



The Audit Findings for Cheltenham Borough Council

Year ended 31 March 2020

20 November 2020



Contents



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Section	Page
1. Headlines	3
2. Financial statements	5
3. Value for money	19
4. Independence and ethics	23
Appendices	
A. Action plan	25
B. Follow up of prior year recommendations	27
C. Audit adjustments	28
D. Fees	32
E. Audit opinion	33

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 2020 for those charged with governance.

Covid-19	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council, and measures have been put in place to respond to this, including increased home working for employees.</p> <p>The Council have been closely monitoring the Government response to coronavirus and have been making changes to the way services are delivered to protect frontline services. The Council has felt the impact of factors such as administration of grants to businesses, and has also had to contend with lost income from car parks. The Council has also prepared a Covid-19 Recovery Plan to respond to the lasting impacts of the pandemic.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an Audit Plan Addendum on 20 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant both Council and audit staff have had to undertake the audit remotely. This has included use of video conferencing and sharing screens to remotely view financial systems. The main challenge was around verifying the completeness and accuracy of information produced by the entity. The Authority has engaged with us to ensure that our requirements have been met.</p>
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 its 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 remotely during July-October 2020. Our findings are summarised on pages 7 to 10. We have identified three adjustments to the financial statements that have resulted in a £1.227m adjustment to the Group's Comprehensive Income and Expenditure Statement. 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 or material changes to the financial statements, subject to the outstanding matters set out on Page 5 of this report.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of the Council. The financial statements we have audited represent the period to 31 March 2020 which was at the very beginning of the outbreak of the Covid-19 pandemic.</p> <p>Our anticipated audit report opinion will be unqualified, but includes an Emphasis of Matter paragraph, highlighting a material uncertainty with regards to the valuation of land and buildings, and valuation of the Council's share of property funds in the Gloucestershire Pension Fund, as reported in the financial statements. Our work in relation to the group accounts is currently ongoing, and at the time of writing this report, we have not reached a conclusion regarding the group opinion. We will provide a verbal update at the Audit, Compliance and Governance Committee.</p>

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 2020 for those charged with governance.

Value for Money arrangements	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').	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 have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 19 to 21.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: <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 • certify the closure of the audit. 	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code. The Group Instructions for the Whole of Government Accounts have not been released at the time of writing this report. We will be unable to certify the completion of the audit until we fulfil our responsibilities as set out in the Group Instruction.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and collaboration provided by the finance team and other staff during these unprecedented times. We have worked flexibly with your finance team to complete the audit in the most effective way. We were initially due to begin the audit at the end of June 2020, however due to delays experienced by the finance team, the audit was rearranged for the middle of July. At this stage, a complete draft set of accounts was not available, and we were able to re-schedule the audit to take place in early August 2020. The completed draft financial statements were received on the 31 July. Additionally, the majority of working papers requested were received in early August. We encountered some delays in receiving appropriate evidence to support some sample testing undertaken, however after additional discussions with the finance team, this was resolved and we were able to complete our testing. The quality of working papers received require improvement, and a recommendation has been raised in respect of this in Appendix A.

Audit approach

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.

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 component/s 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 had to alter our audit plan, as communicated to you on 20 April 2020 to reflect our response to the Covid-19 pandemic.

Conclusion

We have completed our audit of your financial statements and we anticipate issuing an audit opinion following the Audit, Compliance and Governance Committee meeting on 11 November 2020. The audit opinion is anticipated to be unqualified in respect of the Council and Group. We will provide a verbal update at the Audit, Compliance and Governance Committee. No outstanding items are noted.

Materiality

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 levels remain the same as reported in our audit plan.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1.595m	1.573m	<p>This equates to 2% of your 2019/20 gross expenditure for the year. This was determined as the appropriate benchmark for determining materiality. Our knowledge of the environment at Cheltenham Borough Council has led us to the conclusion that the risk of fraud is low, hence 2% is deemed an appropriate percentage to apply to the benchmark.</p> <p>This is consistent with that reported in our Audit Plan in March 2020.</p>
Performance materiality	1.196m	1.180m	<p>This equates to 75% of materiality.</p> <p>This is consistent with that reported in our Audit Plan in March 2020.</p>
Trivial matters	80k	79k	<p>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. We have determined this to be 5% of materiality.</p> <p>This is consistent with that reported in our Audit Plan in March 2020.</p>
Materiality for senior officers' remuneration	12k	12k	<p>Senior Officers' Remuneration is a balance which require a lower materiality due to its sensitive nature.</p> <p>This is consistent with that reported in our Audit Plan in March 2020.</p>

Significant audit risks

Risks identified in our Audit Plan

Auditor commentary

Covid- 19

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

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach. No changes were made to materiality levels previously reported. The draft financial statements were provided on 31st July 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Group's property valuation expert, and material uncertainty in relation to pension fund property assets;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence; and
- engaged the use of auditor experts to assess investment property valuations due to the size of this balance and the risk associated with future income as a result of Covid-19.

