

Agenda Item (9)  
Appendix 'A'



# The Audit Findings for Cotswold District Council

Year ended 31 March 2016

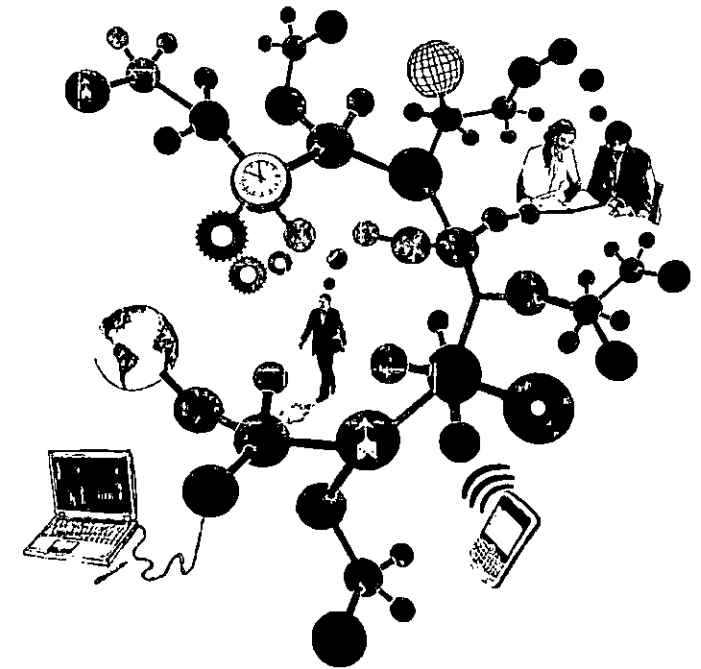
12 August 2016

10

**John Golding**  
Partner

**Julie Masci**  
Associate Director

**Michelle Burge**  
Assistant Manager



Cotswold District Council  
Trinity Road  
Cirencester  
Gloucestershire  
GL7 1PX

Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

12 August 2016

Dear Members of the Audit Committee

**Audit Findings for Cotswold District Council for the year ending 31 March 2016**

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Cotswold District Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

John Golding  
Engagement lead

**Chartered Accountants**

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.  
Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see [grant-thornton.co.uk](http://grant-thornton.co.uk) for further details.

---

# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	4
2. Audit findings	8
3. Value for Money	22
4. Fees, non-audit services and independence	28
5. Communication of audit matters	30

## **Appendices**

- A Action plan
- B Audit opinion

---

## Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and Independence

05. Communication of audit matters

## Purpose of this report

This report highlights the key issues affecting the results of Cotswold District Council (‘the Council’) and the preparation of the Council’s financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 (‘the Act’).

Under the National Audit Office (NAO) Code of Audit Practice (‘the Code’), we are required to report whether, in our opinion, the Council’s financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources (‘the value for money (VFM) conclusion’).

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public’s attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

We have nothing to report you under the additional powers and duties outlined above.

## Introduction

In the conduct of our audit we have changed our audit approach which we communicated to you in our Audit Plan dated 16 March 2016. We reported in our Audit Plan that the structure of Ubico Ltd changed in 2015/16 with the addition of three more partners to the company and that membership was made up of five partners each with a one-fifth shareholding and concluded that group accounts continued to be required to be prepared.

We subsequently identified that Stroud District Council became a partner on the 29 January 2016 and the Council’s shareholding therefore decreased to a one-sixth share. The separate operating practices, management structure, the application of majority-voting on the Ubico Limited board and the reduction in the Council’s shareholding no longer constitute the Council having joint-control or significant influence over the company. The Council’s interest has therefore been classified as an investment in Ubico and we have agreed following discussion with officers that group accounts are no longer required.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- a small number of outstanding queries in relation to the narrative report, capital commitment note, capital adjustment account
- receipt of letter of assurance and formal valuation from the Council's valuer
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

