The Audit Findings for Cheltenham Borough Council

Year ended 31 March 2022

Cheltenham Borough Council

September 2023

Contents

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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 have been discussed with management and the Audit, Compliance and Governance Committee.

Name : Alex Walling
For Grant Thornton UK LLP
Date : 18 September 2023

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 2022 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 to date was largely undertaken remotely during August and September 2022 with a further work taking place between December 2022 and September 2023. Our findings are summarised on pages 5 to 26. A small number of adjustments to the financial statements have been identified as a result of our audit work that has resulted in a £2,513k adjustment to the Council's Comprehensive Income and Expenditure Statement. The most significant of which relates to updated pension liability figures resulting from the triennial review.

Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware of at this time that would require modification of our audit or further material changes to the financial statements, subject to the following outstanding matters:

- receipt of the IAS 19 assurance letter in respect of the triennial review from the pension fund auditor;
- receipt of revised pension figures for Cheltenham Borough Homes Ltd;
- updated valuation figures for Gloucestershire Airport Ltd land and buildings assets;
- final agreement of figures in the movement in reserves statement:
- updated valuations note for property, plant and equipment;
- 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 unmodified, subject to completion of our outstanding work.

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 has previously been issued to the Audit, Compliance and Governance Committee. We expect to issue our Auditor's Annual Report 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. We plan on issuing a combined report covering 2021/22 and 2022/23 later in the 2023 year. As part of our planning 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 identified no risks at that stage.
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 have not exercised any of our additional statutory powers or duties. 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 combined Auditor's Annual Report (covering 2021/22 and 2022/23) later in the year.
Significant Matters	The draft accounts submitted for audit were incomplete as the accounts for Gloucestershire Airport Ltd had not been included within the group accounts. A revised set was not received until after our initial final accounts visit was concluded. The accounts for the subsidiary companies are prepared using a different accounting framework which allows property plant and equipment to be carried at depreciated cost rather than valuation. It was noted early in the audit that the assets of Gloucestershire Airport Ltd are carried at deemed cost as at 31 March 2015. In order to align the reporting with that of the Council a valuation would be required. This valuation has yet to be received. Further delays also occurred due to the timeliness of responses from the valuer of the Council's housing stock. The Council engages three valuation experts resulting in significant additional work being required in this area. Working papers to support entries in the accounts were in a number of areas insufficient to support a timely audit process.

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 have been discussed with management and the Audit, Compliance and Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

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

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

We have not had to alter our audit plan, as communicated to you on 21 April 2022.

Conclusion

Our audit of your financial statements is substantially complete and, subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Compliance and Governance Committee meeting on 26 September 2023

These outstanding items are summarised on page 3.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

During the course of the audit both your finance team and our audit team faced challenges again this year. In particular delays in the Council receiving the accounts for Gloucestershire Airport Limited delayed the Council being able to produce group accounts, which were completed as soon as they became available. This was after the time resourced to the audit had expired resulting in issues in allocating suitable audit resources.

Conflicting demands on the Council's finance team including the preparation of the 2023/24 budget in light of the cost of living pressures and preparation of the 2022/23 closedown and accounts to the shorter deadline of 31 May resulted in delays in responses to audit queries and errors identified in working papers increased the time required to complete the audit.

A number of other issues took time to resolve, including the treatment of infrastructure assets, which required revised guidance from CIPFA, issued in January 2023, with updated accounts received in July 2023, when further audit resource became available.

Finance officers have worked hard to resolve queries once audit work recommenced in July.

The Council engages three valuation firms to value its assets. Delays were experienced in receiving evidence and explanations from one firm.

The triennial review of the pension fund undertaken in April/May 2023 also identified that the assumptions used to calculate the net defined benefit liability required updating to reflect the most up to date information. The audit work to support the triennial valuation was completed in September 2023.

2. Financial Statements

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,505,000	1,483,000	This was set at 2% of your gross expenditure for the prior year.
Performance materiality	1,128,750	1,112,250	This is 75% of headline materiality.
Trivial matters	75,300	75,300	This is 5% of headline 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 21 April 2022. We detail in the table our determination of materiality for Cheltenham Borough Council and group.