Our audit work has not identified any issues in respect of the Covid-19 significant risk

The revenue cycle includes fraudulent transactions

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council and Group, 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; and
- 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 the Council.

There have been no changes to our assessment as reported in our Audit Plan.

Significant audit risks

Risks identified in our Audit Plan

Auditor commentary

Management override of controls

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

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined 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 considered their reasonableness with regard to corroborative evidence; and
- 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.

Valuation of land and buildings

We have performed the following work in relation to 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;
- written to 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, the Council's valuer's report and the assumptions that underpin the valuation;
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register; and
- as a result of the Covid-19 pandemic, management's expert reported the valuations on the basis of material valuation uncertainty. We reviewed the valuations in line with market trends, and challenged any valuations that were not in line with trends.

Our testing identified that investment properties worth £1.9m and surplus assets worth £3.75m were not formally valued in 2019-20. The Council has undertaken an exercise which demonstrates their consideration that the current value and fair value of these assets at 31 March 2020 are not materially different. We have reviewed these judgments and are satisfied that they are appropriate. We have raised a recommendation at Appendix A for the Council to formally revalue all their surplus assets and investment properties on an annual basis.

The Council has material investment properties worth £68m included within its Balance Sheet. Given the impact of Covid-19 on commercial investments, we have engaged an auditor's expert to review the valuations of investment properties. The auditor's expert highlighted some areas for follow up, which we reviewed as part of our testing. No issues were identified as part of this review.

Management's expert has disclosed a material uncertainty with regards to the valuations of land, buildings, dwellings, investment properties and surplus assets and we have undertaken additional work as a result of this, as set out above. This will result in the audit report including an emphasis of matter, highlighting this material uncertainty.

Apart from the matters highlighted above, no other issues have been identified in relation to the valuation of land and buildings.

Significant audit risks

Risks identified in our Audit Plan

Valuation of the pension fund net liability

Auditor commentary

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

- updated our understanding of the processes and controls put in place by management to ensure that the Council'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 Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council 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; and
- 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

Gloucestershire Pension Fund has disclosed a material uncertainty with regards to the valuations of property funds included within the pension assets. A corresponding material uncertainty has been disclosed in the Council's financial statements as its share of these property funds is material.

In 2018-19, the Council commissioned a revised IAS19 report to evaluate the impact of the McCloud judgment. The impact in 2018-19 was £458k which was not material, hence remained unadjusted. The Council has accounted for this in 2019-20 as a past service cost, which is appropriate. As the actuary prepared a revised report in 2018-19 and used this as the basis for the 2019-20 calculations, there is a £458k variance between the opening balances used by the actuary and the Council. The closing balances as at 31 March 2020 reconcile exactly, hence this is a presentation difference, which is considered appropriate.

We are awaiting 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 sent to the actuary by the pension fund; and the fund assets valuation in the pension fund financial statements.

Apart from the matters highlighted above, no other issues have been identified in relation to the valuation of the pension fund net liability

Other audit risks

Risks identified in our Audit Plan

IFRS 16 implementation has been delayed by one year

Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.

Auditor commentary



The Council's financial statements identify that IFRS 16 is not anticipated to have a material effect on the financial statements or balances of the council since the changes mainly affect the recognition of leases by lessees and the Council does not have any material finance or operating lease liabilities as lessee.

We have reviewed the Council's assessment and undertaken audit procedures to gain assurance over the accuracy of this disclosure. We are satisfied that this disclosure is appropriate.





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 was issued by Bishop Fleming LLP on 19 October 2020. At the date of this report, one adjustment to the group position of £1.227m was identified, which is reported in Appendix C. 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. 	<p>Auditor view</p> <p>Our audit work has not identified any issues in respect of the specified procedures performed.</p>
Gloucestershire Airport Ltd.	Hazlewoods LLP	<ul style="list-style-type: none"> The audit opinion of Gloucestershire Airport Ltd was issued by Hazlewoods LLP on 6 November 2020. We identified one unadjusted misstatement of £107k as a result of reviewing the consolidation adjustments, as highlighted in Appendix C. We understand that the auditors have requested management to prepare financial modelling forecasts and sensitivity analysis over the airports operations as a result of the Covid-19 pandemic and any impact this may have on the companies going concern assessment. We challenged management around the valuation of land and buildings held at fair value as deemed cost and obtained management's assessment that the carrying value of these properties is not materially different from the fair value at the balance sheet date 31 March 2020. We found the assessment to be appropriate 	<p>Auditor view</p> <p>Our audit work has not identified any issues in respect of the specified procedures performed.</p>
Publica Group (Support) Ltd	N/A - Analytical review performed by Grant Thornton UK LLP	<ul style="list-style-type: none"> We have completed analytical procedures over the draft accounts of Publica Group (Support) Ltd. No issues have been identified. 	<p>Auditor view</p> <p>Our audit work has not identified any issues in respect of the specified procedures performed.</p>
Ubico Ltd	N/A - Analytical review performed by Grant Thornton UK LLP	<ul style="list-style-type: none"> We have completed analytical procedures over the draft accounts of Ubico Ltd. No issues have been identified. 	<p>Auditor view</p> <p>Our audit work has not identified any issues in respect of the specified procedures performed.</p>


Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NNDR appeals - £1.48m	The Council are responsible for repaying a proportion of successful rateable value appeals. Cheltenham Borough Council's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. A provision of £1.48m has been estimated for Cheltenham Borough Council for 2019/20 (£1.628m in 2018/19)	<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 £70k. Additionally, the Council have estimated that a 1% increase in the estimated rateable value would result in an additional provision of £534k Overall we consider management's process and key assumptions to be reasonable. The estimate is adequately disclosed in the financial statements. 	 Green
Land and Buildings – Council Housing - £213.28m	The Council owns £213.28m of 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 Council has engaged Bruton Knowles to complete the valuation of these properties in 2019-20. The year end valuation of Council Housing was £213.28m, a net increase of £3.4m from 2018/19 (£209.87m).	<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 in undertaking the valuation of Council dwellings by using comparable indices, and raised follow up queries where variances above our tolerable threshold were identified. These were appropriately addressed Whilst management's expert has not included a material uncertainty in relation to Council dwellings, we recommended to management that Council Dwellings are reported on the basis of material valuation uncertainty due to Covid-19, and a corresponding amendment has been made. Overall we consider management's process and key assumptions to be reasonable. The estimate is adequately disclosed in the financial statements. 	 Green

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 estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £135.15m	<p>Other land and buildings comprises £135.15m 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 (EUV) at year end.</p> <p>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4.</p> <p>19.3% of Other Land and Buildings were revalued during 2019/20. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued by using knowledge of changes to build costs, obsolescence and condition of the property to determine whether there has been a material change in the total value of these properties. 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 £135.15m, a net increase of £1.95m from 2018/19 (£133.2m).</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 in undertaking the valuation of Land and Buildings by using comparable indices, and raised follow up queries where variances above our tolerable threshold were identified. These were appropriately addressed. Management's expert has reported a material uncertainty in relation to the valuation of land and buildings due to Covid-19, and the Council has included appropriate disclosures to reflect this in the statement of accounts. Overall we consider management's process and key assumptions to be reasonable. The estimate is adequately disclosed in the financial statements. 	 Green

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 estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																								
Net pension liability – £51.31m	<p>The Council's net pension liability at 31 March 2020 is £51.31 m (PY £58.23m) comprising the Local Government Pension Scheme. The Council uses the actuary firm Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>Gloucestershire Pension Fund have disclosed a material uncertainty in relation to their property funds in their financial statements. The Council has included disclosures on this issue in Note 4.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a remeasurement of the net defined benefit liability of £10.25m during 2019/20.</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. Gloucestershire Pension Fund have disclosed a material uncertainty in relation to their property funds in their financial statements. As the Council's share of the property assets is material, we recommended that the Council include a corresponding material uncertainty within their financial statements. The Council has included disclosures on this issue in Note 4. 	<p>Green</p>																								
		<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>2.3%</td> <td>2.3%</td> <td>● Green</td> </tr> <tr> <td>Pension increase rate</td> <td>1.9%</td> <td>1.8% to 2%</td> <td>● Green</td> </tr> <tr> <td>Salary growth</td> <td>2.8%</td> <td>2.7% to 2.9%</td> <td>● Green</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.4 / 21.7</td> <td>21.6 to 23.3 / 20.5 to 22.2</td> <td>● Green</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.3 / 23.9</td> <td>24.6 to 26.3 / 22.9 to 24.3</td> <td>● Green</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.3%	2.3%	● Green	Pension increase rate	1.9%	1.8% to 2%	● Green	Salary growth	2.8%	2.7% to 2.9%	● Green	Life expectancy – Males currently aged 45 / 65	22.4 / 21.7	21.6 to 23.3 / 20.5 to 22.2	● Green	Life expectancy – Females currently aged 45 / 65	25.3 / 23.9	24.6 to 26.3 / 22.9 to 24.3	● Green	
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.3%	2.3%	● Green																								
Pension increase rate	1.9%	1.8% to 2%	● Green																								
Salary growth	2.8%	2.7% to 2.9%	● Green																								
Life expectancy – Males currently aged 45 / 65	22.4 / 21.7	21.6 to 23.3 / 20.5 to 22.2	● Green																								
Life expectancy – Females currently aged 45 / 65	25.3 / 23.9	24.6 to 26.3 / 22.9 to 24.3	● Green																								
		<p>The estimate is adequately disclosed in the financial statements.</p>																									

