



Annual Audit Letter

Year ending 31 March 2018

Cotswold District Council

28 August 2018



AGENDA ITEM 08 -
APPENDIX
'A'

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Executive Summary

Purpose

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 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and 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 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 24 July 2018.

Our work

Respective 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 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 financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the Council's financial statements to be £828,000, which is 1.75% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 2 August 2018. This was two days after the 31 July statutory deadline due to issues arising with the valuation of the Council's property assets.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO. Detailed procedures were not required as the Council was below the NAO's stated threshold.
Use of statutory powers	We are required under the Act to give electors the opportunity to raise questions about the Council's financial statements and we consider and decide upon objections received in relation to the accounts. We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit opinion to the Council on 2 August 2018.
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 2018. We will report the results of this work to the Audit Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Cotswold District Council in accordance with the requirements of the Code of Audit Practice.

Executive Summary

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- Sharing our insight – we provided regular audit committee updates covering best practice.
- We shared our thought leadership reports, providing insight on topical issues in the sector including commercialisation in local government, Combined Authorities and Social Enterprises.
- Providing training – we provided your teams with training on financial accounts.
- We held quarterly liaison meetings with the 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
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, 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 the audit of the Council's accounts to be £828,000, which is 1.75% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration due to public sensitivity. A lower level of £10,000 was chosen as the equivalent of two remuneration bands in the officer remuneration note.

We set a lower threshold of £41,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient 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 accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach is 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

Significant Audit Risks

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

Risk identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of Land and Buildings and Investment Properties</p> <p>The Council revalues its land and buildings on a triennial basis and investment properties on an annual basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and investment property revaluations as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> Reviewed management's processes and assumptions for the calculation of the estimate. Reviewed the competence, expertise and objectivity of the Council's in house valuer Reviewed the instructions issued to the valuer and the scope of their work Undertaken testing of revaluations made during the year to ensure they were input correctly into the Council's asset register Discussed with the Council's valuer the basis on which the valuation was carried out, challenging the key assumptions. Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>We identified that the Council's surplus assets were not all valued during the year as required under the CIPFA code. We have undertaken further detailed work to ensure we are satisfied that the carrying value of surplus assets are materially correct.</p> <p>By reference to available indices, there was an indication that the net book value of the Council's Leisure Centre buildings was materially misstated. As a result, the Council in house valuer undertook a valuation of all Leisure Centres which resulted in an increase in value of £2.1m. The accounting adjustments was made to the financial statements and was agreed to the valuation reports prepared by the valuer.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represents a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <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. Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. In addition, we receive assurance from the auditor of the Pension Fund (Gloucestershire County) on the controls in place over the accuracy of information provided to the actuary. No significant matters were highlighted from their work. Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. 	<p>Our audit work did not identify any significant issues in respect of this risk.</p>

Audit of the Accounts

Significant Audit Risks (continued)

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

Risk identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have;</p> <ul style="list-style-type: none"> - Reviewed entity controls - Reviewed accounting estimates, judgements and decisions made by management - Undertaken testing of journal entries - Reviewed unusual significant transactions 	<p>Our audit work did not identify any evidence of management over-ride of controls. In particular our testing of journal entries did not identify any significant issues.</p> <p>Our testing of journal controls identified that not all journals raised by the Deputy S.151 Officer were subject to review. A recommendation was included within our Audit Findings report that all journals raised by the Deputy Section 151 Officer are subject to review and approval by the Chief Finance Officer. Details are set out in Appendix B.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 2 August 2018, this was two days past the statutory deadline of 31 July 2018 due to outstanding queries in respect of the valuation of the Council's Leisure Centres.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and overall, provided a good set of working papers to support them. Some issues were identified in the accessibility of evidence to support the in house valuer's work on the valuation of Council's assets. Arrangements are being made to meet with officers to discuss the outcomes of this year's audit and identify areas where further improvements can be made for the 2018-19 year.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit Committee on 24 July 2018.

In addition to the key audit risks reported above, we identified the following issues throughout our audit that we have asked management to address for the next financial year:

- In order to support the Council's position that it retains pension liabilities in relation to staff transferred to controlled companies it should ensure that the tripartite agreement between the Council, its controlled entities and Gloucestershire Pension Fund are clarified to more clearly emphasise that the Council bears the risks in relation to changes in actuarial assumptions.
- A formal lease is not in place between Ubico and Cotswold District Council for arrangements to lease recycling and refuse vehicles from the Council to Ubico.
- A small number of IT control deficiencies were identified as part of our 2017/18 IT review.

Recommendations have been agreed with management and we will report on progress in relation to these recommendations during the course of the 2018/19 audit. Further details are set out in Appendix B.

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 as part of the Statement of Accounts.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold.

Other statutory powers

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. No additional statutory powers were exercised.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Cotswold District Council in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 overleaf.

As part of our Audit Findings report agreed with the Council in July 2018, we agreed a recommendation to address our findings.

- Formalise liaison and communication arrangements between members and Publica to ensure members have the opportunity to challenge and scrutinise Publica's performance.

