m) and Vehicles, Plant and Equipment (£3.2m)</p> <p>8.2% of Other Land and Buildings were revalued during 2018/19. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued by applying national indices to determine whether there has been a material change in the total value of these properties, and have considered other local factors. Management's assessment of assets not revalued has identified no material change to the property values. The total year end valuation of Other land and buildings was £133.2m, a net increase of £3.2m from 2017/18 (£130.0m)</p>	<ul style="list-style-type: none"> From our review of management's processes and assumptions for the calculation of the estimate, no issues were identified in regard to the valuation basis. We evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. Overall we consider management's process and key assumptions to be reasonable. The estimate is adequately disclosed in the financial statements. 	<p style="text-align: center;">● Green</p>

Assessment

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Significant findings – key judgements and estimates

Summary of management’s policy	Audit Comments		Assessment																								
<p>Net pension liability – £58.3m</p> <p>The Council’s net pension liability at 31 March 2019 is £58.3m (PY £50.7m) comprising the Local Government Pension Scheme.</p> <p>The Council uses the actuary firm Hymans Robertson to provide actuarial valuations of the Council’s assets and liabilities derived from these schemes.</p> <p>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p> <p>There has been a remeasurement of the net defined benefit liability of £(4.887)m during 2018/19.</p>	<ul style="list-style-type: none"> From our review of management’s processes and assumptions for the calculation of the estimate, no issues were identified in regard to the valuation basis. Overall we consider management’s process and key assumptions to be reasonable. The estimate is adequately disclosed in the financial statements. We have undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor’s expert) and performing any additional procedures suggested within the report. We have obtained assurances from the auditor of Gloucestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data. 	<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.4-2.5%</td> <td>● Green</td> </tr> <tr> <td>Pension increase rate</td> <td>2.5%</td> <td>2.4-2.5%</td> <td>● Green</td> </tr> <tr> <td>Salary growth</td> <td>2.8%</td> <td>Dependent on employer</td> <td>● Green</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>24.0 / 22.4</td> <td>23.7 – 24.4 / 21.5 – 22.8</td> <td>● Green</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>26.4 / 24.6</td> <td>26.2 – 26.9 / 24.1 – 25.1</td> <td>● Green</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4-2.5%	● Green	Pension increase rate	2.5%	2.4-2.5%	● Green	Salary growth	2.8%	Dependent on employer	● Green	Life expectancy – Males currently aged 45 / 65	24.0 / 22.4	23.7 – 24.4 / 21.5 – 22.8	● Green	Life expectancy – Females currently aged 45 / 65	26.4 / 24.6	26.2 – 26.9 / 24.1 – 25.1	● Green	<p>● Green</p>
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.4%	2.4-2.5%	● Green																								
Pension increase rate	2.5%	2.4-2.5%	● Green																								
Salary growth	2.8%	Dependent on employer	● Green																								
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Assessment

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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).

Going concern commentary

Management's assessment process

Management have set out their consideration of the appropriateness of the adoption of the going concern assumption in a paper dated 12 February 2019.

Officers have a reasonable expectation that the Council will continue in existence for the foreseeable future, based on cashflow projections. For this reason, they continue to adopt the Going Concern basis in preparing the financial statements.

Auditor commentary

- The disclosures in the accounts are considered appropriate.
- Management's assessment of the use of the going concern basis of accounting is appropriate.
- Management processes in respect of the going concern assessment are sufficient.

Work performed

We have review the Sector 151 Officer's assessment including the Medium Term Financial Strategy 2019/20-2022/23, and the 2019/20 budget, and are satisfied that the Going Concern basis is appropriate for the 2018/19 financial statements.

Auditor commentary

- Disclosures in the financial statements relating to material uncertainties are appropriate and sufficient.
- We have not identified a material uncertainty in relation to management's assessment of the use of the going concern basis of accounting.

Concluding comments

Our audit opinion will be unmodified.

