

The Audit Findings for Cheltenham Borough Council

Year ended 31 March 2021

Cheltenham Borough Council
22 September 2021



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

This Audit Findings 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. Its contents has been discussed with management.

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1. 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 2021 for those charged with governance.

Financial Statements

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 give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

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.

Our audit work was completed on remotely during July-September. Our findings are summarised on pages 5 to 22. We have identified one adjustment to the financial statements that had no overall financial impact on the Council'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.

Our work is substantially complete, subject to the following outstanding matters:

- evidence to support sample testing in the following areas: fees & charges; and assets under construction.
- responses from management in the follow areas: consolidation adjustments; PPE revaluation table; and EFA.
- responses from the valuer to resolve queries in relation to investment property, surplus asset and other land and building valuation
- Engagement lead of review of outstanding areas
- receipt and review of the Pension Fund Auditor assurances;
- completion of group audit procedures, being the review of component auditor work papers;
- receipt of management representation letter; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph highlighting PPE valuation material uncertainty disclosures.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix F to this report. We expect to issue our Auditor's Annual Report by 30 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in December 2021.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit. See page 3 for the matters which we have been unable to conclude our findings on as at the date of this report.

2. Financial Statements

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 has 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.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted on page 6 of our Audit Plan presented to the Audit, Compliance and Governance Committee on 21 April 2021, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, in particular conducting the audit remotely, including accessing your financial systems, video calling, using alternative procedures to verify assets, verifying the completeness and accuracy of information produced by the entity. This resulted in us having to carry out additional audit procedures to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Compliance and Governance Committee meeting on 22 September 2021, as detailed in Appendix E. These outstanding items have been detailed in full on page 3.

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan on 6 April 2021

We detail in the table our determination of materiality for Cheltenham Borough Council

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	1,635,000	1,566,000
Performance materiality	1,226,000	1,175,000
Trivial matters	82,000	78,000
Materiality for senior officer remuneration	N/A	10,000



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Commentary

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness

Our testing identified 17 journals that had a blank description, these were selected for testing as this is a weakness in a key control. The results of the testing can be broken down into four reasons as to why the journals had blank descriptions:

- 12 cases were as a result of due to a system upload error, specifically in relation to Child Voucher Scheme. Where the template uploaded has not carried over to the ledger correctly;
- 1 journal which was a processing error where balance of £0.00 has been journaled to the R9974 account code therefore blank description expected in error
- 1 instance where a journal was corrupted due to issues with the 'Batch Input File' spreadsheet the Council use to upload journals to the system. This was fully reversed out.
- 3 cases which relate to a rounding error that been corrected by Agresso. The system will automatically allocate any differences to account code E9991 which is the error suspense, values were for £0.01 in all 3 cases.

It was identified that one journal poster did not have appropriate user access

We have gained sufficient assurance over these items in our detailed testing.

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

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of Land and Buildings, Council Dwellings, Investment Properties and Surplus Assets

The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£413 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. The Authority also has investment properties and surplus assets which must be valued annually at 31 March.

We therefore identified valuation of land and buildings, including council dwellings, investment properties and surplus assets, as a significant risk.

Commentary

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.

Management have ensured that all investment properties and surplus assets were revalued as at 31 March 2021 following the recommendation issued in the prior year audit. We are also satisfied that the other land and building assets not revalued do not create the risk of material misstatement.

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.

See 'key judgments and estimates' from page 13 for further details on the findings of this significant risk.

Our audit work in this area is still ongoing as we review the responses to outstanding queries in relation to valuations.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Income from Fees, Charges and Other Service Income

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

For Cheltenham Borough Council, we have concluded that the greatest risk of material misstatement relates to Fees, Charges and Other Service Income. We have therefore identified the occurrence and accuracy of 'Fees, Charges and Other Service Income' as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

We have rebutted this presumed risk for the other revenue streams of the group and Authority because:

- other income streams are primarily derived from grants or formula based income from central government and tax payers; and/or
- opportunities to manipulate revenue recognition are very limited.

Commentary

There are no changes to our assessment reported in the audit plan in relation to streams for which the risk of revenue recognition has been rebutted.

In relation to Fees, Charges and Other Service Income, we have:

- evaluated the group's accounting policy for recognition of income from Fees, Charges and Other Service Income for appropriateness;
- gained an understanding of the Authority's system for accounting for income from Fees, Charges and Other Service Income and evaluate the design of the associated controls; and
- agreed, on a sample basis, amounts recognised as income from Fees, Charges and Other Service Income in the financial statements to supporting documents.

We have identified that £2,474k of grant income has been recognised as fees, charges and other service income in error. The revenue has been included in the ledger as one transaction being the 'MHCLG Loss of Income Compensation Grant'. This covers the reduction in income Council's experienced due to the government-imposed lockdowns due to outbreaks of Covid-19. As this is in relation to one transaction posted to the incorrect account code and does not suggest a weakness in revenue recognition controls. This is presentation within the income and expenditure by nature note and management have agreed to adjust for this so as the balances are correctly stated in this note.