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 estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 2/3 investments	<p>The Council have an investment in Gloucestershire Airport Ltd that is valued on the balance sheet as at 31 March 2020 at £1.7m. The Council also have £68.07m of investment properties and £42.2m of surplus assets held on their Balance Sheet.</p> <p>Management have disclosed a material uncertainty in relation to both investments due to the impact of Covid-19. Further detail is provided in Note 4.</p> <p>The investment in the Airport is not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management have used a management's expert (Arlingclose) to calculate the fair value measurement of the investment. The value of the investment has stayed the same as the previous year.</p> <p>Management have used Bruton Knowles to undertake the valuation of their portfolio of investment properties. The valuer has disclosed the valuations on the basis of material valuation uncertainty. The total year end valuation of Investment Properties was £68.07m, a net decrease of £7.92m from 2018/19 (£75.99m).</p> <p>Management have used internal valuers to undertake the valuation of their portfolio of surplus assets. The valuer has disclosed the valuations on the basis of material valuation uncertainty. The total year end valuation of Surplus Assets was £42.2m, a net increase of £37m from 2018/19 (£5.2m). The large increase is due to additions purchased in 2019/20</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 challenged the valuation of the investment in Gloucestershire Airport Ltd due to the impact of Covid-19, and obtained relevant information to support the valuation. As the valuation is only greater than our materiality by £200k, the risk of material misstatement is low. We evaluated the assumptions made by management in undertaking the valuation of investment properties by using comparable indices, and raised follow up queries where variances above our tolerable threshold were identified. These were appropriately addressed. Management's expert has reported a material uncertainty in relation to the valuation of investment properties and surplus assets due to Covid-19, and the Council has included appropriate disclosures to reflect this in the statement of accounts. We identified that investment properties worth £1.9m and surplus assets worth £3.75m were not formally valued in 2019-20. The Council has undertaken an exercise which demonstrates their consideration that the current value and fair value of these assets at 31 March 2020 are not materially different. We have reviewed these judgments and are satisfied that they are appropriate. We have raised a recommendation at Appendix A for the Council to formally revalue all their surplus assets and investment properties on an annual basis. Overall we consider management's process and key assumptions to be reasonable. The estimate is adequately disclosed in the financial statements. 	 Green

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 and key assumptions to be reasonable

Significant findings – 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 prepared a paper which contains a review of the financial position as at 31 March 2020 alongside an assessment of the ability of the Council to continue operating for the foreseeable future.
- Management have also prepared a cash flow forecast from April 2020 to November 2021, which shows that the cashflows over this period are sustainable.
- Management have considered the impact of Covid-19 on the Council's ability to continue as a going concern, and have factored this into their medium term financial planning.
- In making their assessment, management have considered the Council's reserves, liquidity, capital expenditure as well as assumptions about income and expenditure over the next few years.
- Management have commissioned a piece of work to consider the impact of Gloucestershire Airport Ltd.'s going concern on the Council.

Work performed

- We have reviewed management's assessment and cashflow projections in arriving at the conclusion that the Council is a going concern, and reviewed the disclosures in the narrative report and financial statements.
- We have also reviewed the Medium Term Financial Plan to 2023/24, and the 2020-21 Budget and are satisfied that the Going Concern basis is appropriate for the 2019-20 financial statements

Auditor commentary

- Management's assessment of the use of the going concern basis of accounting is appropriate
 - The cashflow projections and medium term financial planning projections are based on prudent assumptions about future income
 - The disclosures in the accounts are considered appropriate
 - We have reviewed the work commissioned by the Council in arriving at a conclusion regarding the impact of Gloucestershire Airport's going concern assessment on the Council.
-
- We have not identified a material uncertainty in relation to management's assessment of the use of the going concern basis of accounting
 - We consider this to be appropriate

Concluding comments

Overall we are satisfied with management adopting the going concern basis of accounting, and we have reviewed the report commissioned by the Council in relation to the impact of Gloucestershire Airport Ltd.'s going concern in reaching our final conclusion.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Compliance and Governance 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
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
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.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit, Compliance and Governance Committee papers
Confirmation requests from third parties	<ul style="list-style-type: none"> <li data-bbox="492 829 2154 901">• We requested from management permission to send confirmation requests for the Council's bank and investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. <li data-bbox="492 909 2154 1005">• We requested permission from management to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have not yet received the final response from the pension fund auditor but are liaising regularly with them whilst they complete their work. We will require this assurance prior to issuing our opinion. <li data-bbox="492 1013 2154 1077">• We requested permission from management to send requests to the Council's valuers. This permission was granted and the requests were sent. We received responses from all valuers involved and we have completed our audit procedures in relation to these requests.
Disclosures	Our review identified a number of disclosure changes within the draft financial statements which were subsequently amended. See page 28 for further details.
Audit evidence and explanations/significant difficulties	The completed draft financial statements were received on the 31 July 2020. Additionally, the majority of working papers requested were received by early August. We encountered some delays in receiving appropriate evidence to support some sample testing undertaken, however after additional discussions with the finance team, this was resolved and we were able to complete our testing. The quality of working papers received require improvement, and a recommendation has been raised in respect of this in Appendix A.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement 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>Some minor disclosure amendments were identified which have been amended. No inconsistencies have been identified, and we plan to issue an unmodified report in this respect.</p>
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; and • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
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>
Certification of the closure of the audit	<p>The Group Instructions for the Whole of Government Accounts have not been released at the time of writing this report. We will be unable to certify the completion of the audit until we fulfil our responsibilities as set out in the Group Instruction.</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 April 2020. 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 below:

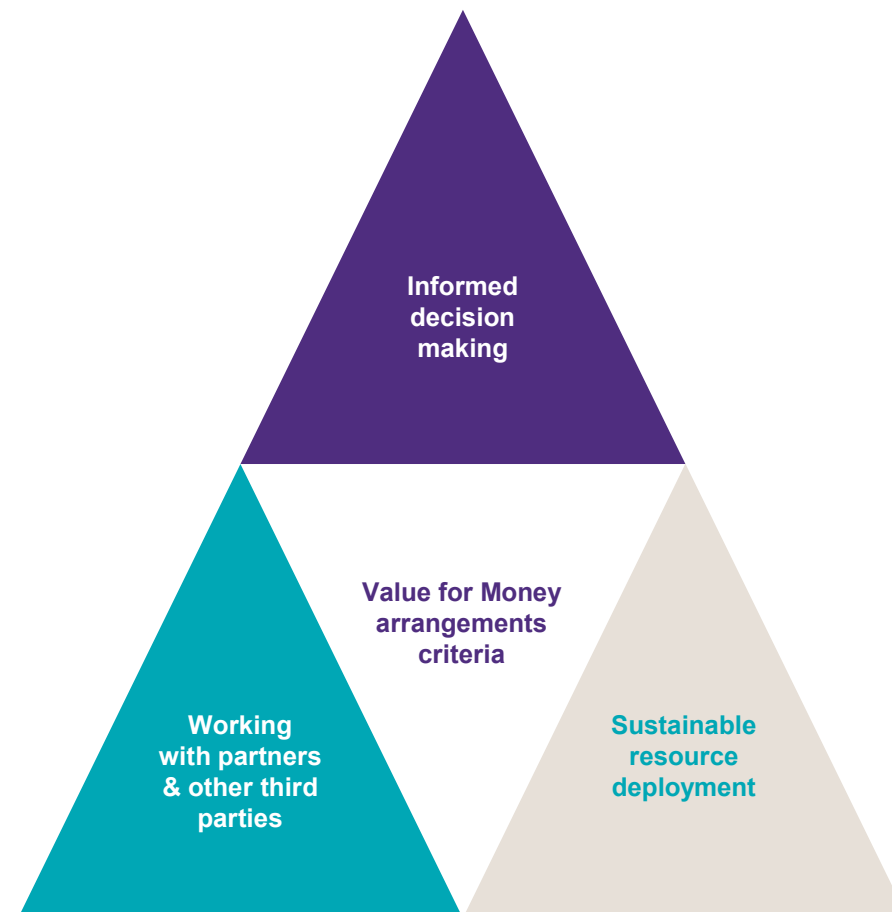
Risk assessment

We carried out an initial risk assessment in February 2020 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2020

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We have not identified any new VFM risks in relation to Covid-19. We do not consider Covid-19 to be a significant risk given the date of the pandemic. We have, however reviewed the medium term financial plan produced by the Council, taking into account the impacts of Covid-19 on scenario planning, and the impact of Covid-19 on the Council's investment income.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.



Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Medium Term Financial Planning and the need to identify further savings in the medium term to balance the budget; and
- Future plans to bridge the budget gap, considering the impact of Covid-19 on medium term finances.

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 22 and 23

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.

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.

Value for Money

Key findings

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

Significant risk

Findings

Medium Term Financial Strategy

We reported in our audit plan in March 2020 that 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 reflect a funding gap for the period 2021/22 to 2023/24 of £2.616m. It also indicates that the Council proposes to fund a gap of £1.084m with £0.826m of savings plans and additional income, with the residual gap to be funded from the Budget Strategy (Support) Reserve during 2020/21, and also includes a number of unidentified savings over the period to 2023/24.