### **Key audit and financial reporting issues**

#### **Financial statements opinion**

We have identified no adjustments affecting the Council's reported financial position (details are recorded in section two of this report). We have identified adjustments required in respect of the valuation of leisure centres. By reference to available market indices we identified that the net book value of leisure centres (land and building) was potentially materially misstated. A desktop valuation has now been undertaken by the Council's valuer and we understand this has resulted in an increase in the value of leisure centres by approximately £4m. We are awaiting the valuation report and subsequent accounting adjustments before we finalise our audit. This adjustment will not have an impact on the Council's reported position. We have also identified a number of disclosure adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- the Council prepared a good quality set of draft accounts for audit by 30 June 2016
- the supporting working papers were generally of a good quality.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### **Other financial statement responsibilities**

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

### **Controls**

#### **Roles and responsibilities**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

#### **Findings**

Our work has identified a small number of control weaknesses which we wish to highlight for your attention. These relate to our review of IT general controls.

Further details are provided within section two of this report.

### **Value for Money**

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further details of our work on Value for Money are set out in section three of this report.

### **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

### **Grant certification**

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit Committee which is due in January 2017.

### **The way forward**

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Finance Officer.

We have made a recommendation in relation to IT controls, this is set out in the action plan at Appendix A. This has been discussed and agreed with the Chief Finance Officer and the finance team.

### **Acknowledgement**

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

**Grant Thornton UK LLP**  
**August 2016**

---

## Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters



## Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £882,000 (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £44k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000 (one remuneration band)
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1,000
Disclosure of members allowances	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000

## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Cotswold District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Cotswold District Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>• Review of entity controls</li> <li>• Testing of journal entries</li> <li>• Review of accounting estimates, judgements and decisions made by management</li> <li>• Review of unusual significant transactions</li> <li>• Review of assurances from the Audit Committee and management in relation to fraud, law and regulations.</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

19

## Audit findings against significant risks continued

We have also identified the following significant risk of material misstatement from our understanding of the entity. We set out below the work we have completed to address this risk.

	<b>Risks identified in our audit plan</b>	<b>Work completed</b>	<b>Assurance gained and issues arising</b>
3.	<p><b>Transfer of data on systems upgrade</b></p> <p>A major upgrade to the financial systems took place this year after nearly a year of planning and preparation. The upgrade was akin to the installation of a new system from the same supplier, requiring the planned suspension of some financial systems for several days and a total refresh of the hardware and servers.</p>	<p>We have reviewed the arrangements set up to plan and execute the upgrade from a finance and IT perspective.</p> <p>We have also reviewed the reconciliations of balances before and after the transfer, and agreed these balances to underlying transactions.</p>	<p>The upgrade has been effective, and only minor inconsistencies and problems have been identified by officers.</p> <p>Our work on the Council's IT Systems has identified a number of potential improvements. See findings and recommendations made at page 18.</p>

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Employee remuneration</b>	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle which is operated by Go Shared Services.</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding and designed effectively</li> <li>• undertaken a trend analysis of monthly payroll data to identify any unusual variances.</li> <li>• Reconciliation of payroll figures within the Comprehensive Income and Expenditure Statement and supporting notes to the general ledger and payroll subsidiary system.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

## Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle, which is operated by Go Shared Services</li> <li>• undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding and designed effectively.</li> <li>• reviewed year end creditors control account reconciliations</li> <li>• Reviewed for unrecorded liabilities through review of payments made after the year end.</li> <li>• Gained an understanding of the year end accruals process and sample test accruals to ensure that these are calculated on a reasonable basis.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