Otherwise, our audit work has not identified any issues in respect the recognition of Fees, Charges and Other Service Income.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of the pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£54 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting [the applicable financial reporting framework]. We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.

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

In 2019-20, the Council commissioned a revised IAS19 report to evaluate the impact of the McCloud judgment. The impact in 2019-20 was £105k which was not material, hence remained unadjusted. The Council has accounted for this in 2020-21 by restating the comparatives, it is our view that this £105k should be accounted for as a past service cost in the current year.

Management have agreed to amend the presentation of this disclosure to be in line with our proposed treatment..

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.

See 'key judgments and estimates' from page 13 for further details on the findings of this significant risk.

Our audit work in this area is complete subject to the receipt and review of the Pension Fund Auditor's assurances, based on the work completed we have not identified any issues in respect of the valuation of the pension fund net liability. We will require the pension fund auditor to clarify if there is a material uncertainty in relation to property funds as there was in the prior year as a result of Covid-19.

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Cheltenham Borough Homes Limited	Bishop Fleming LLP	<p>An unqualified audit opinion of Cheltenham Borough Homes Limited was issued by Bishop Fleming LLP on 25 August 2021. No significant issues were identified.</p> <p>No instructions had been issued to the Component in respect of a group reporting package nor for the conversion adjustments for the financial reporting framework and selected accounting policies applicable to the Group Financial Statements. The Component Financial Information therefore comprises solely of the statutory financial statements of the Component for the year ended 31 March 2021, with conversion adjustments undertaken by Group.</p>	<p>Audit procedures undertaken:</p> <ul style="list-style-type: none"> made contact with the component auditors and provided them with group audit instructions confirming the specific audit procedures to be undertaken for Group assurance purposes; communicated regularly with the component auditors, with the component auditors' audit plans and findings reports for the group entities being shared with the Group audit team; and reviewed management's consolidation workings to ensure the correct amounts had been consolidated and that the eliminations were appropriate. <p>Our review of the component auditor's working papers is outstanding as at the date of this report</p>
Gloucestershire Airport Limited	Hazlewoods LLP	<p>An unqualified audit opinion of Gloucestershire Airport Limited was issued by Hazlewoods LLP on 3 September 2021. No significant issues were identified.</p> <p>No instructions had been issued to the Component in respect of a group reporting package nor for the conversion adjustments for the financial reporting framework and selected accounting policies applicable to the Group Financial Statements. The Component Financial Information therefore comprises solely of the statutory financial statements of the Component for the year ended 31 March 2021, with conversion adjustments undertaken by Group.</p>	<p>Audit procedures undertaken:</p> <ul style="list-style-type: none"> made contact with the component auditors and provided them with group audit instructions confirming the specific audit procedures to be undertaken for Group assurance purposes; communicated regularly with the component auditors, with the component auditors' audit plans and findings reports for the group entities being shared with the Group audit team; and reviewed management's consolidation workings to ensure the correct amounts had been consolidated and that the eliminations were appropriate. <p>Our review of the component auditor's working papers is outstanding as at the date of this report</p>