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 Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. 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.
② Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	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.
④ Written representations	A letter of representation has been requested from the Council, which is included in the Audit Committee papers.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> <li data-bbox="568 746 2123 802">• We requested from management permission to send confirmation requests to the Council's bank. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. <li data-bbox="568 818 2123 906">• We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have received the final response from the pension fund auditor and have not identified any issues in respect of the Pension Fund net liability - (Conclusion subject to completion of our final audit work).
⑥ Disclosures	Our review found no material omissions in the financial statements.
⑦ Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> <li data-bbox="568 1050 1505 1074">• All information and explanations requested from management was provided. <li data-bbox="568 1090 1505 1114">• We did not experience any significant difficulties during the course of the audit.

Other responsibilities under the Code

Issue	Commentary
1 Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Two minor inconsistencies have been identified but has been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to appendix E
2 Matters on which we report by exception	<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"> 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 If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
3 Specified procedures for Whole of Government Accounts	<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. However, this work is not required at Cheltenham Borough Council as the Council does not exceed the threshold of £500m for assets (excluding PPE); liabilities (excluding Pension); income or expenditure.</p>
4 Certification of the closure of the audit	<p>We intend to certify/are unable to certify the closure of the 2018/19 audit of Cheltenham Borough Council in the audit opinion, as detailed in Appendix E.</p>

Value for Money

Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

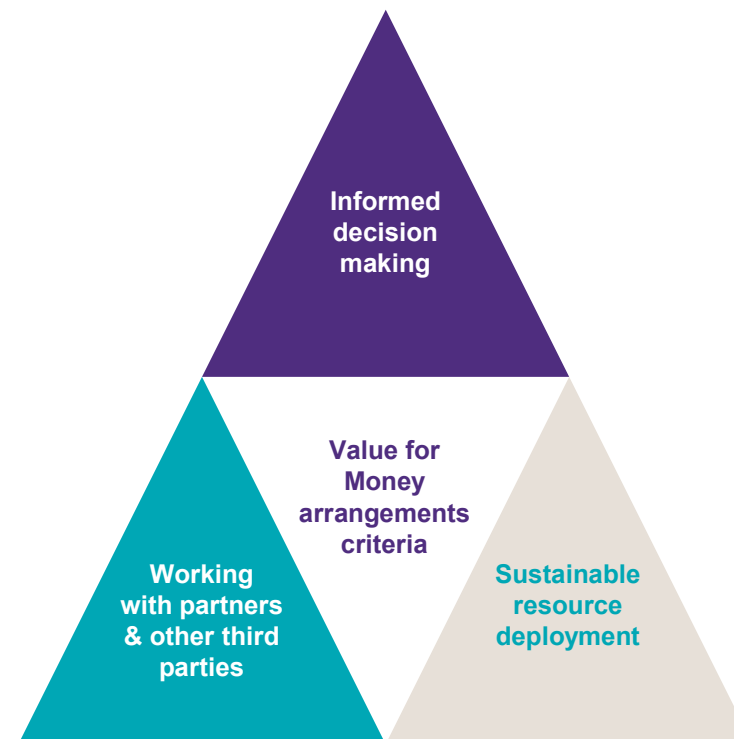
"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

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

Risk assessment

We carried out an initial risk assessment in November to January 2019 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 January 2019.

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.



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 Council's Medium Term Financial Strategy
- Publica Group (Support) Limited

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 17 to 22.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

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 were no matters 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.

