



The Annual Audit Letter for Cotswold District Council

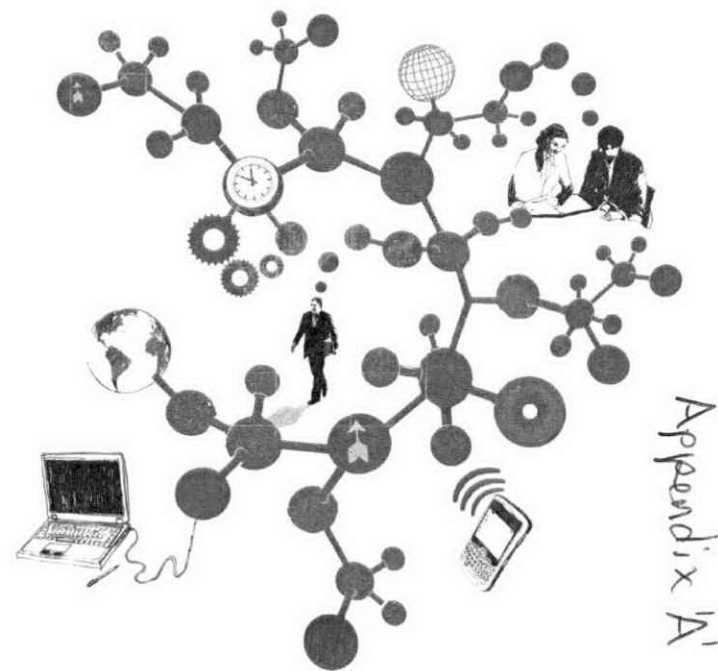
Year ended 31 March 2017

4 October 2017

Julie Masci
Associate Director

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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 we have carried out at Cotswold District Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 29 August 2017.

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 5 September 2017.

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 2017. We reflected this in our audit opinion on 5 September 2017.

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 5 September 2017.

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 not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Executive summary

Other work completed

GO Shared Services signed up to CFO Insights, a Grant Thornton tool which provides the Council with instant access to insight on the financial performance, socio-economic context and service outcomes of every council in England, Scotland and Wales. The Council pays a proportion of the cost of this subscription.

We also provided a VAT and Employment Tax Support service to GO Shared Services for the period 1 April 2016 to 31 March 2017. Ethical standards applicable from the 1 April 2017 mean that this is now a blacklisted service and, as a result, the service has been discontinued. The Council paid a proportion of the cost of this service.

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:

- We shared our insight with you and provided regular audit committee updates covering best practice.
- We shared with you our thought leadership publications providing insight on topical issues in the sector including Brexit, Local Authority Joint Ventures and Integrated Reporting.
- We held quarterly liaison meeting with the Head of Paid Service and Chief Finance officer to discuss emerging issues.

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
September 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 £908,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's 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 of £5,000 for disclosures of officers' remuneration and members' allowances and £1,000 for auditor's remuneration.

We set a lower threshold of £45,000, 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 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 the Chief Financial Officer 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 included in the Statement of Accounts on which we gave 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

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	Findings and conclusions
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.	<ul style="list-style-type: none"> Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. Obtained assurance from the auditor of the Pension Fund on the controls in place over accuracy of information provided to the actuary. Gained an understanding of the basis on which the IAS 19 valuation was carried out. Carried out procedures to confirm the reasonableness of the actuarial assumptions made including the use of an audit expert and considered whether known outturns are within acceptable tolerances to confirm the reasonableness of the actuary's approach. Reviewed the consistency of the pension fund asset and liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	Our audit work did not identify any significant issues in relation to the risk identified.
Employee remuneration Payroll expenditure represents a significant percentage of the Council's gross expenditure. We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention: <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) 	<ul style="list-style-type: none"> Documented our understanding of processes and key controls over the transaction cycle Walked through the key controls to assess the whether those controls were in line with our documented understanding Undertook a trend analysis of monthly payroll data for to identify any unusual variances on which additional audit procedures may be required. Reconciled payroll figures within the Comprehensive Income and Expenditure Statement and supporting notes to the general ledger and payroll subsidiary system. 	Our audit work did not identify any significant issues in relation to the risk identified.

Audit of the accounts

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	Findings and conclusions
<p>Operating expenses</p> <p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) 	<ul style="list-style-type: none"> Documented our understanding of processes and key controls over the transaction cycle Walked through the key controls to assess the whether those controls were in line with our documented understanding Reviewed year end creditors control account reconciliation. Reviewed unrecorded liabilities through, for example, review of payments made after year end. Gained an understanding of the year end accruals process, and sample tested accruals to ensure they were calculated on a reasonable basis. 	<p>Our audit work did not identify any significant issues in relation to this risk.</p>
<p>Changes to the presentation of local authority financial statements</p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<ul style="list-style-type: none"> Documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements Reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure Reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) Tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES Tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger Tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements Reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>Our review of the restated Comprehensive Income and Expenditure analysis did not identify any issues.</p> <p>We requested that further disclosure was included in the prior period adjustment disclosure in respect of the amount of adjustment for each financial statement line item affected in the prior period.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 5 September 2017, in advance of the 30 September 2017 national deadline.

The Council ensured that a set of draft accounts were available for the start of our on site visit on the 8 June 2017 ahead of the statutory deadline of the 30 June 2017. Officers had undertaken additional work to revise the format of the financial statements this year. The working papers provided to support the financial statements were generally of a good quality.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the Council's accounts to the Audit Committee on 29 August 2017.