2. Financial Statements – new issues and risks

Issue	Commentary	Auditor view
<p>Minimum Revenue Provision (MRP)</p> <ul style="list-style-type: none"> The Council uses borrowing, both long and short term, to fund its acquisition of non-current assets, including operational land, property, plant and equipment and investment properties. As at 31 March 2021 the total levels of borrowings for the Council stood at £174.1m, which was a reduction on the prior year borrowings of £11.3m from £185.8m. To reflect that the benefit of these assets will be realised over a number of years, the cost associated with the funding of these asset purchases is also spread over a number of years and this is known as the Minimum Revenue Provision (MRP). To ensure that the level of MRP attributed to each financial year is appropriate, the Ministry of Housing, Communities and Local Government (MHCLG) has produced guidance, which was most recently updated and issued in 2018. For the financial year 2020/21, the Council approved on 23 March 2020 the budget to set aside MRP of £2.062m, which included £171k of voluntary overpayment. Given the unprecedented challenges presented by the Covid-19 pandemic, the Executive Director Finance and Assets (s151 Officer) published a Covid-19 recovery revised budget 2020-21 which was presented and approved at Council on 16 November 2020. This proposed a temporary change to the way that the MRP was to be funded in the year, with the plan to repeat this in 2021-22 and potentially 2022-23, by utilising capital receipts to offset the amount charged to revenue within the financial year. The Council took comfort that this approach was appropriate as it had been adopted by other Councils in both the current and previous years, with no additional clarity or statutory guidance being provided by MHCLG to determine whether this treatment is allowable 	<ul style="list-style-type: none"> The permitted use of capital receipts is set out in Regulation 23 of the Local Authorities Capital Finance and Accounting Regulations. This prescribes a limited number of ways that capital receipts can be utilised, one of which is 'to repay the principal of any amount borrowed'. If capital receipts are used to repay borrowing this will reduce the total amount outstanding and therefore the level of MRP that will need to be charged. However, in our view, capital receipts cannot be used to directly offset the amount of MRP charged to revenue. Therefore, we have determined that the policy approved by Council, in the current environment with a challenging financial outlook, has the impact of not being sufficiently prudent. There is increasing scrutiny on the level of MRP that Councils are charging as a result of some high profile cases where insufficient amounts have been charged by a number of Councils. In light of our comments above in respect of the revised MRP policy, we have considered whether the amount of MRP charged to revenue in the 2020-21 of £236k by the Council is 'prudent' after the capital receipts element is excluded. The broad aim of 'prudent' provision is to require local authorities to put aside revenue over time to cover their CFR. In doing so, local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits. Guidance presents four options for calculating prudent provision. Local authorities can use a mix of these options for debt taken out at different times. We also note that the Council continued to make the voluntary overpayments of £171k, meaning that the total value of overpayments to date is £1.061m. 	<ul style="list-style-type: none"> In addition to considering the amount of MRP charged, we have also taken into account a number of other factors, including the Council's track record for making prudent MRP charges in previous years, the fact that the Council has made voluntary overpayments in MRP in previous years, the overall health of the Council's finances, including the level of the General Fund, earmarked and other usable reserves and its overall debt position and performance in respect of debt management. Taking these wider factors into account, we have gained sufficient assurance that the Council has sound financial management processes in place and that it is not taking actions that would otherwise indicate that it doesn't operate in a prudent way.

2. Financial Statements – new issues and risks

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

Issue	Commentary	Auditor view
IFRS 16 implementation <ul style="list-style-type: none"> Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2020/2021 statements to comply with the requirement of IAS 8 para 31. As a minimum, we expected 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 	<p>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.</p>	<p>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.</p>
Recognition and Presentation of Grant Income <ul style="list-style-type: none"> The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income 	<p>We have reconciled the figures between note 16 and note 18, detailing the amount of grant income the Council has received in year.</p> <p>On a sample basis, we have agreed grant income to supporting externally generated evidence. During this testing, we have reviewed the way in which management have recognised grant income to agree the treatment applied by the Council as appropriate.</p> <p>The creditor balance on the statement on financial position reflects the year end value of grants received by the Council on an agency basis and as such is not to be recognised as income for the Council.</p>	<p>A variance of £2,747k was identified between notes 16 and 18. This has arisen as a portion of grant income was included within fees, charges and other service income whereas should be in govt grants & contributions. This has been reported as an adjusted error.</p> <p>The council were unable to provide sufficient evidence for one of the sample items as they were unable to reconcile the brought forward balances dating back a number of years. This was an isolated error as it related to a previous Grant Received in Advance (GRIA) that had been released into grant income within the year therefore the total value of the error was £158k. This has been reported as an unadjusted error.</p> <p>A similar issues was identified in the grants received in advance balance. The Council were unable to provide sufficient evidence for one of the sample items as they were unable to reconcile the brought forward balances dating back a number of years. Extrapolating the error gave a projected misstatement of £85k.</p> <p>The creditor balance has been agreed to be materially accurate based on the testing of the receipts and payments verified using externally generated evidence.</p> <p>We are satisfied with the treatment taken by the Council in relation to the recognition and presentation of grant income following the adjustment noted above.</p>

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant estimate	Summary of management's approach	Audit Comments	Assessment
Property, plant and equipment: Land and Building valuations – £138m Surplus assets - £47m	<p>The Council has engaged an internal valuer as well as an external valuer to complete the valuation of assets as at 31 March 2021 on a five yearly cyclical basis. 96% of these two classes of assets were revalued during 2020/21.</p> <p>Other land and buildings comprises £75m of specialised assets such as schools and libraries, 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 (£63m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>Surplus assets are all valued at Fair Value in line with IFRS 13.</p> <p>Management have addressed estimation uncertainty as significant changes were reviewed by the technical accountant in consultation with the internal valuer.</p> <p>Management have considered the year end value of non-valued assets and the potential valuation change in the assets revalued at 31 March 2021. Management's assessment of assets not revalued has identified no material change to the properties value.</p> <p>The total year end valuation of land and buildings was £138m, a net decrease of £142m from 2019/20 (£4m).</p> <p>The total year end valuation of surplus assets was £44m, a net increase/decrease of £42m from 2019/20 (£2m).</p>	<p>We considered the competence, qualifications and independence of management's valuation expert as well as their relevant terms of reference and valuation report. We did not identify any issues.</p> <p>For all assets we identified which were inside and outside of our expectation using Gerald Eve indices to determine a point estimate. This enabled us to assess the reasonableness of increase/decrease in estimate</p> <p>On a sample basis, we analysed the method, data and assumptions used by management to derive the accounting estimate.</p> <p>We then considered in more detail, management bias in determining the estimate and evaluated evidence that contradicts management's assessment. Considered all evidence obtained during the audit, including both corroborative and contradictory audit evidence, when evaluating the appropriateness of accounting estimates.</p> <p>We are satisfied with the adequacy of disclosure of estimate in the financial statements.</p> <p>Our conclusions are outstanding at the date on this report, subject to responses provided by the valuers</p>	