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 over-ride of controls is present in all entities.	We have: • evaluated the design effectiveness of management override of controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 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 a system upload error, specifically in relation to the Child Voucher Scheme, where the template uploaded had not carried over to the ledger correctly; • four journals which related to rounding errors that has been corrected by Unit 4 Business World. The system will automatically allocate any differences to account code E9997 which is the error suspense. Values were for £0.01 in all four cases; and • one journal which was a coding correction journal. Our testing also identified that there is no requirement for journals to be authorised. This increases the risk of errors or fraudulent transactions being posted which may not be identified through budgetary controls. We have gained sufficient assurance over these items in our detailed testing. Our audit work has not identified any further issues in respect of management override of controls. Our review of estimates is documented on pages 16 to 22.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition **Council and Group** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Cheltenham Borough Council, mean that all forms of fraud are seen as unacceptable.	We have not altered or view of this rebuttal since planning.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings **Council and Group** The Council 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 (£141 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings as a significant risk.	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; • Instructed our auditor's expert to review the terms of engagement, valuation methodology and approach and resulting assumptions: • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register; and • reviewed the valuations in line with market trends, and challenged any valuations that were not in line with our expectations; The Council undertook an extensive revaluation exercise in 2020/21 with only a small number of assets revalued during 2021/22. This creates a risk that the carrying value of assets, recorded in the financial statements is materially different from the current value, particularly as asset prices, including building indices, used in the valuations have been increasing. We asked the Council to provide a quantified assessment of this movement. This indicates that movements since the last valuation date are below materiality. The Council owns 50% of Gloucestershire Airport Ltd with Gloucester City Council. The Council includes its share of the company's net assets in its group accounts. The Company prepares its accounts under FRS 102 and holds its property assets at deemed cost as at 31 March 2015. Under IFRS these are required to be valued at Existing Use Value. As the last valuation was in 2015, we requested that management demonstrate that the carrying value of these assets were not materially different from the current value. See 'key judgments and estimates' from page 16 for further details on the findings of this significant risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Council Dwellings **Council** The Council undertakes a full valuation every five years with a desk top valuation in the intervening years. 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. We therefore identified valuation of council dwellings as a significant risk.	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 • reviewed the valuations comparing them with market trends, and challenged any valuations that were not in line with our expectations. We have no matters to report. See 'key judgments and estimates' from page 18 for further details on the findings of this significant risk.
Valuation of Investment Property **Council and Group** The Council has investment properties on its balance sheet of £66 million. These are valued at fair value at 31 March 2022. 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	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; • instructed our auditors expert to review the terms of engagement, valuation methodology and approach and resulting assumptions: • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register; and • we reviewed the valuations in line with market trends, and challenged any valuations that were not in line with our expectations. See 'key judgments and estimates' from page 17 for further details on the findings of this significant risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability **Council and Group** The Council'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. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£43 million in the Council's balance sheet. The group accounts include the pension liability of Cheltenham Borough Homes Ltd of £10 million) 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 Council'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. We are currently 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 in respect of the triennial valuation. See 'key judgments and estimates' from page 19 for further details on the findings of this significant risk. We have not to date, identified any issues that would suggest that the of the valuation of the pension fund net liability is materially misstated.

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

Component	Component auditor	Findings	Group audit impact
Cheltenham Borough Homes Ltd	Bishop Fleming	There are no matters to report	No impact
Gloucestershire Airport Ltd	Hazelwoods	The Council owns 50% of Gloucestershire Airport Ltd with Gloucester City Council. The Council includes its share of the company's net assets in its group accounts. The Company prepares its accounts under FRS 102 and holds its property assets at deemed cost as at 31 March 2015. Under IFRS these are required to be valued at Existing Use Value. As the last valuation was in 2015, we requested that management demonstrate that the carrying value of these assets were not materially different from the current value.	On receipt of the valuation we will assess whether there is any impact on the investment in the joint venture in the group accounts.

2. Financial Statements – new issues and risks

Issue	Commentary	Auditor view
Minimum Revenue Provision (MRP) • 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 2022 the total levels of borrowings for the Council stood at £176.1m, which was an increase on the prior year borrowings of £2m from £174.1m. The £176.1m of borrowings includes £67.7m of HRA debt, MRP is not required to be charged on this debt. • 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. • 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 • For the financial year 2021/22, the Council approved on 23 March 2021 the budget to set aside MRP of £0.43m, which included £180k of voluntary overpayment.	• 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 charged as a result of a number of high-profile cases where insufficient amounts have been charged by 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 2021-22 of £579k 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. • The year end MRP charge is £758k to revenue which is an increase of £352k from 2020/21. The Council also made a one off repayment of debt of £1.8m using capital receipts in 2021/22. The approach of charging MRP to capital receipts was also reviewed and a different approach has been taken. In addition, the MRP policy has been reviewed and a new approach approved by Council following the comments made in the 2020/21 audit. • We also note that the Council continued to make the voluntary overpayments of £179k, meaning that the total value of overpayments to date is £1.241m.	• 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 its doesn't operate in a prudent way.