We recommended a number of adjustments to improve the presentation of the financial statements. No adjustments were identified that affected the Council's reported financial position.

We made recommendations to improve a small number of control weaknesses identified in relation to journal authorisation controls, ensuring all accounting entries included in the financial statements are reflected on the ledger and ensuring all Investment Properties were revalued on an annual basis.

Annual Governance Statement and Narrative Report

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

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.

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 2016 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 risks we identified and the work we performed are set out on pages 10 – 11.

Overall VfM conclusion

We were 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 2017.

Value for Money

Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Medium term financial position The Council has been required to deliver substantial savings since 2010/11, and forecasts continued significant savings requirements going forward. The latest Medium Term Financial Strategy shows that the Council has identified budget savings to ensure a balanced budget is set for 2017/18 and 2018/19. It is forecast that the Council will need to use the General Fund Working Balance in order to balance the budget from 2019/20 onwards unless further savings can be identified.</p> <p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities.</p>	<ul style="list-style-type: none"> Reviewed achievement of savings in 2016/17 Review of MTFS, including the assumptions that underpin the strategy. Understood how savings are identified and monitored to ensure that they support the delivery of budgets. 	<p>A savings target of £1,204k was set for 2016/17. Further savings against budget of £42k were delivered. The Council has set a balanced revenue budget for 2017/18 together with budget plans for 2018/19, within a four year Medium Term Financial Strategy 2017/18-2020/21. The Council's proportion of Council Tax was frozen in 2017/18 for the second year in a row.</p> <p>The Council has identified a savings target of £201k for 2017/18 and a further savings requirement of £836k for the next three years 2018/19 to 2020/21. The Council plans to achieve the bulk of these savings through the implementation of the 2020 Vision for joint working and establishment of Publica Limited.</p> <p>A high level review of the planning process and assumptions underpinning the budget including in relation to the new homes bonus and business rate income gives assurance that the process is robust and comprehensive, considering both the risks and opportunities at a strategic and operational level across the Council.</p> <p>Savings are monitored on a quarterly basis through reporting to Cabinet and through the 2020 Partnership Joint Committee.</p> <p>The Council has demonstrated a robust planning process and challenge of expenditure assumptions. This together with the quality of reporting, high level scrutiny and healthy level of reserves means the Council is well positioned to tackle the financial risks facing it in the medium term.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities.</p>

Value for Money

Value for money risks (continued)

Risk identified	Work carried out	Findings and conclusions
<p>2020 Vision The Council continues to progress its 2020 Vision partnership arrangement with Cheltenham Borough Council, Forest of Dean and West Oxfordshire District Councils. The success of 2020 Vision, through the members working together effectively, is critical to the medium term financial strategy at Cotswold District Council.</p> <p>This links to the Council's arrangements for working with third parties effectively to deliver strategic priorities, managing risks effectively, maintaining a sound system of internal control and demonstrating and applying the principles and values of sound governance.</p>	<ul style="list-style-type: none"> Reviewed progress made in the development of the 2020 Vision programme and formation of a local authority owned company. Understood how the councils are working together to deliver the planned savings whilst maintaining quality. Reviewed the level of program delivery, including the timescale and scope of implemented efficiencies. 	<p>A decision was taken by the 2020 partner authorities in September and October 2016 to establish a 'Teckal' company as recommended by the 2020 Joint Committee. The Council will be entering into contracts with Publica Limited to deliver joint services. Preparation work including legal documentation and agreements based on governance have been drafted. The local authority company was incorporated in April 2017, and is planning to deliver services for the partner Councils from Autumn 2017.</p> <p>Each partner has representation on the 2020 Joint Committee. The Joint Committee provides political direction and guidance, oversees the delivery of shared services, determines HR, Finance and ICT policies under delegation from councils and ensures the 2020 Vision business case benefits are delivered for each individual Council as well as the partnership.</p> <p>A Partnership Commissioning Group which includes representatives from all four councils has also been in place during 2016/17 to support the Joint Committee and is collectively accountable for the realisation of the 2020 Vision benefits. A Program Team has also been in place to deliver the 2020 Vision, supported by strategic advisors and programme resources and is responsible for the management and delivery of the programme, projects, activities and benefit realisation.</p> <p>The savings target from the 2020 Vision Programme has been increased to reflect the 2020 Partnership Updated Business Case for a Company Model presented to Cabinet in September 2016 and have been re-profiled to latest anticipated outcomes including revised annual savings of £1.834m for the Council.</p> <p>The Shared Public Protection Project has been completed and the new Environmental and Regulatory Services (ERS) Group went 'live' in August 2016. The benefits outlined in the business case have been achieved, including £845k (35.5%) of efficiency savings. 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>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for working with third parties effectively to deliver strategic priorities.</p>

Appendix A: Reports issued and fees

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

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	44,879	44,879	44,879
Housing Benefit Grant Certification	4,403	TBC	4,950
Total fees (excluding VAT)	49,282	TBC	49,829

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

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	August 2017
Annual Audit Letter	September 2017

Fees for other services

Service	Fees £
Non Audit related services:	
• CFO Insight subscription	1,875
• VAT and Employment Tax Support	417
Audit related services	Nil

Non- audit related services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.