Assessment

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

2. Financial Statements - key judgements and estimates

Significant estimate	Summary of management's approach	Audit Comments	Assessment
Investment property valuation - £66m	<p>The Council is required to revalue its investment properties at fair value on an annual basis at 31 March 2021.</p> <p>The Council has engaged an internal valuer as well as an external valuer to complete the valuation of properties as at 31 March 2021.</p> <p>Significant valuation movements are subject to management challenge of the valuers.</p> <p>The total year end valuation of land and buildings was £66m, a net decrease of £64m from 2019/20 (£4m).</p>	<p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We assessed of management's experts used and found them to be capable, competent and objective</p> <p>We challenged the appropriateness of the underlying information used to determine the estimate. Alongside this, we ensured there is consistency of assumptions against peers/industry data.</p> <p>Where movements are significant, we reviewed increase/decrease in estimates for reasonableness.</p> <p>We are satisfied that the management have adequately disclosed this estimate in the financial statements</p> <p>Our conclusions are outstanding at the date on this report, subject to responses provided by the valuers</p>	
Property, plant and equipment: Council Dwellings - £232m	<p>The Council owns 4,500 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. The Council has engaged a RICS registered valuer to complete the valuation of these properties. In the year under review, the valuation has been on a desktop basis, a full revaluation was undertaken in the prior year. The year end valuation of Council Housing was £232m, a net increase/decrease of £18m from 2019/20 (£214m).</p>	<p>We considered the competence, qualifications and independence of management's valuation expert as well as their relevant terms of reference and valuation report. We did not identify any issues.</p> <p>We confirmed that the information used by the valuer was complete and accurate and the desktop revaluation process were appropriate.</p> <p>We also confirmed that the valuation approach was consistent with the prior year and was in accordance with the guidance on stock valuation for resource accounting.</p> <p>We challenged the indices used in the valuation process and also corroborated the valuation of a sample of properties to market data and were satisfied with the results.</p> <p>We are satisfied the estimate included by management is materially accurate and free from bias.</p>	Light purple

2. Financial Statements - key judgements and estimates

Significant estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £54m	<p>The Council's net pension liability at 31 March 2021 is £54m (PY £51m) comprising the Local Government defined benefit pension scheme obligations.</p> <p>The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £9m net actuarial gain/loss during 2020/21.</p>	<p>We have reviewed the estimate, undertaking tests on the asset and liability elements of the net liability. Using analytical procedures, we have compared actual results with expectations and estimates applied by the actuary and have concluded that the results are reasonable.</p> <p>We have reviewed the work of management's actuary, Hymans Robertson, through the use of an auditor's expert, PricewaterhouseCoopers LLP (PwC). We have undertaken an assessment of actuary's roll forward approach, including work to confirm reasonableness of the approach. We also considered the assumptions applied by the actuary in their 2019/20 IAS 19 pension liability calculation against those independently assessed by our auditor expert, and the results are set out below.</p> <table> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> <tr> <td>Discount rate</td><td>2.00%</td><td>1.95% - 2.00%</td><td>✓</td></tr> <tr> <td>Pension increase rate</td><td>2.85%</td><td>2.80% - 2.85%</td><td>✓</td></tr> <tr> <td>Salary growth</td><td>3.15%</td><td>2.80% - 3.85%</td><td>✓</td></tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td><td>22.9 / 21.9</td><td>21.9 – 24.4 20.5 – 23.1</td><td>✓</td></tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td><td>26.0 / 24.3</td><td>24.8 – 26.4 23.3 – 25.0</td><td>✓</td></tr> </table> <p>We have undertaken checks on the completeness and accuracy of the underlying information used to determine the estimate in order to determine the reasonableness of increase in the estimate. We have also ensured adequacy of the disclosure of the estimate in the financial statements.</p> <p>We are waiting for assurances from the auditor of Gloucestershire County Council Pension Fund over the processes and controls in place at the Pension Fund, including those around member data and the information provided to the actuary. We have requested confirmation that the pension fund auditor had undertaken testing of the Pension Fund's Level 3 investments.</p> <p>A number of values within the disclosure of note 34 were agreed with management as requiring adjustment to agree to the actuary report, these did not impact the calculation of the net pension fund liability.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.00%	1.95% - 2.00%	✓	Pension increase rate	2.85%	2.80% - 2.85%	✓	Salary growth	3.15%	2.80% - 3.85%	✓	Life expectancy – Males currently aged 45 / 65	22.9 / 21.9	21.9 – 24.4 20.5 – 23.1	✓	Life expectancy – Females currently aged 45 / 65	26.0 / 24.3	24.8 – 26.4 23.3 – 25.0	✓	Light purple
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.00%	1.95% - 2.00%	✓																								
Pension increase rate	2.85%	2.80% - 2.85%	✓																								
Salary growth	3.15%	2.80% - 3.85%	✓																								
Life expectancy – Males currently aged 45 / 65	22.9 / 21.9	21.9 – 24.4 20.5 – 23.1	✓																								
Life expectancy – Females currently aged 45 / 65	26.0 / 24.3	24.8 – 26.4 23.3 – 25.0	✓																								