1

Significant risk	Findings	Conclusion
<p>Medium Term Financial Plan</p> <p>In our audit plan dated January 2019, we highlighted the following risk.</p> <p>The Council have been required to deliver substantial savings since 2010/11, and forecast continued significant savings requirements going forward. The current MTFS indicates that the Council proposes to fund a gap of £2.019m with £1.6m of savings plans and additional income, with the residual gap to be funded from the Budget Strategy (Support) Reserve during 19/20, and also includes a number of savings plans, which are in the process of being developed, over the period to 2022/23.</p>	<ul style="list-style-type: none"> • Our detailed review of the assumptions underpinning the MTFS concludes that they are satisfactory and reasonable. • The Council has a strong track record of delivering balanced budgets and identifying required savings. Savings for 2018/19 have been achieved and the Council has delivered an underspend of £40k during the year, although as part of this, use of the Budget Strategy (Support) Reserve totalling £913k was required. There were no material variances to budget and the forecast underspend for the year as at Q3 is similar to actual - £43k forecast vs £40k actual. • Savings are monitored by Finance on a monthly basis. Savings are built into base budgets, and are therefore monitored through the variances reported in quarterly revenue budget monitoring. Any new capital scheme or projects with a financial implication have to be subject to a business case. Financial services will be involved in this process and have to sign off the financial business case, including the impact on the MTFS. Cabinet Members are involved on the project board, which is set up for all major schemes and are fully briefed and included in the project process, prior to a committee report being submitted for approval. This process is well established and has not significantly changed for a number of years. • The savings for 2019/20 have been identified and can be attributed to specific plans, such as the car parking strategy. The savings plans of £1.934m include £256k reliance on reserves. • The Budget Strategy (Support) Reserve is part of the Council's medium term strategy and was set up in 2015 specifically for the purpose of supporting the budget. The use of this reserve has been appropriately considered by the Section 151 Officer and approved by Cabinet and Council. We have considered the use of reserves in 2018/19 to deliver financial balance. The Council plan to use £256k of the Budget Strategy (Support) Reserve in 2019/20. The level of reserves is sufficient to support the budget for 2019/20 but beyond this it will have to be replenished. • We therefore note this as a recommendation within the AFR as the reserve will require replenishment by 2020/21 under current plans. We recommend that management continue to monitor the use of reserves when budget setting to ensure that into the medium term dependency on reserves is reduced. 	<p>Management response</p> <p>The Section 151 Officer regularly reports on the adequacy of reserves and reinforces the need to replenish reserves from any additional windfall income and underspends delivered.</p> <p>The Council has agreed a vision to become an enterprising and commercially focused Council which people are proud to work for and which others want to work with. The Council is committed to using its assets, skills and infrastructure to shape and improve public services and enable economic growth within the Borough.</p> <p>The Council has undertaken a number of 'commercialisation' workshops and masterclasses with its staff with the aim of generating significant levels of new income for the Council working towards the objective of enabling it to become financially sustainable by financial year 2021/22. The delivery of this vision through greater use of our assets and workforce will ensure dependency on reserves is significantly reduced over the course of the MTFS.</p>
<p>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>		
<p>We have made one recommendation in relation to the Council's use of reserves at Appendix A.</p>		

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.

2

Significant risk	Findings	Conclusion
<p>Publica Group (Support) Ltd</p> <p>In our audit plan dated January 2019, we highlighted the following risk.</p> <p>The Council transferred a number of services to Publica from 1 November 2017. Publica provides ICT, HR and finance services for Cheltenham Borough Council.</p>	<p>Background</p> <ul style="list-style-type: none"> The company, Publica Group was registered in the latter part of 2016/17. Executive and Non-Executive Directors were appointed to the Board in March 2017, and the first monthly Publica Board meeting took place in April 2017. The majority of staff transferred to the Company on the 1st November 2017. For three of the member councils, not including Cheltenham Borough Council, Publica directly manages public services. Publica provides reduced-scope services to Cheltenham Borough Council which include ICT, HR and finance functions. The Council hold 25% of the voting rights of Publica, and service delivery is managed within the company in accordance with the service contracts agreed by the Council. <p>Contract monitoring processes in place to ensure performance and quality standards are delivered in line with the original Business Plan</p> <ul style="list-style-type: none"> The company provides a mechanism to bring employees from across the partner Councils under a single employment arrangement. The company is independent of individual councils but accountable equally to all partners. As part of the establishment of Publica a number of items were identified as reserved matters for council approval to ensure that member councils retained an element of control over their company. The reserved matters were approved in October 2016 as part of the governance principles underpinning the establishment of Publica. Frequent informal and formal reporting is provided by Publica to enable the Councils to monitor performance and quality standards (including, for example, standards around data protection). This also includes informal, regular meetings and correspondence with the s151 Officer at the Council; providing an additional platform for issues to be discussed. Cabinet and the Overview and Scrutiny Committee continue to receive quarterly performance and finance reports which provide members with an understanding of the performance and quality of services delivered. Any underperformance issues would be addressed and challenged at these key meetings. Reports provided by Publica also provide a review of outturn against budget which include savings to be achieved through Publica. Explanations are provided for significant under and over spends. The Council has also included a risk around Publica service delivery within their corporate risk register which is reported to Cabinet. 	<p>Management response</p> <p>Since October 2018 the Council has strengthened its client and contract management arrangements, which has included:</p> <ul style="list-style-type: none"> Monthly Client liaison meetings between CBC and Publica are established to monitor operational performance Performance management metrics have been created, which are going live in quarter 1 of 2019/2020 There are meetings of the shareholders CBC has a new NED on the Publica Board The defining of roles and responsibilities work has also commenced and is expected to be completed in 2019/2020 Quarterly meeting between the Publica Group Manager and Executive Director of People & Change are in place
<p>We concluded that the Council has appropriate arrangements in place to monitor Publica's performance against quality standards in line with the original Business Plan.</p>		