2. Financial Statements – Other 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
Valuation of Infrastructure Assets CIPFA has reported that Infrastructure assets were first recognised in conventional local authority balance sheets when the Code aligned reporting on assets more closely with other UK GAAP, moving from older capital accounting systems based on financing requirements. This was on 1 April 1994 for English local authorities. At that time, infrastructure assets were brought on to the balance sheet at undischarged capital amounts and this was described as historical cost and generally aggregated under simplified headings – roads, bridges etc. For many local authorities, further information deficits have arisen as systems have not been detailed enough to allocate costs and identified replacement at the granular level to ensure that infrastructure asset values can be conformed to be materially correct. For many local authorities, further information deficits have arisen on transfer of balances of infrastructure assets as a result of local government reorganisation where information has not been available to disaggregate the carrying value. The revised CIPFA Code of Practice on Local Authority Accounting now states that Infrastructure assets shall be measured at depreciated historical cost. Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (i.e. brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment. During the audit, and following concerns raised by regulators at other councils, we identified a risk that the carrying value of infrastructure assets is not appropriate given the nature of how the assets are held on the balance sheet and monitored through the asset register.	The inherent risks, which we identified in relation to infrastructure assets were informed by the sector level work in this area by CIPFA, and included: • an elevated risk of the overstatement of Gross Book Value and accumulated depreciation figures, due to lack of derecognition of replaced components • a normal risk of understatement of accumulated depreciation and impairment as a result of failure to identify and account for impairment of infrastructure assets and an over or understatement of cumulative depreciation as a result of the use of inappropriate useful economic lives (UELs) in calculating depreciation charges. As a firm we have been working with CIPFA and the English Government to find both long-term and short-term solutions which recognise the information deficits and permit full compliance with the CIPFA Code. It has been recognised that longer-term solutions, by way of a Code update, will take several years to put into place and so short-term solutions are being put in place in the interim. These short-term solutions included the issuing of a Statutory Instrument (SI) by government. The English SI was laid before Parliament on 30 November 2022 and came into force on 25 December 2022. CIPFA issued an update to the Code for infrastructure assets in November 2022 and has issued further guidance in January 2023 in relation to useful economic lives (UELs). The following page sets out our detailed work on the Council's revised infrastructure disclosures following the release of the SI and we are now comfortable with the revised disclosures and their compliance with the national guidance.

Headlines

2. Financial Statements – Other risks

Valuation of Infrastructure Assets (continued)

Following the issuing of the Statutory Instrument we have we have completed the following work focusing on the Council's current year's infrastructure assets:

- reviewed and challenged the arrangements that the Council has in place around impairment of infrastructure assets
- evaluated management's processes and assumptions for the calculation of the estimate including review of in-year depreciation and associated UELs
- challenged the information and assumptions used to inform the estimate

Based on our work, we are satisfied that the Council has:

- correctly applied the SI and the requirements in the CIPFA Code update
- appropriately removed the gross book value and accumulated depreciation from its disclosures adding a new disclosure setting out opening net book value and any in-year movements
- not identified any prior period adjustments requiring disclosure in the accounts.

We have reviewed the changes to the infrastructure disclosures in the revised financial statements and are satisfied that these now comply with the requirements. We have, however, identified two issues that we need to bring to the attention of the those charged with governance:

1) Impairment

Firstly our work in respect of the risk of the Council overstating the net book value of its infrastructure as a result of failure to identify and account for impairment of infrastructure assets. This work identified that the Council has arrangements in place to identify any impairments required.

Recommendation 1

Whilst the Council has arrangements in place to monitor the condition of infrastructure assets., we recommend that as part of year-end procedures, when the Balance Sheet carrying values of these assets are reviewed for impairment, the Council formalises arrangements to ensure that the reviews are undertaken by appropriate officers to support the impairment review process

2) Depreciation charges

Secondly our work in respect of the risk of over or understatement of net book value of assets as a result of the use of inappropriate Useful Economic Life (UEL) in calculating depreciation charges for 2021/22.

The Council has adopted a component approach to determining asset lives for its infrastructure assets. These are recorded according to type with lives assigned that are consistent with sector standards and the average UEL ranges provided in the CIPFA Bulletin 12. Our review of infrastructure assets at the Council identified that the Housing Revenue Account holds infrastructure assets with a net book value of £5.1 million were not suitably described within the fixed asset register and a number of general fund infrastructure assets descriptions did not fully identify the nature of the asset held.