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £50m	For several grants, the Council is acting as an agent and does not recognise grant income. The balance of grants unpaid is shown as a creditor in the statement of financial position.	<p>We have:</p> <ul style="list-style-type: none"> Assessed whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant as revenue in the year under review Reviewed the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income Assessed the impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. Reviewed the adequacy of disclosure of judgement in the financial statements <p>Details of findings have been detailed within 'new issues and risks' within this report. Adjustment identified, but this is presentational and does not reflect management's approach being materially incorrect.</p> <p>We are satisfied with the treatment taken by the Council in relation to the recognition and presentation of grant income following the adjustment noted above.</p>	Light purple
Grants Received in Advanced Presentation- £4m	<p>There also has grants where the Council is acting as the principal and credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement</p> <p>The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver.</p>		

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £236k	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year end MRP charge was £236k, a net decrease of £1,437k from 2019/20.</p> <p>The Council continued to make the voluntary overpayments of £171k (£163 in the prior year), meaning that the total value of overpayments to date is £1.061m.</p>	<p>Due to the uncertainties in local government funding brought about the Covid-19 pandemic, the Council has taken a temporary course of action to reduce the level of MRP charged to revenue in the year by applying capital receipts.</p> <p>This, in our view, is contrary to regulations that cover how capital receipts can be used.</p> <p>However, in considering the wider factors and overall financial management of the Council, we are satisfied that, in totality, the Council has a prudent approach to MRP, notwithstanding our view that the charge in respect of the 2020-21 financial year was not.</p> <p>We therefore recommend that the Council re-considers the MRP policy for future years to ensure that it complies with the underlying regulations and guidance and charges a prudent level of MRP to the revenue account.</p>	Dark purple

Assessment

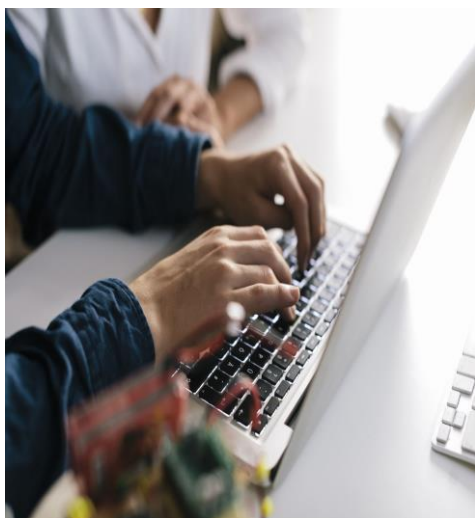
- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider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

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
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	As part of our review of senior officer declarations, it was noted that one officer is also a director of Cheltenham BID Limited of which the Council has transactions with. These transactions, although not material to the Council are material to Cheltenham BID Limited and as such require disclosure in the Council's financial statements. This has been rectified by management in the final accounts.
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, including specific representations in respect of the Group, which is outstanding at the date of this report

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	<p>We requested from management permission to send confirmation requests to several counterparties which the Council hold bank accounts, investments and borrowings with. This permission was granted and the requests were sent, all these requests were returned with positive confirmation.</p> <p>We requested management to send letters to those solicitors who worked with the Group during the year. No issues noted with responses received.</p>
Accounting practices	<p>We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.</p> <p>We did note one disclosure in relation to estimation uncertainty did not meet the description of such per IAS 1, management have amended this disclosure so as the presentation is in line with the requirements of IAS 1 in the final accounts.</p>
Audit evidence and explanations/ significant difficulties	<p>Evidence received in the year under review has largely been of a better standard than in the prior year. However, in some instances, there have continued to be some delays in providing sufficient evidence. We recognise that this is an inevitable result of a change in the finance team at the Council and the respective teams getting to know expectations.</p> <p>One area of for focus in future years is the debtors and creditors populations for sampling. These were initially provided with opening balances included, being transaction listings rather than a breakdown of balances the Council owed / was owing at 31 March 2021. After discussion with officers, the appropriate information was provided that enabled us to identify a population for sampling. We also experienced some challenges due to the limited availability of the specialist involved in the valuations of the Council Property, Plant and Equipment (PPE) balances, including Investment Properties. This is an area where we encourage the Council to ensure that there is sufficient capacity is future years, as this is an area of significant risk and therefore requires a substantial level of audit work.</p> <p>We would also emphasise that some of the delays can be attributed to the environment where audit of accounts is more difficult, as the entire audit was conducted remotely. In addition, as we respond to findings from the Regulator reviews of our files, some of the expectations for supporting evidence for transactions has also increased.</p> <p>Notwithstanding the comments above, the overall direction of travel is positive and we commend officers and the Council for this.</p>