22

## Significant matters discussed with management

	Significant matter	Commentary
1.	Business conditions affecting the Council and business plans and strategies that may affect the risks of material misstatement.	<p>The structure of Ubico Ltd changed on the 1<sup>st</sup> April 2015 with the addition of three more partners to the company, membership was made up of five partners each with a one-fifth shareholding. At this point we concluded that group accounts were required. We discussed with officers changes to the structure of Ubico Ltd following the appointment of Stroud District Council as a partner on the 20 January 2016 when the Council's shareholding in Ubico decreased to a one-sixth share. The separate operating practices, management structure, the application of majority-voting on the Ubico board and the reduction in the Council's shareholding no longer constitute the Council having joint-control or significant influence over the company. The Council's interest has therefore been classified as an investment in Ubico.</p> <p>The CIPFA code requires equity accounting to continue until the investment ceases to be an Associate unless the interest is considered not material. As the consolidated entries required for the eleven months of the year when Ubico was an Associate relate only to income and expenditure, we have agreed in discussion with officers that on the basis of entries being immaterial, group accounts are not required.</p> <p><b>Management response</b></p> <p>The accounts have been presented showing Ubico shareholdings as an investment in accordance with the accounting code of practice.</p>
2.	Accounting standards, Property Plant and Equipment (valuation)	<p>The CIPFA Code of Practice allows for non-current assets to be revalued on a rolling programme. However, all of these assets need to be disclosed at their current value at the Balance Sheet date. By reference to available market indices, there was an indication that the net book value of Leisure Centre land and buildings was materially misstated. Following discussion with management and the Council's in house valuer, a desktop valuation was undertaken by the valuer to bring valuations up to date, we understand assets have increased by approximately £3m. Officers have agreed to adjust the accounts to reflect the valuation undertaken. We will review the valuation report and accounting adjustments proposed.</p> <p><b>Management response</b></p> <p>Officers acknowledged the value of the Leisure Centre land and building needed further review and the accounts reflect an updated valuation for leisure centres.</p>

23

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

24

Accounting area	Summary of policy	Comments	Assessment
<p><b>Revenue recognition</b></p>	<p>Revenue from provision of services is recognised when the Council can measure reliably the level of completion of the transaction and it is probable that benefits will flow to the Authority. It is accounted for in the year that it takes place and not when the payment is made.</p> <p>Revenue grants received are accounted for on an accruals basis when the conditions of their receipt are met.</p>	<ul style="list-style-type: none"> <li>• The accounting policy is appropriate and complies with the Code of Practice on Local Authority Accounting 2015/16 (the Code) and accounting standards.</li> <li>• Income is not an area that requires a significant judgement or estimation.</li> <li>• We have undertaken substantive testing of grants and other revenues and are satisfied that the Council has recognised income in accordance with its accounting policies.</li> <li>• The disclosure of the accounting policy is adequate.</li> </ul>	<p style="text-align: center;">● <b>Green</b></p>
<p><b>Judgements and estimates</b></p>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include                             <ul style="list-style-type: none"> <li>– Useful life of PPE</li> <li>– Revaluations</li> <li>– Accruals</li> <li>– Valuation of pension fund net liability</li> <li>– Provision for NNDR appeals</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The Council has appropriately disclosed its significant judgements and estimates.</li> <li>• The Council has appropriately relied upon the work of experts for asset revaluations, the useful life of capital equipment and pension fund valuations.</li> <li>• The CIPFA Code of Practice allows for non-current assets to be revalued on a rolling programme. However, all of these assets need to be disclosed at their current value at the Balance Sheet date. By reference to available market indices, there was an indication that the net book value of Leisure Centre land and buildings was materially misstated. A valuation of all three Council Leisure Centres has now been undertaken and corresponding adjustments made to the statement of accounts. We are awaiting the formal final valuation report</li> </ul>	<p style="text-align: center;">○ <b>Amber</b></p>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators  
 © 2016 Grant Thornton UK LLP | Audit Findings Report for Cotswold District Council | 2015/16

⊗ Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

## Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, the Council continues to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	● Green
Other accounting policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	● Green

25

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators  
© 2016 Grant Thornton UK LLP | Audit Findings Report for Cotswold District Council | 2015/16

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient



## Other communication requirements

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

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee . We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We have previously requested from management permission to send a confirmation requests to the Council's bankers. This permission provides on going authority to seek information relevant to our audit. We have received the required confirmation from the Council's bankers</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit. No issues were identified which we are required to report to you.</li> <li>We identified a small number of differences between figures in the narrative report and other financial information. We are in the process of discussing these with officers. We also agreed with officers that that they expand the disclosure within the narrative report to reflect the council's consideration of the EU referendum outcome and any impact on its financial statements.</li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<ul style="list-style-type: none"> <li>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. In the case of Cotswold District Council, a full review is not required as the Council does not exceed the threshold.</li> </ul>


26

## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on pages 12 and 13 above.