- 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. The 2019/20 outturn was a deficit of £48k against the profiled budget which represents a negative variance of 0.3% against the net budget. The budget monitoring report to the end of December 2019 projected the expected delivery of services within budget. The recorded additional expenditure in respect of COVID-19 in 2019/20 was £72,798. The total amount received from Central Government in 2019/20 was £50,043. The non-collection fund losses from income were circa £400k, with the largest contributor to that figure being lost income from car parking which has been met via a contribution from the car parking equalisation earmarked reserve. Despite this, the overspend on the general fund was £48k, which is largely due to a number of reported savings which were the result of delays or slippage in carrying out particular tasks which are still necessary and will need to be completed in the 2020/21 financial year. The 2019-20 Capital Outturn shows a significant underspend of £4.6m, which is caused in large part due to timing delays on capital projects which will be carried forward into 2020-21.
- 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 2020/21 have been identified and can be attributed to specific plans, such as the Modernisation programme and Car Parking Strategy. The savings plans of £826k are after £258k reliance on reserves.
- Due to the impact of Covid-19, £250k of the £350k amber rated savings included in the 2020-21 savings strategy have not been achieved. The s151 Officer plans to take a Covid-19 Revised Budget to Full Council in November 2020 setting out changes to the 2020-21 budget. This includes a change to the minimum revenue provision policy (MRP), which involves the use of capital receipts to pay off borrowing, thereby reducing the capital financing requirement, and correspondingly, the MRP. The savings attributable to this scheme in 2020-21 are £1.657m. The s151 officer has also created a policy around the use of capital flexibility, which will impact the 2021-22 savings plan and budget.
- 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 2019/20 to deliver financial balance. The Council plan to use £258k of the Budget Strategy (Support) Reserve in 2020/21. The level of reserves is sufficient to support the budget for 2020/21 but beyond this it will have to be replenished.

Value for Money

Significant risk *continued*

Medium Term Financial Strategy

We reported in our audit plan in March 2020 that 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 reflect a funding gap for the period 2021/22 to 2023/24 of £2.616m. It also indicates that the Council proposes to fund a gap of £1.084m with £0.826m of savings plans and additional income, with the residual gap to be funded from the Budget Strategy (Support) Reserve during 2020/21, and also includes a number of unidentified savings over the period to 2023/24.

Findings *continued*

- We therefore note this as a recommendation within this Audit Findings Report as the reserve will require replenishment by 2021/22 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.
- The Council formally adopted a Commercial Strategy in February 2018. The strategy identified that part of the Council's drive towards financial sustainability would now include identifying new opportunities to generate income and investment in projects which provide good financial returns. As communicated in our Audit Plan in March 2020, we have considered whether the commercial investments entered into are in line with the strategy. Furthermore, as a result of Covid-19, we have also considered the feasibility of reliance upon investment income in the medium term.
- The Council has an Estates Team responsible for monitoring each of the investment properties owned by the Council. The s151 Officer, and Cabinet Finance Member have monthly meetings with the Estates team in order to get an update on the properties, any new tenants, and any issues with existing tenants. These are then taken forward as appropriate. The s151 Officer also receives monthly aged debt reports, where any non-payment of rents would be identified. We are satisfied that the governance arrangements around investment properties are appropriate, and in line with the commercial strategy.
- Of the Council's existing investment properties, none have been particularly adversely impacted by Covid-19. The largest occupier is Sainsbury's. Other offices and shops have not defaulted on their rental agreements, and the majority are locked into agreements until 2023 and beyond, with rent reviews due on properties within the next year.
- Overall, the income to the end of March 2021 is secure, however there are some tenancies expiring during the 2021-22 financial year, which may not be renewed if home working becomes more common. The Council will have to continue to closely monitor their investment opportunities to identify additional savings in this case. We have raised a recommendation in Appendix A for the Council to consider this alongside the recommendation around use of reserves in the medium term.

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.

We have made two recommendations in relation to the Council's use of reserves and reliance on investment income at Appendix A.

Independence and ethics

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

In this context, we disclose the following to you that a member of our wider public sector assurance team took up a post within Publica Group (Support) Ltd in May 2020 as Deputy Chief Financial Officer to Cotswold District Council, with further responsibilities as Chief Accountant in Publica Group (Support) Ltd. This individual did not work on this audit engagement so we consider that this fact has had no bearing on our audit judgement or independence. We have safeguarded the perceived threat to independence by ensuring the member of staff was not involved with the audit, with assurance received from the Chief Financial Officer (Section 151 Officer) that once working at Publica, the individual will not:

- have access to view or amend the Cheltenham Borough Council general ledger
- instruct staff on any transactions which affect the Cheltenham Borough Council accounts.
- prepare or have any input into the Financial Statements for Cheltenham Borough Council
- have line management responsibility for any members of staff who are based in Cheltenham

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Councils 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 Offices Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics



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	£3,500	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £3,500 in comparison to the total fee for the audit of £49,543 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. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	19,906	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £19,906 in comparison to the total fee for the audit of £49,543 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. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Action plan

