



The Annual Audit Letter for Cotswold District Council

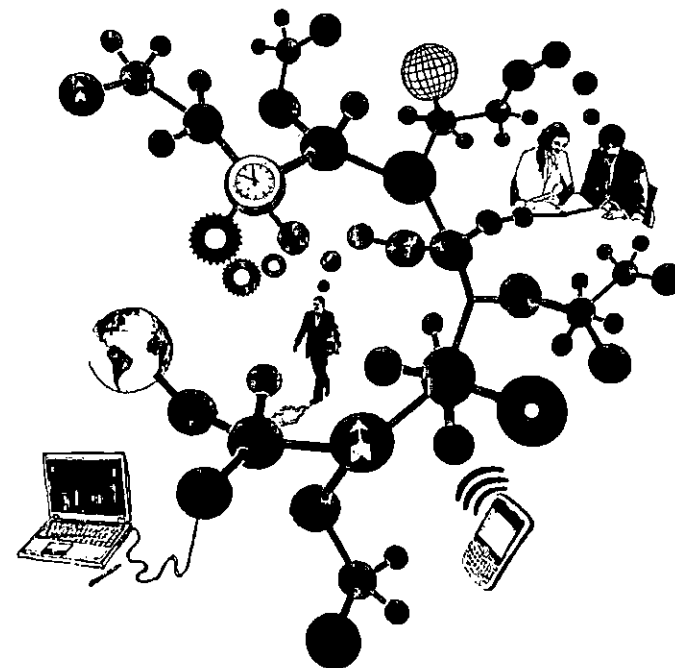
Year ended 31 March 2016

20 October 2016

John Golding
Partner

Julie Masci
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Appendix 'A'

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Cotswold District Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on the 23 August 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 6 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 6 September 2016

Certificate

We certified that we had completed the audit of the accounts of Cotswold District Council in accordance with the requirements of the Code on the 6 September 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is still in progress and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Working with the Council

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

- We delivered an efficient audit, and issued our opinion on the financial statements and value for money conclusion 24 days before the deadline and in line with the timescale we agreed with you.
- We shared our insight with you and provided regular audit committee updates covering best practice, along with our thought leadership publications.
- We provided training, at no charge, on the role of the audit committee and audit committee effectiveness for your members and other Gloucestershire councils.
- We have provided you access to our tax and VAT helpline to support you and the other GO Shared Services bodies with tax issues.

Further detail provided on page 11.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £882,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as senior officer remuneration, auditor's remuneration and members allowances due to public interest in these disclosures and the statutory requirement for them to be made.

We set a triviality threshold of £44,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts – Cotswold District Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&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"> • 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 Cotswold District Council, mean that all forms of fraud are seen as unacceptable. <p>We did not identify any issues to report.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Reviewed entity controls • Reviewed accounting estimates, judgments and decisions made by management • Tested journal entries and year end adjustments • Reviewed unusual significant transactions • Review of assurances from the Audit Committee and management in relation to fraud, law and regulations <p>We did not identify any issues to report.</p>
<p>Transfer of data on systems upgrade</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>As part of our audit work we:</p> <ul style="list-style-type: none"> • Reviewed the arrangements set up to plan and execute the upgrade from a finance and IT perspective. • Reviewed the reconciliations of balances before and after the transfer, and agreed these balances to underlying transactions. <p>The upgrade was effective, and only minor inconsistencies and problems were identified by officers.</p>

Audit of the accounts – Cotswold District Council (continued)

Risks identified in our audit plan	How we responded to the risk
<p>Employee Remuneration</p> <p>Employee remuneration accruals understated (remuneration expenses not correct)</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Documented our understanding of processes and key controls operating in the employee remuneration system • Performed a walkthrough to confirm that controls are operating as described • Performed a reconciliation of the payroll system outputs to the general ledger and financial statements • Performed trend analysis on payroll expenditure data for the year to identify any areas that require further investigation <p>We did not identify any issues to report.</p>
<p>Operating Expenses</p> <p>Creditors understated or not recorded in the correct period (operating expenses understated)</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Documented our understanding of the processes and key controls operating in the operating expenditure system • Performed a walkthrough to confirm that controls are operating as described • Reviewed year end creditors control account reconciliations • Obtained an understanding of the accruals process and sample tested accruals to ensure that these are calculated on a reasonable basis • Tested for unrecorded liabilities through a review of payments made after the year end <p>We did not identify any issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on the 6 September 2016, in line with the national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on the 6 September 2016.

In addition to the key audit risks reported above, an adjustment was required in relation to the valuation of the Council's leisure centres. By reference to available market indices we identified that the value of leisure centres was potentially misstated by a material amount. The Council's Valuer subsequently undertook a desktop valuation resulting in an increase in value of leisure centres by £4.3m. The final version of the accounts were adjusted to reflect this but the adjustment had no impact on the Council's reported financial position.

We also identified a small number of control weaknesses in relation to IT general controls that we have asked the Council's management to address for the next financial year. Management have accepted and agreed our recommendation.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. The Council published them on its website with the draft accounts in line with the national deadline.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not report anything under the additional powers and duties outlined above.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

⇒ The key risk we identified and the work we performed is set out the table overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>2020 Vision The Council continues to progress the 2020 Vision partnership arrangement with Cheltenham Borough Council, West Oxfordshire and Forest of Dean District Councils.</p> <p>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>We:</p> <ul style="list-style-type: none"> Reviewed the progress made in the development of the 2020 Vision. Gained understanding of how the Joint Committee is operating and how the councils are working together to deliver the planned savings. 	<p>In early 2015 the four Councils involved in the 2020 Vision partnership 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.</p> <p>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 Cotswold and West Oxfordshire 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>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit by the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems.

Sharing our insight – we provided regular audit committee updates covering best practice. Areas we covered included audit committee effectiveness, devolution and reforging local government. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – We have shared with you our publication on building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services.

Providing training – we provided your teams with training on financial accounts and annual reporting.

Supporting development – we provided a free workshops for Audit Committee Members on the role of the Audit Committee and Audit Committee effectiveness.

Support outside of the audit – Our tax and VAT team provided advice to you and the other GO bodies.

Working with the Council

We will continue to work with you and support you over the next financial year in addition to continuing the support we have provided in 2015/16.

Locally our focus will be on:

- An efficient audit – continuing to deliver an efficient audit and working with you to bring forward your accounts closure in advance of the faster close requirement in 2017/18.
- Understanding your operational and financial health – we will continue to focus our value for money conclusion work on your financial health, and consider the evolving arrangements over the 2020 Vision Programme with your neighbouring Councils.
- Providing information – We will provide you with access to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.
- We have provided you access to our Internal Audit specialists to offer you independent advice and support as you have evaluated your options for the future provision of internal audit services to the Council.

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	44,879	44,879	59,838
Audit of Joint venture - Ubico Limited*	n/a	n/a	16,480
Housing Benefit Grant Certification	4,950	TBC	5,870
Total fees (excluding VAT)	49,829	TBC	65,708

*The Council held joint control of Ubico Ltd in 2014/15. From 2015/16 the Council no longer holds joint or significant influence over the company and the audit no longer form part of the group.

Fees for other services

Service	Fees £
Non-audit services	
VAT and Employment Tax Support	417

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Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	August 2016
Annual Audit Letter	October 2016