2

Significant risk	Findings	Conclusion
Publica Group (Support) Ltd (cont.)	<p>The arrangements in place at the Council to ensure Publica is delivering required financial savings while maintaining agreed service standards</p> <ul style="list-style-type: none"> Publica's business plan includes a number of objectives, ambitions and key tasks against which their performance (and in particular, delivery of financial targets) can be measured and highlights the importance of providing robust data and performance metrics to the Councils' to that they can track their performance. The 2019/20 Business Plan was presented to Cabinet in May 2019. Cabinet and the Overview and Scrutiny Committee continue to receive quarterly performance and finance reports which provide members with an understanding of the performance and quality of services delivered. Reports also provide a review of outturn against budget which include savings to be achieved through Publica. The Q3 performance report identified that over 90% of KPIs are on or exceed target. We also note that the contract size for Cheltenham is significantly lower for Cheltenham than any of the other partners, being £1.339m for Cheltenham in 2019/20. The Plan notes that Publica delivered £0.48m of savings across the 2018/19 financial year for all four Councils in total and have a target of £0.93m for 2019/20. In addition to these business case savings, there are additional savings of £1.25m (again across all partners) for 2018/19. Publica are aiming to deliver a further £1.536m of savings across all four Councils for 2019/20. However for Cheltenham, the planned 2019/20 savings are negligible with a saving of £0.39m planned for 2019/20. Overall, this demonstrates the process by which the Council hold Publica to account through the Overview and Scrutiny Committee (which is responsible for monitoring performance, quality and improvement). Weekly meetings are held between officers of the Council and Publica, and briefings are provided to members on a regular basis. <p>We concluded that the Council has appropriate arrangements in place to ensure Publica is delivering required financial savings while maintaining agreed service standards.</p>	<p>Management response</p> <p>Since October 2018 the Council has strengthened its client and contract management arrangements, which has included:</p> <ul style="list-style-type: none"> Monthly Client liaison meetings between CBC and Publica are established to monitor operational performance Performance managements metrics have been created, which are going live in quarter 1 of 2019/2020 There are meetings of the shareholders CBC has a new NED on the Publica Board The defining of roles and responsibilities work has also commenced and is expected to be completed in 2019/2020 Quarterly meeting between the Publica Group Manager and Executive Director of People & Change are in place