2. Financial Statements - other communication requirements



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).

Issue	Commentary
Going concern	<p data-bbox="871 464 2056 603">In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p data-bbox="871 619 2016 671">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 687 2074 986" style="list-style-type: none"> • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p data-bbox="871 1002 2056 1141">Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul data-bbox="871 1157 1973 1295" style="list-style-type: none"> • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. <p data-bbox="871 1311 2051 1334">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="871 1350 2051 1447" style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - 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 (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>Audit procedures are incomplete at the date of this report in respect of these matters</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>Audit procedures are incomplete at the date of this report in respect of 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.</p> <p>Work is not required as the Council does not exceed the threshold.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020/21 audit of Cheltenham Borough Council in the audit report, as detailed in Appendix E, due to incomplete VFM work.</p>



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Our work has yet to be completed on Value for Money and we anticipate this being reported to the Council by 31 December 2021.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor’s Annual Report. We expect to issue our Auditor’s Annual Report by 31 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risk of significant weakness within our Audit Plan, but did identify the following two areas of key focus.

Our work on these areas is underway and an update is set out below.

Key areas of focus	Work performed to date
<p>Financial Sustainability</p> <p>Medium term financial planning and impact of Covid-19 on financial planning</p>	<p>We have reviewed the Council’s final 2020/21 outturn report against its original and revised plan, which was reported at an underspend of £395k. We have reviewed various financial performance reports, including in year budget reporting to assess arrangements for complete, accurate and timely financial monitoring.</p> <p>Our work in this area is still ongoing and will focus on the robustness of the financial planning going forward, recognising the current challenges. We will consider the impact of Covid-19 on the Council's current financial position including the impact on budgeting into the short and medium term.</p> <p>Once complete our findings in this area will be reported in our Auditor’s Annual Report. There are no issues emerging which impact on our account’s opinion.</p>
<p>Financial Sustainability</p> <p>The Council’s Commercial Investment Strategy, in light of emerging national guidance and the Covid-19 pandemic</p>	<p>The Council has continued to hold strategic commercial investments within the Cheltenham area to support its regeneration agenda and deliver future income streams to ensure that it has a reliable source of other income support its delivery of services. The extent and nature of local government investments in properties continues to be an area of heightened interest by the Government and regulators due to the inherent risk in such activities and the impact that could have on the probity of public funds.</p> <p>Cheltenham Borough Council has sought to ensure that it manages this risk through robust due diligence of the investment acquisitions that it makes and ensures that such investments remain within the geographical boundary of the Council.</p> <p>Our work in this area is still ongoing and will focus on the performance of current investments as well as the information provided to support the decisions made on investments in the year and those that are planned in the near future.</p> <p>Once complete our findings in this area will be reported in our Auditor’s Annual Report. There are no issues emerging which impact on our account’s opinion.</p>

4. Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers). In this context, we disclose the following to you:

In this context, we disclose the following to you that in May 2020, a member of our wider public sector assurance team, has taken up a post of employment within Publica Group (Support) Ltd. This individual's role is a Deputy Chief Financial Officer to Cotswold District Council, with further responsibilities as Chief Accountant in Publica Group (Support) Ltd. This individual does not work on this audit engagement, so we consider that this fact has had no bearing on our audit judgment or independence. We have safeguarded the perceived threat to independence by ensuring the member of staff is not involved with the audit, with assurance 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 ledger
- instruct staff on any transactions with 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 Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

4. 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 group. 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.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Capital receipts grant	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,500 in comparison to the total fee for the audit of £59,543 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.
		Self review (because GT provides audit services)	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)	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 £59,543 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.
		Self review (because GT provides audit services)	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.