We have identified 4 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 2020/21 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
 Medium	<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 2019/20 to deliver financial balance. The Council plan to use £258k of the Budget Strategy (Support) Reserve in 2020/21. The level of reserves is sufficient to support the budget for 2020/21 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 medium term dependency on reserves is reduced.</p> <p>Management response</p> <p>The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. The Covid-19 Revised Budget 2020/21 which will be presented to Full Council on 16th November 2020, recommends a number of measures that will enable the Council to increase its reserves over the coming years. Management will continue to monitor the level of reserves and will report those findings, with appropriate recommendations, to Council at least twice a year.</p>
 Medium	<p>The Council's net budget includes income from investment properties. Income from investment properties to the end of March 2021 is secure, however there are some tenancies expiring during the 2021-22 financial year which may not be renewed if home working becomes more common. The Council will have to continue to closely monitor their investment opportunities to identify additional savings in this case.</p>	<p>We raise this as a recommendation as the Covid-19 pandemic has changed ways of working, and this may impact on future income levels from investment properties if leases are not renewed.</p> <p>Management response</p> <p>Agreed. Proactive marketing with potential tenants will continue ahead of any tenancy expiries, and be reported to the CFO and Cabinet Member on a monthly basis.</p>

Key

-  High
-  Medium
-  Low

Action plan

We have identified 4 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 2020/21 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
 Medium	<p>We identified that investment properties worth £1.9m and surplus assets worth £3.75m were not formally valued in 2019-20. The Council has undertaken an exercise which demonstrates their consideration that the carrying value and fair value of these assets at 31 March 2020 are not materially different.</p>	<p>Whilst the Council's approach is in line with the CIPFA Code as they have demonstrated their consideration that the carrying value and fair value are not material different. We recommend that the Council formally revalue all their investment properties and surplus assets annually to reduce the risk of material misstatement</p> <p>Management response Agreed</p>
 Medium	<p>Our testing identified sample evidence and working papers which were not to the required standard. Examples include the sample evidence in relation to income and expenditure and working papers in relation to property, plant and equipment reconciliations.</p>	<p>We recommend that the Council make improvements to the quality of the working papers provided, and provide training to employees around audit evidence to be provided. As external audit, we are willing to provide guidance in this area if this will be useful.</p> <p>Management response The Council is in the process of directly employing a Head of Finance (Deputy S151 Officer) to lead on the production of annual accounts. They will be required to ensure the financial services team is adequately resourced and trained to comply with the requirements of the External Auditor. The S151 Officer will gratefully accept the offer to provide guidance in this area when the new Head of Finance is in post.</p>
 Low	<p>The Council's componentisation policy has not been updated since 2011. This policy was based on 1% of Other Land and Buildings being £872k, however based on the latest balances, 1% would be £1.421m</p>	<p>We recommend that the Council review and update this policy in 2020-21</p> <p>Management response Agreed</p>

Follow up of prior year recommendations

We identified the following issues in the audit of Cheltenham Borough Council's 2018/19 financial statements, which resulted in recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note that these have been appropriately resolved.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	We recommend that management continue to monitor the use of reserves when budget setting to ensure that the medium-term dependency on reserves is reduced	This has been raised as a recommendation in the Action Plan at Appendix A, hence the prior year recommendation can be closed
✓	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	Based on management response provided in 2018-19 and review of arrangements as part of our VFM risk assessment, this recommendation is considered closed.
✓	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.	We are aware from our review of the medium term financial strategy that red rated savings are reviewed during budget setting. No red rating savings identified for 2020-21
✓	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.	A formal lease between Ubico and Cheltenham Borough Council for arrangements to lease recycling and refuse vehicles from the Council to Ubico is now in place and was formally agreed during 2019/20. This has been requested and reviewed as part of the 2019/20 statement of accounts audit.

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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Misclassification noted between Revenue Grants Received in Advance and Creditors. Creditors overstated and Grants Received in Advance (GRIA) Understated.	£0	Dr Creditors - £2,660 Cr GRIA - £2,660	£0
The disabled facility grant was misclassified within Other Comprehensive Income but should have been classified within Net Cost of Services in the Place and Growth Directorate	Dr Taxation and Non-Specific Grant Income - £410k Cr Place and Growth income - £410k	£0	£0
Within the group financial statements, the Property, Plant and Equipment balance is overstated by £1,227k, with a corresponding understatement of Net Cost of Services – Local Authority Housing	Dr Local Authority Housing Expenditure - £1,227k	Cr Property, Plant and Equipment - £1,227k	£1,227k
Overall impact	£1,227	(£1,227)	£1,227

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit, Compliance and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Group Comprehensive Income and Expenditure Statement £'000	Group Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
The Group Consolidation was completed using the draft Accounts of Cheltenham Borough Homes and Gloucestershire Airport Ltd. Non-trivial adjustments were identified between the draft financial statements and audited financial statements of Gloucestershire Airport Ltd.				
Reduction in Long term Investment in Joint Ventures and Airport Profit and Loss Account	0	-107	0	Adjustments have not been made on the basis of materiality
Share of Taxation of Gloucestershire Airport	107	0	107	Adjustments have not been made on the basis of materiality
Overall impact	£107	-£107	£107	