Recommendation 2

We recommend that management reviews both general fund and HRA infrastructure assets to ensure that these assets are fully understood.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £141m Surplus assets - £45m	Other land and buildings comprises £77m of specialised assets such as sports pavilions and public conveniences, 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 (£64m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Vickery Holman to complete the valuation of properties as at 31 March 2022 on a five yearly cyclical basis. 1.8% of total assets were revalued during 2021/22. Management have considered the year end value of non-valued properties. Management have used relevant indices to determine whether there as 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 properties' value. We are currently in the process of reviewing whether this has resulted in a significant increase or decrease in values, which may result in further valuations being required. The total year end valuation of land and buildings was £141m, a net increase of £2.9m from 2020/21 (£138m).	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. 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 in the estimate. On a sample basis, we analysed the method, data and assumptions used by management to derive the accounting estimate. 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. We are satisfied with the adequacy of disclosure of estimate in the financial statements.	**Light 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 - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £66.415m	The Council has engaged Vickery Holman to complete the valuation of properties as at 31 March 2022. All investment property was revalued at that date. The total year end valuation of investment property was £66m, a net decrease of £280,000 from 2020/21.	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. We assessed management's experts used and found them to be capable, competent and objective. We are challenging the appropriateness of the underlying information used to determine the estimate and ensuring that there is consistency of assumptions against industry data. Where movements are significant, we are reviewing the increase/decrease in estimates for reasonableness.	Light purple

Assessment

- Dark 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 judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing - £251m	The Council owns 4,540 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 Avison Young to complete the valuation of these properties. The year end valuation of Council Housing was £250.9m, a net increase of £19m from 2020/21 (£231.8m).	We considered the competence, experience and independence of managements expert as well as the relevant terms of engagement and the valuers report. No issues were identified. We confirmed that the information used by the valuer was complete and accurate and the desktop approach was appropriate. We confirmed that the valuation approach was consistent with the prior year and was in accordance wit the guidance on stock valuation for resource accounting. We challenged the indices used in the valuation process and corroborated a sample of properties to market data. We confirmed that adequate disclosures were included within the financial statements. We are following up a small number of points with the Council's valuer. A formula error was identified within the valuation spreadsheet, which resulted in the value of council dwellings being understated by £736. Management have not adjusted for this error on the grounds of materiality. We are satisfied at this point that the estimate included by management is not materially misstated and is free from bias.	Grey

Assessment

- Dark 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 judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £43m	The Council's [total] net pension liability at 31 March 2022 is £43m (PY £53.7m) comprising the Gloucestershire County Council Pension Fund and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 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 £13m net actuarial gain during 2021/22.	See audit comments below	Grey

Audit Comments

- We have assessed the Council's actuary, Barnett Waddingham, to be competent, capable and objective.
- We have performed additional tests in relation to accuracy of contribution figures, benefits paid, the reasonableness of the Council's share of the funds assets and investment returns to gain assurance over the 2019/20 roll forward calculation carried out by the actuary and have no issues to raise.
- We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.7%	2.7-2.75%	
Pension increase rate	3.2%	3.15-3.3%	
Salary growth	3.5%	0.5-2.5% above CPI	
Life expectancy – Males currently aged 45 / 65	Pensioners: 21.7 Non-pensioners: 22.6	Pensioners: 20.1 - 22.7 Non-pensioners: 21.4 - 24.3	
Life expectancy – Females currently aged 45 / 65	Pensioners: 24.1 Non-pensioners: 25.8	Pensioners: 22.9 - 24.9 Non-pensioners: 24.8 - 26.7	

We have also:

- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report.

Our work has noted that one assumption used in the calculation of the valuation of pension fund net liability is not in-line with the auditor's expert. The auditors expert expected the assumption for the salary increase is CPI + 0.5%pa however the actuary has used CPI + 0.3%pa in their calculations. We have determined that this has not produced a material misstatement in the financial statements.

Assessment

- Dark 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 judgement or estimate	Audit Comments - continued	Assessment
Net pension liability – £43m	The pension fund auditor communicated that the actuary used a projected investment return of 6.9% in their IAS19 estimate of pension assets. The actual investment return for the pension fund's assets for 2021/22 was 7.46%. The impact of this is approx. £701,306. The pension fund's triennial review was carried out at 31 March 2022. To reflect the changes arising from this, management has requested that it's expert, Hymans Robertson undertake an updated actuarial review. This was received and management has included the relevant adjustments in the revised accounts. This has increased the net defined benefit liability at 31 March 2023 by £2 million. The actuary has updated the salary assumption in their revised IAS19 report by 0.2%. This is not consistent with PwC's (as our auditor's expert) expectation that financial assumptions remain the same. This updated salary assumption has resulted in an increase in the liability of approximately £438k. We reported this as an unadjusted misstatement on page 40. The auditor of Gloucestershire Pension Fund has undertaken testing of membership data as part of the triennial review process, we are currently awaiting the results of this testing.	Grey

Assessment

- Dark 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 judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £40.5m	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. There are also grants where the Council is acting as the principal and credited grants, contributions and donations to the Comprehensive Income and Expenditure Statement. 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.	We have: • 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. We identified that the Covid-19 loss of income grant had been credited to services. This grant compensates authorities for irrecoverable and unavoidable losses from sales, fees and charges income in the financial year. Authorities are to absorb losses of up to 5% of planned sales, fees and charges income and then compensated for the eligible 'net losses' at 75% thereafter. As the grant is not ring fenced, then we would expect income to be reported as taxation and non-specific grant income in the CIES. We challenged management on the treatment and they detailed that as they are able to attribute the loss of income to a specific service then they deem it appropriate to credit the grant to services. We recommended that management include a critical judgement in their accounts as the grant was material in 2020/21. We also identified that note 16 was understated by £1.6 million. The Council made the appropriate amendment. We are satisfied with the treatment taken by the Council in relation to the recognition and presentation of grant income.	Light purple