Overall Value for Money 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 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Medium Term Financial Strategy</p> <ul style="list-style-type: none"> The latest MTFS shows that the Council has identified budget savings of £879k to ensure a balanced budget is set from 2018/19 to 2021/22. £786k of these savings are to be delivered via Publica through a transformational savings programme. It is forecast that the Council will need to use the General Fund Working Balance in order to balance the budget from 2019/20 unless further savings of £540k can be identified. 	<p>As part of our work we have:</p> <ul style="list-style-type: none"> Reviewed the MTFS, including the robustness of the assumptions that underpin the plan. Understood how savings are identified and monitored to ensure that they support in the delivery of budgets. Considered 2017/18 performance against savings plans 	<p>A high level review of the MTFS 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>The Overview and Scrutiny Committee challenges the Cabinet members and Chief Finance Officer over the assumptions and savings plans underpinning the 2018/19 budget and MTFS. This process provides a good level of scrutiny to the budget before Cabinet and full Council approval.</p> <p>Savings are built into base budgets and are therefore monitored through the variances reported in quarterly revenue budget monitoring to Cabinet. Savings set out in the Publica Business Case for 2018/19 have been built into the new year budgets and actions have been taken to deliver these. Further savings from 2019/20 are expected to be achieved as the transformation programme progresses.</p> <p>There remains a significant level of uncertainty from 2020/21 with the implementation of the outcome of the fairer funding review, introduction of a 75% Business Rates Retention Scheme and resetting of the Business Rates baseline. However the Council's healthy level of reserves will be beneficial to the Council in managing the impact of these changes. This together with a proven track record of delivering savings to contain expenditure within available resources means the Council is well positioned to tackle the financial risks facing it in the medium term. The general fund balance at 31 March 2018 is £4.9m and £7.5m is held in earmarked reserves.</p> <p>On that basis we have 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>

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Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Publica Group (Support) Ltd</p> <p>Following a number of successful partnership and shared services arrangements between the Council, West Oxfordshire, Cheltenham and the Forest of Dean District Councils, Publica Group (Support) Ltd, a local authority owned company was created by the four councils and became operational in November 2017.</p> <p>The success of Publica is critical to the medium term financial strategy of the Council.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> Reviewed the Council's arrangements for the establishment of Public Group (Support) Ltd and the contract monitoring processes in place to ensure performance and quality standards are delivered in line with the original Business Plan to demonstrate that Value for Money is being achieved by the Council. Reviewed the arrangements in place at the Council to ensure that Publica is delivering the required financial savings whilst maintaining the agreed service standards. Reviewed the Council's Governance arrangements to provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified. 	<p>We concluded that the Council has appropriate arrangements in place to:</p> <ul style="list-style-type: none"> establish and monitor Publica's performance against quality standards in line with the original Business Plan. ensure Publica is delivering required financial savings while maintaining agreed service standards. provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified. <p>Recognising the evolving nature of governance arrangements, the council has appropriate arrangements in place for working with Publica. Arrangements for Council members to formally liaise and communicate with Publica should be reviewed following the year anniversary of the operation of Publica.</p> <p>Management Response</p> <ul style="list-style-type: none"> Members already have the opportunity to formally challenge and scrutinise Publica's performance through the Overview and Scrutiny Committee and Cabinet as part of consideration of the Council's quarterly performance report. There are also informal arrangements in place. A review of both formal and informal arrangements will be carried out once Publica has been operational for a full year

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A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	April 2018
Audit Findings Report	August 2018
Annual Audit Letter	August 2018

Fees for non-audit services

Service	Fees £
Audit related services - None	Nil
Non-Audit related services - CFO Insights subscription	3,750

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	44,879	To be confirmed	44,879
Housing Benefit Grant Certification	4,950	To be confirmed	4,403
Total fees	49,829	TBC	49,282

Non-audit 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 non-audit services which were identified.
- We have considered whether non-audit 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.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.




The planned fees for the year are in the process of being finalised, taking into consideration the additional work carried out during the course of the audit. Should any fee variation be proposed, this will be agreed with officers in advance and are subject to approval by Public Sector Audit Appointments Ltd. The final fee charged for grant certification will be confirmed following completion of the work by 30 November 2018.

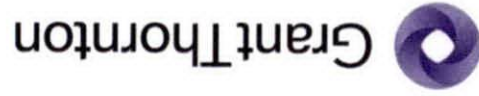
B. Recommendations

We have identified four recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	 High	In order to support the Council's position that it retains liabilities in relation to staff transferred to controlled companies, it should ensure that the tripartite admission agreements between the Council, its controlled entities and Gloucestershire Pension Fund are clarified to more clearly emphasise that the Council bears the risks in relation to changes in actuarial assumptions.	<p>The Council should review its tripartite agreements to ensure that its controlled entities are not unintendedly exposed to any actuarial or financial risks in relation to pensions obligations of staff transferred under TUPE arrangements.</p> <p>Management response</p> <p>The relevant legal documents will be updated to reflect a fixed LGPS contribution rate in place with Publica. The impact of triennial valuations will be the responsibility of the Council.</p>
2	 Medium	Our review of journal controls identified that the Business Partner Manager(East) posted a number of adjustment journals which were not subject to review or approval. We would expect these journals to be authorised given his key role in preparing the financial statements.	<p>All journals posted by the Business Partner Manager (East) should be subject to review and approval by the Chief Finance Officer.</p> <p>Management response</p> <p>We will seek to comply with this as far as is reasonably practicable.</p>
3	 Medium	A formal lease is not in place between Ubico and Cotswold District Council for arrangements to lease recycling and refuse vehicles from the Council to Ubico.	<p>We recommend that a lease between Ubico and Cotswold District Council is formalised to support the accounting treatment within the financial statements and to ensure that the Council is not exposed to any unintended financial risks.</p> <p>Management response</p> <p>Work has already commenced on this legal agreement.</p>
4	 Medium	A number of IT deficiencies were identified as part of our 2017/18 IT review.	<p>The Council should implement the recommendations arising from our IT review..</p> <p>Management response</p> <p>Management have considered the fact that other controls are present which mitigate some of the risks identified. The recommendations will be carefully considered and implemented where the risk is acknowledged and the internal control changes required are practical to implement.</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice



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