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

Appendices

A. Action plan – Audit of Financial Statements

We have identified three 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 2021/22 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>It was identified that the total value of heritage assets was not covered by the insurance certificate. Insurance cover held is £650k less than the value of these assets.</p> <p>Should the whole portfolio be damaged or destroyed, the Council would have insufficient insurance cover to replace these assets.</p>	<p>We would as such recommend that management review the coverage on an annual basis to ensure that sufficient insurance cover is held.</p> <p>Management response</p> <p>The insurance arrangements and value of the Council's heritage assets will be reviewed in 2021/22 to ensure their value is fully covered.</p>
Medium	<p>There were some issues evidencing older balances, this was identified in grant testing; particularly where grants are being carried as receipts in advance or released from receipts in advance during the year.</p> <p>We were advised that this has largely been the case where there have been changes in staffing and information has been lost with members of staff leaving the Council.</p> <p>There is a risk that balances relating to prior periods are incorrectly carried forward or released into the incorrect reporting period if there is not sufficient record keeping.</p>	<p>We would recommend that a review of balances carried forward as at 31 March 2021 is undertaken to ensure that management are fully aware of what these balances relate to and investigate where there is any uncertainty around transactions.</p> <p>Going forward, it would be beneficial to ensure that sufficient records are kept where balances are carried forward into new reporting periods. This will enable information is not lost with staff changes.</p> <p>Management response</p> <p>There have been a number of changes in the finance team supporting the preparation and audit of the 2020/21 Statement of Accounts, including three new members of the team who have joined the team since February 2021. As part of these changes, the accounting entries and working papers for balances, including grants carried forward and grants received in advance balances, have been reviewed to ensure that those prepared for 2020/21 have clear, documented notes for the team to follow in future accounting periods.</p>
Medium	<p>Our testing identified 17 journals that had a blank description, these were selected for testing as this is a weakness in a key control.</p> <p>There is a risk that inappropriate journals could be posted to the ledger to conceal fraudulent activity.</p>	<p>We would recommend that all journals are posted with a description, and this is considered as part of the review process. Further training may be necessary for journal posted to ensure the finance team is aware of the important of this key control.</p> <p>Management response</p> <p>It is not good practice to post journals without a description but accept that 17 journals from a total population of 30,140 is a small proportion. The users who have posted the journals without a description have been identified and the requirement to include a description will be re-iterated. The journal listing will be reviewed quarterly to identify and resolve any exceptions.</p>

Action required

- High priority – urgent action should be taken to address the weaknesses identified
- Medium – action should be taken to address the weaknesses identified in a timely manner
- Low – action should be taken to move to best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Cheltenham Borough Council's 2019/20 financial statements, which resulted in five recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note four are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	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.	As detailed in Appendix G, Value for Money work has not been completed in line with the financial statement audit. On this basis, we cannot yet comment on the Council's medium-term strategy.
TBC	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.	Our testing has identified that tenancies noted as expiring in the 2021-22 financial year have been either renewed or are rolling over. We have reviewed tenancies that have rolled over or due to expire in the 2022-23 financial year and responses from management are outstanding as to the continuation of these leases. As such, we are unable to comment at the date of this report.
X	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.	We are satisfied that all investment properties were revalued as at 31 March 2021 and that management have made changes to the revaluation programme to ensure that the approach taken is in line with the CIPFA Code. Surplus assets totalling £670k were not revalued in the year under review, this has been raised with management. We were advised that the valuer was asked to revalue them all in the instructions however the revaluations were not received. As the total value was not material, management took no further action on this.
✓	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.	Evidence and working papers received in the year under review has largely been of a better standard than in the prior year. Management have responded positively to this recommendation and further progress is expected to be made in future years.
✓	The Council's componentisation policy has not been updated since 2011. This policy was based on 1% of Other Land and Buildings at that date being £872k, however based on the 31 March 2020 balances, 1% would be £1.421m	The policy in the draft financial statements is unchanged from the prior year, being £872k. This was raised with management, the policy was reviewed and updated in year. The proposed policy was taken to Audit Committee on 14 July 2021. This has been rectified as an adjustment in the final accounts, showing componentisation policy being £1.421m

C. 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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Grant income recognised as fees, charges and other service income in error Note: impact is not within CIES, but instead income and expenditure by nature: Dr - Fees, charges and other service income - £2,474k Cr - Government grants and contributions - £2,474 k	There is no impact on the net expenditure recorded in the Council's Comprehensive Income and Expenditure Statement	£ nil	£ nil
Overall impact	£nil	£ nil	£ nil