The matters that we identified during the course of our work are set out in the table below. The recommendation below together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	 Deficiency	<p><b>Weaknesses in Agresso system management</b></p> <p>As a result of our IT work we identified the following control weaknesses:</p> <ul style="list-style-type: none"> <li>A high number of system administrators (16 active). System administrator access and activities should be restricted to staff who do not have financial reporting or operational management responsibility within the organisation. This would remove any segregation of duty conflicts within Agresso and provide a more secure environment.</li> <li>The control environment has been weakened further by the practice of allowing users to set up system services against their own accounts, therefore not following a robust change control process.</li> <li>Security logs are not subject to independent review</li> </ul> <p>We discussed the above issues with officers from across Go Shard Service on the 6<sup>th</sup> July and agreed the actions outlined in appendix A.</p>	<p>Management should:</p> <ul style="list-style-type: none"> <li>Review all user access based on segregation of duties principles</li> <li>Restrict administration activities to the independent system administration team and ICT</li> <li>remove elevated access from those that have responsibility for functional and operational management of financial Services, HR and Payroll.</li> <li>Restore service processes to system accounts only</li> <li>Implement a risk-based security log review process with independent review.</li> <li>Ensure an effective change management procedure is implemented to review system changes processed.</li> </ul>

27

## Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	The payroll and general ledger are integrated modules within the Council's accounting system. Finance staff rely on system arrangements to ensure that figures reconcile. A manual review at 31 March 2015 found that, while net pay did reconcile a difference arose on gross pay.	<ul style="list-style-type: none"> <li>A quarterly reconciliation between the payroll and general ledger is now undertaken. No reconciliation issues have been identified. Both gross and net pay are now reconciled.</li> </ul>
2.	✓	As part of our work on reviewing and testing journals, we identified that the Council's general ledger contains an unders and overs account with a year end balance of £4,634. We recognise the need for this account and we acknowledge that the balance on this account at 31 March 2015 was trivial.	<ul style="list-style-type: none"> <li>A balance of £1,067 was held within the account at 31 March 2016 . This is a revenue account balance and is cleared regularly.</li> </ul>
3.	X	Our work on the Council's IT Systems identified a number of potential improvements. Whilst none of these have resulted in any errors being identified through our audit work, we are discussing them with management for further strengthening the systems in the future. The matters relate to the use of the IT System audit logs and the administrative access rights to the various systems.	<ul style="list-style-type: none"> <li>Control weaknesses in respect of the use of IT system audit logs and administrative access rights remain, these have been discussed with management and are reported on page 18.</li> </ul>

28

**Assessment**

- ✓ Action completed
- X Not yet addressed

## Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

### Impact of adjusted misstatements

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

	Description of Misstatement	Comprehension for Income and Expenditure Statement £000	Balance Sheet £000	Impact on Total Expenditure £000
29 1	By reference to available indices, there was an indication that the net book value of Leisure Centres (land and buildings) was materially misstated. As a result, the Council's in house valuer has undertaken a valuation of all Leisure Centres which resulted in an increase in value of £4m. The accounting adjustments have been made to the financial statements and we are awaiting the formal copy of the valuation report to support the values.	Cr Total CIES (4,388)	DR: PPE 4,388	CR cultural services (345) CR surplus on revaluation (4,043)
2	Note 41 discloses that £266,415 of the total leases receivable figure of £1,268,029 is receivable in one year or sooner. This element of the debtor should be disclosed as a short term debtor and note 18 adjusted accordingly.	Nil	DR Short term debtors 266 CR Long term debtors (266)	Nil
	<b>Overall impact</b>	<b>£(4,388)</b>	<b>£4,388</b>	<b>£(4,388)</b>

### Unadjusted misstatements

There are no unadjusted misstatements. All adjustments we requested have been processed in the final set of financial statements.