	Significant risk	Findings	Conclusion
2	Publica Group (Support) Ltd (cont.)	<p>The Council's Governance arrangements to provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified.</p> <ul style="list-style-type: none"> We have considered the Governance arrangements of the Council over Publica, to provide appropriate oversight as one of the partnership organisations. In October 2016, the Council agreed the detailed governance principles applicable to Publica. These principles were incorporated within the Company's Articles and Association and the Members' Agreement, providing Councillors with rights to monitor the operational performance of the company. The 2019/20 Publica Business Plan was presented by the Publica Managing Director to Cabinet for consideration by members. This plan is based upon the principles and targets set out in business case which was approved by Council in 2016. Internally, the Council hold to account the managing director of Publica, and monitor the partnership through the Overview and Scrutiny Committee – this Committee is responsible for monitoring performance, quality and improvement. Weekly meetings are held between officers of the Council and Publica and briefings are provided to members. A Member Group comprised of the Chairmen of the Overview and Scrutiny Committees, representatives of the Cabinet and the Leaders of the Political Groups had been established to review the work of Publica, agreed as part of the year end performance meeting in May 2018. This Group represents a member platform for queries and discussions around Publica's performance and operations. In 2017/18 we raised a recommendation that arrangements for Council members to formally liaise and communicate with Publica should be agreed following the year anniversary of the operation of Publica. We understand that the first meeting has taken place in June 2019. The Council's Peer Review noted one recommendation around the governance of Publica. The report states: "...the council needs to be clear on what it expects Publica to provide. The history before and after 2016 means that there has been understandable uncertainty. Members and staff need clarity on respective client and contractor roles and responsibilities. Developing this clarity will enhance the relationship with increased certainty on respective expectations and will enable the model to begin to realise its potential to deliver community benefits and further efficiencies." <p>We concluded that the Council has appropriate arrangements in place to provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified.</p> <p>We recommend that the Council continue to develop clarity on respective roles and responsibilities and continue to strengthen the communication process with Publica Group (Support) Ltd Officers.</p>	<p>Management response</p> <p>Since October 2018 the Council has strengthened its client and contract management arrangements, which has included:</p> <ul style="list-style-type: none"> Monthly Client liaison meetings between CBC and Publica are established to monitor operational performance Performance managements metrics have been created, which are going live in quarter 1 of 2019/2020 There are meetings of the shareholders CBC has a new NED on the Publica Board The defining of roles and responsibilities work has also commenced and is expected to be completed in 2019/2020 Quarterly meeting between the Publica Group Manager and Executive Director of People & Change are in place

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. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Capital Receipts Grant	2,100	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2k in comparison to the total fee for the audit of £38k and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit	19,906	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £19.9k in comparison to the total fee for the audit of £38k and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO insights	3,750	Self-Interest (because this is a recurring fee)	We have provided subscription services only; any decisions are made independently by the Council. The work is undertaken by a team independent to the audit team.




These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

Action plan

We have identified two recommendations for the group 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.


1	Assessment	Issue and risk	Recommendations
	 Amber	<p>The Budget Strategy (Support) Reserve is part of the Council's medium term strategy and was set up in 2015 specifically for the purpose of supporting the budget. The use of this reserve has been appropriately considered by the Section 151 Officer and approved by Cabinet and Council. We have considered the use of reserves in 2018/19 to deliver financial balance. The Council plan to use £256k of the Budget Strategy (Support) Reserve in 2019/20. The level of reserves is sufficient to support the budget for 2019/20 but beyond this it will have to be replenished.</p>	<p>We raise this as a recommendation as the reserve will require replenishment by 2020/21 under current plans. We recommend that management continue to monitor the use of reserves when budget setting to ensure that into the medium term dependency on reserves is reduced.</p> <p>Management response</p> <p>The Section 151 Officer regularly reports on the adequacy of reserves and reinforces the need to replenish reserves from any additional windfall income and underspends delivered.</p> <p>The Council has agreed a vision to become an enterprising and commercially focused Council which people are proud to work for and which others want to work with. The Council is committed to using its assets, skills and infrastructure to shape and improve public services and enable economic growth within the Borough.</p> <p>The Council has undertaken a number of 'commercialisation' workshops and masterclasses with its staff with the aim of generating significant levels of new income for the Council working towards the objective of enabling it to become financially sustainable by financial year 2021/22. The delivery of this vision through greater use of our assets and workforce will ensure dependency on reserves is significantly reduced over the course of the MTFS.</p>

Key

-  High priority – Significant effect on Council's control systems or financial environment that requires urgent attention
-  Medium priority – There is some impact on Council's control systems or financial environment that requires attention to address in the medium term
-  Low priority – To move the Council to best practice