Assessment

- Dark 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 judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £758,000	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. The Council continued to make the voluntary overpayments of £179k (£171k in the prior year), meaning that the total value of overpayments to date is £1.241m. The year end MRP charge was £758k, a net decrease of £1.51m from 2020/21. The Council approved a revised MRP policy at its meeting in November 2020. The report stated that this revised would be effective for 2022 and potentially for 2023.	In the prior year, we reported that the Council had applied capital receipts in lieu of a revenue charge to the general fund. We therefore recommended that the Council reconsider 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. The Council has not revised this policy in the current year. The Government has consulted on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. Government will issue a full response to the consultation in due course.	

Assessment

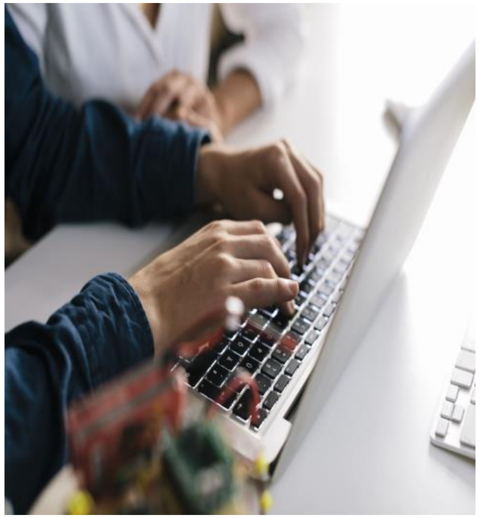
- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider 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 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 will be requested from the Council, including specific representations in respect of the Group.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	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.
Accounting practices	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.
Audit evidence and explanations/ significant difficulties	The Council experienced delays in receiving draft accounts for Gloucester Airport Ltd, which prevented full group accounts being prepared and at the time of writing, these have not yet been received. We have also experienced some delays in receiving satisfactory evidence. We would also emphasise that as we respond to findings from the Regulator reviews of our files, the expectations for supporting evidence for transactions continues to increase. We will continue to work with officers to clarify and improve working paper expectations for the 2022/23 audit.

2. Financial Statements - other communication requirements

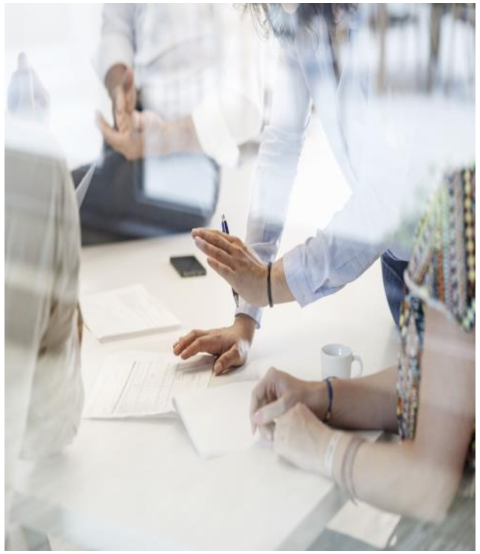
Our responsibility

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	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. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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. 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: • 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. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that for the Council: • 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. This interpretation is not applicable to the Council's subsidiary entities and we are satisfied that there are no going concern natters arising in the subsidiary companies.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	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 the Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Inconsistencies have been identified in the Narrative Report but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • 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. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	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. Minimal work is required as the Council does not exceed the threshold.



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. 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.

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. An audit letter explaining the reasons for the delay was issue to the Chair of the Audit, Compliance and Governance Committee in September. We expect to issue our Auditor’s Annual Report 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 risks of significant weakness.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in 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)

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, which were charged from the beginning of the financial year to 8 November, 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	7,500	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 £7,500 in comparison to the total fee for the audit of £41,043 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)	The materiality of the amounts involved to our opinion and the low likelihood of material errors arising and that the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants, mitigates against this risk.
Certification of Housing Benefit Claim	25,150	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 £25,150 in comparison to the total fee for the audit of £41,043 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)	The materiality of the amounts involved to our opinion and the low likelihood of material errors arising and that the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants, mitigates against this threat.