## Misclassifications 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.

Reference number	Misclassification type	Value (£'000)	Accounting figures	Explanation of the misclassification
1	Misclassification	52	Note 18 (Debtors)	Short term debtors includes a Collection Fund debtor of £246,526 and a corresponding bad debt provision of £nil. The debtor is net of the provision at 31.03.16 and the figures for both debtor and the provision should be increased by £51,931. There is no net effect on the total debtor figure.
2	Disclosure	n/a	Collection Fund	Narrative to be expanded in relation to the provision for 'Unlodged' NNDR Appeals
3	Disclosure	n/a	Note 12 (PPE)	Details of the useful economic life of car parks to be disclosed as they are significantly different to useful life of other assets.
4	Disclosure	n/a	Note 12 (PPE)	Update reference made to 'fair value' to 'current value' following a change in financial reporting standards.
5	Disclosure	5,607	Note 37	This financial instruments note contains a section for disclosure of creditor financial instruments. The figures for 31.03.16 have not been entered into this section. This has no effect on the CIES or balance sheet
6	Disclosure	1,720	Note 50	The credit risk maturity profile omits a call account for £1.72m from the amounts maturing in 0 to 3 months. This has no effect on the CIES or balance sheet.
7	Disclosure	n/a	Various	There was a number of other minor presentational adjustments made to improve the quality of disclosures in the accounts.

---

## Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in February 2016 and identified the following significant risk, which we communicated to you in our Audit Plan dated March 16 2016.

- The Council continues to progress the 2020 Vision partnership arrangement with Cheltenham Borough Council, West Oxfordshire and Forest of Dean District Councils. The success of 2020 Vision, through the Members working together effectively, is critical to the medium term financial plan at Cotswold District Council

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

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment..

### Significant qualitative aspects

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

We have focused our work on the significant risks that we identified in the Council's arrangements as set out on page 26, however we also highlight here our findings from other key considerations used to inform our VFM conclusion.

#### Financial Outturn 2015/16

33 The Council manages budgets well and has a good track record of achieving its financial plans. In 2015/16 the Council achieved a surplus of £816k against the budget (after transfer to earmarked reserves of £1,045k) This surplus has been allocated to the Council's general fund for use in future years. This will provide the Council with on-going financial resilience which is important over the medium term to ensure the Council can meet the challenges it faces in setting the budget from 2018/19 and beyond. The predictions of an increasingly austere economic climate are in line with our expectations and the increase in the general fund reserve to £4,248k gives additional resilience to management and members.

The capital budget for 2015/16 was underspent by £4,431k. This was partly due to the delay in procurement of new recycling and waste fleet vehicles which will now be procured in 2016/17. Other capital underspends were caused by delays to projects which will be completed in 2016/17.

We do not have any significant concerns arising from our review of the 2015/16 budget outturn over the Council's arrangements for delivering economy, efficiency and effectiveness.

### Financial Planning for 2016/17 and beyond

The Council has set a balanced revenue budget for 2016/17 together with budget plans for 2017/18, within a four year Medium Term Financial Strategy to 2019/20. The Council's share of Council Tax was frozen in 2016/17.

The Council has identified a savings target of £1,204k for 2016/17 and a further savings requirement of £1,149k for the next three years 2017/18 to 2019/20. The Council plans to achieve the bulk of these savings targets through the implementation of the 2020 Vision for joint working. This project is considered in more detail on page 27. These plans combined with the Council's healthy level of reserves means the Council is well positioned to tackle the financial risks facing it in the medium term.

A high level review of the planning process and assumptions underpinning the budget gives assurance that the process is robust and comprehensive, considering both the risks and opportunities at a strategic and operational level across the Council.

The overview and scrutiny committee which comprises of seven councillors, challenges the Cabinet member and Chief Finance Officer over the assumptions and savings plans underpinning the 2016/17 budget figures. This process provides a good level of scrutiny to the budget before Cabinet and full Council approval.

We do not have any significant concerns arising from our review of the Council's financial planning process which form part of its arrangements for delivering economy, efficiency and effectiveness.