Action plan

We have identified two recommendations for the group 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
2	 Amber	<p>The Council's Peer Review noted one recommendation around the governance of Publica. The report states: "...the council needs to be clear on what it expects Publica to provide. The history before and after 2016 means that there has been understandable uncertainty. Members and staff need clarity on respective client and contractor roles and responsibilities. Developing this clarity will enhance the relationship with increased certainty on respective expectations and will enable the model to begin to realise its potential to deliver community benefits and further efficiencies"</p>	<p>We recommend that the Council continue to develop clarity on respective roles and responsibilities and continue to strengthen the communication process with Publica Group (Support) Ltd officers.</p> <p>Management response</p> <p>Since October 2018 the Council has strengthened its client and contract management arrangements, which has included:</p> <ul style="list-style-type: none"> • Monthly Client liaison meetings between CBC and Publica are established to monitor operational performance • Performance managements metrics have been created, which are going live in quarter 1 of 2019/2020 • There are meetings of the shareholders • CBC has a new NED on the Publica Board • The defining of roles and responsibilities work has also commenced and is expected to be completed in 2019/2020 • Quarterly meeting between the Publica Group Manager and Executive Director of People & Change are in place

Key

- High priority – Significant effect on Council's control systems or financial environment that requires urgent attention
- Medium priority – There is some impact on Council's control systems or financial environment that requires attention to address in the medium term
- Low priority – To move the Council to best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Cheltenham Borough Council's 2017/18 financial statements, which resulted in five recommendations being reported in our 2017/18 Audit Findings report. We have followed up on the implementation of our recommendations and note two are still to be completed.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	The Council currently has a balanced budget to 2021/22, however the achievement of the balanced budget is dependent on a number of red-rated savings from 2019/20.	Ongoing recommendation raised in 2019/20.
2	X	In order to set a balanced budget for 2018/19 the Council plans to use of £913k of its Budget Strategy (Support) reserve. This reserve was created in October 2015 specifically for future challenges around budget setting.	Ongoing recommendation raised in 2019/20.
3	✓	Recognising the evolving nature of governance arrangements, the council has appropriate arrangements in place for working with Publica. Arrangements for Council members to formally liaise and communicate with Publica should be agreed following the year anniversary of the operation of Publica	No ongoing issues noted for 2018/19 with regards to this issue.
4	✓	A number of IT deficiencies were identified as part of our 2017/18 IT review.	No ongoing issues noted for 2018/19 with regards to this issue.
5	TBC	A formal lease is not in place between Ubico and Cheltenham Borough Council for arrangements to lease recycling and refuse vehicles from the Council to Ubico.	Work in progress - (Conclusion subject to completion of our final audit work).

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.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
1 We note that on revaluation of property, plant and equipment, the carrying amount of that asset is adjusted to the revalued amount and subsequently, any accumulated depreciation and impairment at the date of valuation should be eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. We identified that accumulated depreciation had not been eliminated against the gross carrying amount of the asset for Council Dwellings. Management have agreed to adjust the Statement of Accounts for the reclassification and to restate the 2018/19 and 2017/18 property, plant and equipment notes. The net effect on the Statement of Financial Position is £nil.	£nil	£15,078 £(15,078)	£nil
2 We note that currently the surplus or deficit on revaluation of financial instruments carried at Fair Value is being taken through Other Comprehensive Income for Pooled Funds, rather than through Profit and Loss. Management have agreed to adjust the Statement of Accounts for the reclassification. The net effect on the Comprehensive Income and Expenditure Statement is £nil.	£178k £(178)k	£nil	£nil
Overall impact	£nil	£nil	£nil