Appendices

A. Action plan – Audit of Financial Statements

We have identified five 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 2022/23 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	**Journals** Our testing also identified that there is no requirement for journals to be authorised. This increases the risk of errors or fraudulent transactions being posted which may not be identified through budgetary controls.	We would recommend that management implement procedures to review and authorise journals posted. **Management response** We are a small organisation and don't feel that introducing an authorisation control into the journal posting process would be an effective use of the resources we have available given the low risk of fraud or error in the Statement of Accounts. Instead, since the finance service has transferred back in house we have reviewed and limited the number of users able to post journals. Only finance staff with appropriate experience have access to do this. Similarly, there is monthly monitoring of the budget undertaken by service managers and the finance team which would identify and resolve any incorrect postings.
Medium	**Grants received in advance** As reported previously, there were two instances where the Council was unable to provide evidence to support the balances held in grants received in advance or to demonstrate a requirement that funding would need to be returned to the grant paying body, These related to grant funding received in previous years. 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. 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.	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. 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. **Management response** The volume and balance of capital and revenue grants received by the Council has increased significantly since 2019/20 and since the finance service has been brought back in house there has been increased investment in making sure these grants are correctly categorised as receipts in advance or grants unapplied. This has meant working closely with the Service Managers who either applied or received these grants in their budget areas. Understanding these historic grant balances has been an iterative process but all grants received since 1 April 2022 have appropriate evidence available. Where limited information exists for historic balances, we have chosen to take a prudent approach by classifying them as receipts in advance.
Medium	**Stock price testing** Our testing of Other Operating Expenditure identified that stock values were obtained from prices used in the last UBICO Ltd tender exercise with a follow up telephone call to confirm that prices were still correct. The officer undertaking this exercise had left the Council and proper evidencing of this exercise was not available. The value of this balance was £141k and any discrepancies would be trivial and isolated.	We recommend that management ensure that sufficient evidence is retained to support all transactions within the financial statements. **Management response** Agreed. Management have already confirmed this has been evidenced for the balance in the 2022/23 Statement of Accounts.

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	**Infrastructure assets** There has been an increased focus on accounting for infrastructure assets during the year, culminating in revised requirements being issued by CIPFA in January 2023. Our review of infrastructure assets at the Council, identified that the Housing Revenue Account holds infrastructure assets with a net book value of £5.1 million were not suitably described within the fixed asset register and a number of general fund infrastructure assets descriptions did not fully identify the nature of the asset held. Whilst the Council has arrangements in place to monitor the condition of infrastructure assets. We recommend that as part of year-end procedures, when the Balance Sheet carrying values of these assets are reviewed for impairment, the Council formalises arrangements to ensure that the reviews undertaken by appropriate officers to support the impairment review process	We recommend that management reviews both general fund and HRA infrastructure assets to ensure that these assets are fully understood. **Management response** Agreed. The general fund infrastructure asset balance has been reviewed as part of the work on the 2022/23 Statement of Accounts and audit preparation. Further work will be undertaken with Cheltenham Borough Homes to understand the detail of the HRA infrastructure asset balance.
Medium	**Decommissioned assets** Our testing identified £1.3 million of vehicle, plant and equipment assets that were fully depreciated and no longer in use. These assets should be removed from the asset register, although the net book value is correct, cost and accumulated depreciation are both overstated in note 19.	We recommend that management reviews the asset register and removes decommissioned assets. **Management response** Agreed. In 2022/23 we appointed a Capital and Treasury Management Accountant who has taken on responsibility for managing and maintaining the asset register and this will be actioned before the audit of the 2022/23 Statement of Accounts.