We have set out in more details on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

**Overall conclusion**

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

**Key findings**

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

35

Significant risk	Work to address	Findings and conclusions
<p><b>2020 Vision</b> The Council continues to progress the 2020 Vision partnership arrangement with Cheltenham Borough Council, West Oxfordshire and Forest of Dean District Councils. The success of 2020 Vision, through the Members working together effectively, is critical to the medium term financial plan at Cotswold District Council.</p>	<p>Reviewed the progress made in the development of the 2020 Vision.</p> <p>Gained understanding of how the Joint Committee is operating and how the councils are working together to deliver the planned savings.</p>	<p>The partner councils have established a Member Governance Board and an interim management team (made up of a Partnership Managing Director, a Lead Commissioner and a Programme Director) to progress the 2020 Vision programme . All partner councils voted to go forward with the 2020 Vision programme. A Joint Committee for all partner councils came into operation in February 2016. Each partner has appointed two elected members as its representatives on the Joint Committee. The Council's Chief Executive is undertaking a new role as Partnership Managing Director, with two Strategic Directors now sharing responsibilities to manage West Oxfordshire District Council and Cotswold District Council. The 2020 Programme has appointed a number of 'Group Managers' to plan business cases to incorporate a cross section of services from the partner councils into the 2020 Programme. The overall business case for the programme is currently being reviewed and updated and initial indications are that the original savings programme will be achieved. Some savings have already been taken by partner councils and the Public Protection Project is now largely complete with a phased implementation up to August 2016 when the new structure will be fully operational.</p> <p>Savings have already been achieved through the establishment of the 'core' 2020 project team to which a number of staff were seconded. This is a result of the share of the employment cost of the Chief Executive, Strategic Director and Business Improvement manager ,which has been funded by the 2020 Project. Further savings from the programme have been delivered earlier than anticipated. Cashable savings to date are on profile with savings already delivered in 2015/16 and 2016/17 of £2.3m. Programme spend to date is within budget.</p> <p>Governance arrangements are developing, a Constitution and Scheme of Delegation was approved by the Joint Committee in February 2016.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</b></p>

**Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

**Significant matters discussed with management**

No matters were identified which required additional written representation from management or those charged with governance.

**Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

---

## Section 4: Fees, non-audit services and independence

37

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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

**Fees**

	Proposed fee £	Final fee £
Council audit	44,879	44,879
Grant certification	4,950	4,950
<b>Total audit fees (excluding VAT)</b>	<b>49,829</b>	<b>49,829</b>

**Fees for other services**

Service	Fees £
<b>Non-audit services</b>	
VAT and employment tax support – GO Shared Services*	417

\* This service is provided to six GO Shared Services partners. Total fee is £2,500, the amount disclosed above is the element which relates to Cotswold District Council.

∞ The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

**Grant certification**

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

**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 Auditing Practices Board's Ethical Standards and therefore we confirm that we 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 Auditing Practices Board's Ethical Standards.

---

## Section 5: Communication of audit matters

39

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.a.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

40

# Appendices

41



# Appendix A: Action plan

**Priority**

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	IT should implement the recommendations arising from our IT review as set out on page 18.	Medium	We have recently completed a Solution Architect review of the ABW system including data control roles. We are now developing an action plan to improve the functionality of the system. Part of the action plan will address data control processes and will resolve the issues identified in the audit. We will also implement the change of password recommendation on Accounts used to run system services.	31 March 2017 Group Manager for Go Shared Services

42

## Appendix B: Audit opinion

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

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COTSWOLD DISTRICT COUNCIL

We have audited the financial statements of Cotswold District Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall

presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the financial statements: present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

#### Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

#### Matters on which we are required to report by exception

We are required to report to you if: in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or we issue a report in the public interest under section 24 of the Act; or we make a written recommendation to the Authority under section 24 of the Act; or we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

**Respective responsibilities of the Authority and auditor**

- The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

44 We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

**Certificate**

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

*Signature to be added*

John Golding  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
Hartwell House, 55-61 Victoria Street, Bristol, BS1 6FT

*Date to be added*