Audit Adjustments

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 omission	Detail	Auditor recommendations	Adjusted?
Narrative Report	There were a number of other minor presentational adjustments and improvements made to enhance the quality of disclosure in the Narrative Report.	Presentational adjustments identified should be corrected in the final version of the Narrative Report.	✓
Narrative Report	We identified that a chart within the Narrative Report was not internally consistent with the Statement of Accounts.	Presentational adjustments identified should be corrected in the final version of the Narrative Report.	✓
Annual Governance Statement	A report within the AGS was required to be updated to provide a current position at 31 March 2019.	Presentational adjustments identified should be corrected in the final version of the Annual Governance Statement.	✓
Accounting policies	Disclosure regarding IAS 39 required in the accounts during the year of transition to IFRS 9.	Disclosure adjustments identified should be corrected in the final version of the Statement of Accounts.	✓
Accounting policies	We identified that the Council had not disclosed the group's assessment of the impact of the application of IFRS 15 within the accounting policies	Disclosure adjustments identified should be corrected in the final version of the Statement of Accounts.	✓
Accounting policies	CIPFA/LASAAC has agreed to delay implementation of IFRS 16 leases in local authorities until 1 April 2020 however the Council's accounting policy does not reflect this correctly.	Disclosure adjustments identified should be corrected in the final version of the Statement of Accounts.	✓
Audit fees	Audit fees are incorrect in the note.	Disclosure adjustments identified should be corrected in the final version of the Statement of Accounts.	✓
Grant income note 16	Within the note Grant Income are contributions which do not relate to grants. This includes recharges to other councils which should be reclassified to Other Fees and Charges.	Disclosure adjustments identified should be corrected in the final version of the Statement of Accounts.	✓
Related parties	Related Parties – We identified that the register of interests had not been completed by two Officers of the Authority.	Disclosure adjustments identified should be corrected in the final version of the Statement of Accounts.	✓
Property, plant and equipment	A reclassification was required to an item of machinery held within the property, plant and equipment, as we identified that the treatment of the disposal of the assets was not correct, as the asset had incorrectly been revalued in year, when in fact the asset had been derecognised.	Disclosure adjustments identified should be corrected in the final version of the Statement of Accounts.	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
<p>1 Potential impact of the McCloud judgement</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented.</p> <p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling and the impact of GMP equalisation changes. The actuary's estimate was of a possible increase in pension liabilities of £442k.</p> <p>We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p>	£nil	£442k	£nil	The figures provided by the actuary are an estimate, and not a formal actuarial valuation. Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we are satisfied that the differences are not likely to be material. This issue will be considered as part of the next actuarial valuation exercise in 2019/20.
Overall impact	£nil	£442k	£nil	

Impact of prior year unadjusted misstatements

We did not identified any prior year adjustments which have not been made within the final set of financial statements

Fees

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

Audit Fees

Our Audit Plan included a PSAA published scale fee for 2018/19 of £38,043. Our audit approach, including the risk assessment, continues as the year progresses and fees are reviewed and updated as necessary as our work progresses.

Update to our risk assessment – Additional work in respect of the audit code

The table below sets out the additional work which we have undertaken to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling	June – July 2019	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 considered the impact on the financial statement along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	1,500
Pensions – IAS 19	June-July 2019	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.	1,500
PPE Valuation – work of experts	June-July 2019	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

Total Audit Fees

Audit fee	Actual 2017/18 fee £	Planned 2018/19 fee £	Final 2018/19 fee £
Council Audit	49,406	38,043	38,043
Additional Audit Fee (see above)	-		4,500
Total audit fees (excl VAT)	49,406	38,043	42,543

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
• Certification of PHCR	£2,100
• Certification of Housing Benefit	£19,906
Non-audit services:	£3,750
• CFO Insights	
Total fees for other services	£25,756

Audit opinion

We anticipate we will provide the Group with an unmodified audit report

Independent auditor's report to the members of Cheltenham Borough Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cheltenham Borough Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, the Collection Fund – Income and Expenditure Account, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Statement of Movement in Reserves, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the HRA Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's 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 2018/19; 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 group and 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.

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 Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or 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 Section 151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement other than the Authority and group 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.

Audit opinion

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 group and Authority obtained in the audit 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.

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 Statement of Accounts, 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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Section 151 Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 16, 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 Section 151 Officer. The Section 151 Officer 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Section 151 Officer 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 Section 151 Officer is responsible for assessing the group's and 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 there is an intention by government that the services provided by the Authority will no longer be provided.

Audit opinion

The Audit Committee is those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

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. 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

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, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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 2019.

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 Cheltenham Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Audit opinion

Use of our report

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.

[Signature](#)

Barrie Morris, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date TBC



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