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 2020/21 financial statements, which resulted in five recommendations being reported in our 2020/21 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	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. Should the whole portfolio be damaged or destroyed, the Council would have insufficient insurance cover to replace these assets. We would as such recommend that management review the coverage on an annual basis to ensure that sufficient insurance cover is held.	We have reviewed the insurance documents to determine the coverage of insurance for heritage assets. The value insured remains £650k lower than the carrying value within the financial statements. **Management response** The review and categorisation of the Council's collection is ongoing and once this is completed an updated listing will be provided to the insurer to update our cover. Commissioning a separate exercise for the purposes of the accounts would be expensive and duplicate work already underway.
X	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. 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. 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. 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. 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.	Our testing undertaken in the current year has identified that this remains an issue. **Management response** The volume and balance of capital and revenue grants received by the Council has increased significantly since 2019/20 and since the finance service has been brought back in house there has been increased investment in making sure these grants are correctly categorised as receipts in advance or grants unapplied. This has meant working closely with the Service Managers who either applied or received these grants in their budget areas. Understanding these historic grant balances has been an iterative process but all grants received since 1 April 2022 have appropriate evidence available. Where limited information exists for historic balances we have chosen to take a prudent approach by classifying them as receipts in advance.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	The Council has incorrectly included capital receipts within its annual charge for MRP which has reduced the amount charged to revenue in the year. This is contrary to the regulations which prescribe the use of capital receipts. Consequently, the annual charge of MRP to the revenue account is understated for the year. The Council needs to revisit its approach for charging MRP so that it does not include capital receipts in lieu of charges to the revenue account.	The Council has continued to apply capital receipts in lieu of charges to the revenue account. **Management response** The MRP Policy has been informally reviewed in 2021/22 after the 2020/21 August Findings Report was published. It has also been fully reviewed and revised as part of the 2022/23 and 2023/24 budget setting process. We no longer apply capital receipts in lieu of charges to the revenue account and Note 21 of the Statement of Accounts shows this. Instead, capital receipts have been used for the repayment of debt in line with guidance provided by Grant Thornton during the 2020/21 audit.
X	Our testing identified 17 journals that had a blank description, these were selected for testing as this is a weakness in a key control. There is a risk that inappropriate journals could be posted to the ledger to conceal fraudulent activity. 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.	Our testing identified that a similar number of journals had blank descriptions. We reviewed the purpose and supporting documentation for these journals with no issues identified from our testing. **Management response** Since the finance service has transferred back in house we have reviewed and limited the number of users able to post journals. Only finance staff with appropriate experience have access to do this. Similarly, there is monthly monitoring of the budget undertaken by service managers and the finance team which would identify and resolve any incorrect postings. As part of the 2022/23 year end process a review was undertaken of journals posted without a description. These have been validated and reposted and should not remain an issue going forward.

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Partial	Our testing on the valuation of property, plant and equipment and investment properties identified several errors in relation to source data as detailed within 'key judgments and estimates' from page 16. The Council had difficulty providing evidence to support the floor areas of some assets and properties we selected for testing. We would expect the Council to maintain up to date records of property data, such as floor areas. Where these were not available, we have used Valuation Office Agency data and Energy Performance Certificates to corroborate the floor areas. We would deem the lack of up-to-date property information to be a weakness in evidence. In one case, the Council was unable to evidence why a car park was valued at £227k. This car park is non-revenue generating and is recognised in the fixed asset register as part of another building asset. We have noted that this is an isolated issue and no other assets hold a car park that have been valued in this way. We do not deem this to be an error, but an amount for which we cannot obtain sufficient and appropriate evidence and are reporting this as such. We were also unable to corroborate the fact that management have challenged the valuer on the valuations they produced. As the estimates in the Statement of Accounts are the responsibility of management, not the valuer, we would expect there to be some documentation of the challenges raised. The Council should ensure that up to date records are maintained in respect of property data to ensure the valuations are completed using appropriate inputs. We would also recommend that the valuations produced are reviewed for reasonableness, management should challenge the assumptions made and the source data included.	All appropriate evidence was received. This remains an area of focus. Management response in 2021/22 and 2022/23 our in house Estates Surveyor has reviewed all the valuations and this has been evidenced to Grant Thornton. Controls around our assets have been improved in the period since the last Audit Findings Report however our portfolio is extremely large for an organisation of our size and reviewing the information we hold for each of our assets will take a number of financial years.

B. Audit Adjustments

Impact of adjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have been made within the final set of financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Correction of other land and buildings Our testing identified that an asset included within assets under construction was incorrectly classified. The asset was land at Cakebridge Place which was reclassified as a surplus asset. A valuation was received for this asset of £825,000 Correction of errors in the processing of valuations of other land and buildings assets	(344)	344	(344)
Pension adjustments following the triennial review The net defined pension liability has increased following the triennial review	2,857	(2,857)	2,857
Overall impact	2,513	(2,513)	2,513

B. 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 error or omission	Adjusted?
The Narrative Report contained a number of typographical errors and instances where the numbers were not consistent with other disclosures within the accounts.	✓
Note 21. Capital Financing This note contained a number of errors, where figures were not consistent with the working papers provided.	✓
Note 14 Related Parties This note contained a small number of omissions and items that could not be agreed to other evidence.	✓
Note 12 The banding disclosure for employees whose remuneration, excluding employer's pension contributions, was £50,000 was incorrectly presented. Management also omitted to include termination benefits within this disclosure.	✓
Note 1 Accounting policies A small number of amendments were made to accounting policies to reflect the requirements of the Code and practice at the Council.	✓
Note 2 Changes in accounting policy and accounting standards that have been issued but have not yet been adopted A small number of changes have been made to reflect the changed timeframe for the implementation of IFRS 16 and to remove the reference to infrastructure assets which has been temporarily resolved.	✓
Note 3 Critical judgements used in applying accounting policies We noted that the Council had classified the Covid 19 income compensation grant as a service specific grant rather than as a general non ringfenced grant. There are no restrictions on its use. The Council has used its judgement to credit the grant against the services impacted and has updated note 3 to reflect this.	✓
Note 15 Audit fees The Council had incorrectly marked this note as restated. In addition the note has been amended to include certification work in the same balance.	✓