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?
Audit fees	Audit fees did not include £4k fees for the use of an auditor's expert. Pooling of housing capital receipts were included as £2,150, correct fees are £3,500. CFO Insights fee was included even though subscription had lapsed and no payment had been made	Disclosure adjustment identified should be adjusted in the final version of the Statement of Accounts.	✓
Grants	There was a £410k reconciliation difference between Note 16 and Note 18 to the accounts due to the disabled facility grant error identified in audit adjustments.	Disclosure adjustment identified should be adjusted in the final version of the Statement of Accounts.	✓
Pensions	The table in Note 34 omitted payments in advance of £3,662k, and unfunded benefits of £98k	Disclosure adjustment identified should be adjusted in the final version of the Statement of Accounts.	✓
Leases	The operating lease for Regent's Arcade has been miscalculated with the rental value being calculated for 5 years as opposed to 4 years. Result is an overstatement of future minimum lease payments by £575k.	Disclosure adjustment identified should be adjusted in the final version of the Statement of Accounts.	✓
Material uncertainty	The Council had not included a material uncertainty in relation to the valuation of land and buildings, dwellings, investments measured at fair value, and pension fund property assets. We recommended that additional disclosures be included in relation to these material uncertainties arising as a result of Covid-19	Disclosure adjustment identified should be adjusted in the final version of the Statement of Accounts.	✓
Financial instruments	Income, expenses, gains and losses within the Financial Instruments note did not tie back to Note 9 – Financing and Investment Income and Expenditure	Disclosure adjustment identified should be adjusted in the final version of the Statement of Accounts.	✓
Related party transactions	A number of variances between the statement of accounts and transaction listings were noted in relation to the related parties disclosure. We recommend that the related parties note be updated accordingly	Disclosure adjustment identified should be adjusted in the final version of the Statement of Accounts.	✓
General	There were a number of other minor presentational adjustments and improvements made to enhance the quality of the statement of accounts	Disclosure adjustment identified should be adjusted in the final version of the Statement of Accounts.	✓

Audit adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
As reported in our prior period ISA 260 report, the impact of the McCloud Judgement was not amended in the Council's 2018-19 accounts, as management's view was this was not considered material. The Council has therefore included the unadjusted amounts from the prior period as non-material adjustments in the current period. These transactions mean that the following differences have been identified between the accounts and the 2019-20 actuary report. We are satisfied that management has followed the appropriate accounting treatment and complied with the CIPFA code in relation to this prior period misstatement.				
Past Service Cost	-458			
Return on plan assets	-594			
Present value of obligation		-458		
Fair value of plan Assets		-594		
	-1,052	-1,052	-1,052	This has been adjusted in the 2019-20 financial statements, as it was not material in 2018-19
Overall impact	-1,052	-1,052	-1,052	

Appendix D

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£45,543	£49,543*
Total audit fees (excluding VAT)	£45,543	£49,543*

* The final fee for the year is subject to a final review and discussion with the s151 Officer to take account of the impact of Covid-19 and the additional time required to complete the audit.

The increase from the scale fee has been communicated to members of the Audit, Compliance and Governance Committee at the January Committee meeting. The Proposed Fee has been approved by PSAA. The additional £4,000 relates to the use of an auditor's expert to review the investment property valuations, as communicated at the Audit, Compliance and Governance Committee in July 2020. This is subject to PSAA approval.

The fees reconcile to the financial statements.

Non-audit fees for other services	Proposed fee	Final fee
Certification of Housing Capital receipts grant (Audit related)	£3,500	TBC
Certification of Housing Benefits Claim (Audit related)	£19,906	TBC
Total non- audit fees (excluding VAT)	£23,406	TBC

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 subsidiary and joint venture (the 'group') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, the notes to the accounts, the Collection Fund - Income and Expenditure Account, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Movement in Reserves Statement, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account 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 2019/20.

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 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Section 151 Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events

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.

Audit opinion

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

In our evaluation of the Section 151 Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings, property investments and property funds held within the Pension Fund

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings, investment property and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in Note 4 to the financial statements, the Covid-19 pandemic and lockdown arrangements in place since March 2020 have had a significant impact on daily life and the global and UK economies. This could affect the carrying values of assets carried at existing use and fair value in significantly challenging the assumptions used in their valuation. Consequently the valuations undertaken in 2019/20 have been reported 'as subject to material valuation uncertainty'. In addition, the valuation of Gloucestershire Pension fund's property assets is subject to material valuation uncertainty due to the Covid-19 pandemic. This means that less certainty can be attached to these valuations than would otherwise be the case. A corresponding material uncertainty is disclosed in the Council's financial statement as the Council's share of property funds is material. Our opinion is not modified in respect of this matter.

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. 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 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Audit opinion

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

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 2019/20, 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.

The Audit, Compliance and Governance 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.

Audit opinion

We anticipate we will provide the Group with an unmodified audit 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 April 2020, 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 2020.

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 April 2020, 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 2020.

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.

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.

Barrie Morris

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

20 November 2020



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