C. 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	Auditor recommendations	Adjusted?
<p>A number of amendments were noted within note 34, the pension liability:</p> <ul style="list-style-type: none"> other experience reported as negative instead of positive total post-employment benefit charged to CIES reported as 12,537 instead of 9,002 infrastructure not included as asset category within 'Quoted prices not in active markets' proportion of assets incorrectly calculated (impacting equity investments and bonds) 	<p>The disclosures in respect of the pension liability should reflect the underlying evidence and supporting information.</p> <p>Management response</p> <p>The disclosures were fully updated as detailed here in the final accounts</p>	✓
<p>Within the housing revenue accounts, two figures were not updated to reflect the position of the current year.</p> <p>These were for rent arrears and bad debt provision.</p>	<p>Financial information should be updated to reflect the position at the year end, 31 March 2021.</p> <p>Management response</p> <p>The disclosures were fully updated as detailed here in the final accounts</p>	✓
<p>Recalculating senior officer remuneration identified that the banding disclosed by management was incorrect in one instance.</p> <p>One officer should have been included within the £55,000 - £59,999 band not the £50,000 - £54,999 band.</p>	<p>Ensure that the bandings for senior officer's remuneration are calculated correctly.</p> <p>Management response</p> <p>The disclosures were fully updated as detailed here in the final accounts</p>	✓
<p>A number of presentational, grammatical and numerical adjustments and additions were made to the financial statements to improve the readability and understandability of disclosures and to ensure that they are in line with the current International Financial Reporting Standards.</p>	<p>Undertake a detailed review of the financial statements to ensure that the quality of the information is to a high standard.</p> <p>Management response</p> <p>The disclosures were fully updated in line with commentary provided in the final accounts</p>	✓

C. 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	Auditor recommendations	Adjusted?
<p>The Movement in Reserves Statement consistency checker tool published by CIPFA identified the following amendments:</p> <p>Note 34 - Employer's pension contributions and direct payments to pensioners to be changed from £4,983k to £4,853k</p> <p>Note 25 – Reclassifications from/(to) PPE to be changed from £50k to £12k. Revaluation gains to be changed from £38k to nil.</p> <p>Note 19 – some revaluations gains to be put through the CIES rather than credited to the revaluation reserve, due to them being identified as reversals of revaluation losses put through the CIES in previous years, lines impacted:</p> <ul style="list-style-type: none"> • Revaluation increases/(decreases) recognised in the RR (OLB and Surplus) • Revaluation increases/(decreases) recognised in surplus/deficit on the provision of services (OLB and Surplus) • Assets reclassified (to)/from held for sale (OLB) • Depreciation written out to the RR (OLB) • Depreciation written out to the surplus/deficit on the provision of services (OLB) 	<p>Officers should utilise the MIRS consistency checker tool to ensure that the statement is accurately reported.</p> <p>Management response</p> <p>The disclosures were fully updated as detailed here in the final accounts</p>	✓
<p>Duplicates were identified within the operating leases schedule to support note 23. Valued should state as follows, original disclosure shown in brackets:</p> <ul style="list-style-type: none"> • Not later than 1 year £4,501k (£4,526k) • 2 - 5 years £12,153k (12,242k) • More than 5 years £111,827 (113,148k) 	<p>We recommend that this is adjusted</p> <p>Management response</p> <p>The disclosures were fully updated as detailed here in the final accounts</p>	✓
<p>The unadjusted impact of the McCloud judgment 2019-20 was accounted for this in 2020-21 by restating the comparatives, it is our opinion that £105k should be accounts for as a past service cost in the current year.</p>	<p>We recommend that this is adjusted</p> <p>Management response</p> <p>The disclosures were fully updated as detailed here in the final accounts</p>	✓
<p>A disclosure within the detailed cash flow note was missing, this is to show that the surplus or deficit on the provision of services has been adjusted for the following items 'Proceeds from the sale of PPE, investment property and intangible assets' that are investing and financing activities</p>	<p>We recommend that this is adjusted</p> <p>Management response</p> <p>The disclosures were fully updated as detailed here in the final accounts</p>	✓

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 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	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Revaluation gain on a investment property incorrectly allocated on the CIES	Cr - Financing and Investment income - £86k Dr - Surplus or Deficit on revaluation of non-current assets - £86k			On this basis of materiality
Projected misstatement: being brought forward balances within GRIA the Council were unable to evidence		Dr - Grants received in advance - £85k		On the basis that this is a projected misstatement based on a balance that cannot be evidenced
Being a brought forward balance within GRIA released to the CIES in year the Council were unable to evidence	Dr - Grant income - £158k		Dr - Grant income - £158k	On the basis that this is not a confirmed error, but a balance that cannot be evidenced
Overall impact	£158k	£85k	£158k	

D. Fees

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

The fees reconcile to the financial statements

Audit fees	Proposed fee	Final fee
Council Audit	59,543	59,543
Total audit fees (excluding VAT)	£59,543	£59,543

Non-audit fees for other services	Proposed fee	Final fee
Audit related - Certification of Housing Capital receipts grant	5,000	5,000
Audit related - Certification of Housing Benefits grant	19,906	19,906
Total non-audit fees (excluding VAT)	£24,906	£24,906

E. Audit opinion

Our audit opinion will be circulated separately.

F. Audit letter in respect of delayed VFM work

Chair of Audit, Compliance and Governance Committee
Cheltenham Borough Council
Municipal Offices
Promenade
Cheltenham
GL50 9SA

22 September

Dear Sir

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 30 December 2021.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours sincerely

Barrie Morris

Barrie Morris
Director