B. Audit Adjustments

Misclassification and disclosure changes

Disclosure error or omission	Adjusted?
Note 16 Grants We identified that note 16 was inconsistent with note 18. Note 16 was amended to ensure consistency. Note 16 was amended in the final set of accounts to include £1.6m worth of capital grants and contributions.	✓
Note 17 Expenditure and Funding Analysis A number of amendments were made to this note to reflect the Council's outturn report.	✓
Note 19 Property plant and equipment The note setting out the date of valuations undertaken was incorrect .	✓
Note 34 Pensions An additional disclosure has been added to reflect the uncertainty inherent in the roll forward process used to determine asset and liability values.	✓
Note 27 Short term debtors and note 29 Short term creditors A further disclosure was added to distinguish balances that are financial instruments to enable these notes to be reconciled to note 26.	✓
Note 21 Capital commitments The draft accounts reported £1,929,000 of capital commitments at the balance sheet date. Further investigation identified that this figure was incorrect. Total capital commitment at 31 March 2022 was £953,000.	✓
Note 27 Debtors and note 29 Creditors An adjustment of £351 was made to reclassify negative debtors to creditors.	✓
Housing Revenue Account We identified a number of inconsistencies within the statement and note.	✓
Note 6 Events after the reporting period This note has been amended to reflect the conclusion of litigation and the amendments made to the Code in respect of infrastructure assets	✓

B. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 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
Grants received in advance The Council receives certain types of grant funding expenditure where certain conditions need to met to ensure that this funding will not need to be repaid to the funding body. These are recognised in the accounts over a number of years and the income released as the conditions are met . We identified one instance where the Council was unable to provide evidence to support the initial receipt of the grant. Two further instances were identified where the Council was unable to demonstrate that conditions applied and as such there was no requirement not to recognise this income on receipt. As our testing was on a sample basis and does not cover the entire population, we have extrapolated the error to determine the likely impact of a material misstatement arising. This issue was also identified in 2020/21.	(260)	260	(260)	On the basis that this is a projected misstatement based on a balance that cannot be evidenced
Valuation of council houses A number of errors were identified in the calculations provided by the Council's external valuation expert, where incorrect indices were applied. The impact is to understate the value of council dwellings by £736,000.	(736)	736	(736)	Immateriality
Pension Liability Increase in salary assumption in the net defined benefit obligation, not in accordance with our expectations.	(438)	438	(438)	Immateriality
Overall impact	(736)	1,434	(1,434)	

B. 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 2020/21 financial statements

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 investment property incorrectly allocated on the CIES	Cr Financing & Investment income --£86k Dr Surplus or Deficit on revaluation of non current assets --£86k		£ nil	On the basis of materiality
Projected misstatement: being brought forward balances within GRIA the Council were unable to evidence		Dr Grants received in advance - £85k	£nil	On the basis of materiality
Being a brought forward balance within GRIA released to the CIES in year the Council were unable to evidence	Dr Grant income ––£158k	Dr --£158k	Dr--£158k	On the basis of materiality
Being the land swap recognised as a reclassification in error and the subsequent revaluation upon identifying this	Cr –(Surplus) or Deficit on revaluation of non current assets ––£342k	Dr - PPE: revaluation increases recognised in the revaluation reserve ––£342k	Cr –£342k	On the basis of materiality
Being the net impact of the errors identified in investment properties valuation testing	Cr - Financing and Investment income £464k	Dr - Investment properties: Net losses for the period included in the surplus or deficit on the provision of services resulting from changes in fair value ––£464	Cr –£464k	On the basis of materiality
Being the net impact of the errors identified in other land and buildings valuation testing	Dr – (Surplus) or Deficit on revaluation of non current assets ––£758k	Cr - PPE: revaluation increases recognised in the revaluation reserve –£758k	Dr–£758k	On the basis of materiality
The impact of the McCloud Pension adjustment from 2019 20 has been re stated in the comparators rather than disclosed as a part service cost in 2020 21.	£ nil	£ nil	£ nil	On the basis of materiality
Overall impact	£110k	£1,331k	£110k	

C. 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 (scale fee)	£41,043	£41,043
Council – additional fees (including VFM fee)	* £28,100	** TBC
Total audit fees (excluding VAT)	**£64,543**	**TBC**

* Additional fees to be approved by PSAA

** The final fee will be discussed with the CFO following completion of the audit prior to being submitted to PSAA for approval

Non-audit fees for other services	**Proposed fee**	**Final fee**
Audit Related Services - Grant Claims	£32,650	£32,650
Total non-audit fees (excluding VAT)	**£32,650**	**£32,650**

The fees reconcile to the financial statements, although we anticipate our fee for grant claims will be slightly lower than reported.

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