

The Annual Audit Letter for Cotswold District Council

Year ended 31 March 2019

5 November 2019



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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 2019.

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 26 September 2019.

Our work

Materiality

We determined materiality for the audit of the Council's financial statements to be £812,900, which was 2% of the Council's gross revenue expenditure.

Financial Statements opinion

We gave an unqualified opinion on the Council's financial statements on 15 October 2019.

Whole of Government Accounts (WGA)

We completed work on the Council's consolidation return following guidance issued by the NAO.

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.

Use of statutory powers

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 report to the Council on 15 October 2019.

Certificate

We certified that we have completed the audit of the financial statements of Cotswold District Council in accordance with the requirements of the Code of Audit Practice on 15 October 2019.

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

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
- Providing training – we provided your teams with training on financial statements
- We held quarterly liaison meeting 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
November 2019

Audit of the Financial Statements

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 financial statements to be £812,900, which is 2% 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 of £20,000.

We set a lower threshold of £40,645, 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 financial statements to check it is consistent with our understanding of the Council.

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 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 Financial Statements

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.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Authority revalues its land and buildings on a rolling five year basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management need to ensure the carrying value in the Authority financial statements is not materially different from the current value or fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations, as a significant risk, as one of the most significant assessed risks of material misstatement.</p>	<p>We part of our audit work we have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert communicated with the valuer to confirm the basis on which the valuations were carried out challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding tested revaluations made during the year to ensure they have been input correctly into the Council's asset register evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>Our audit work has not identified any issues in respect of valuation of property, plant and equipment</p>

Audit of the Financial Statements

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.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of investment property</p> <p>The Authority revalues its investment properties on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statement date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4.8m) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management engaged the services of an external valuer to estimate the current value as at 31 March 2019.</p> <p>We therefore identified valuation of investment properties, particularly revaluations as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We part of our audit work we have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert communicated with the valuer to confirm the basis on which the valuations were carried out challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding tested revaluations made during the year to ensure they have been input correctly into the Council's asset register 	<p>Our audit work has not identified any issues in respect of valuation of investment properties.</p>

Audit of the Financial Statements

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.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; • obtained assurances from the auditor of the Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data; and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. 	<p>The Council requested an estimate from its actuary of the potential impact of the 'McCloud' ruling and GMP equalisation changes. The actuary's estimate was of a increase in pension liabilities of £310,000 (£237,000 and £73,000 respectively). A revised IAS 19 report was issued in July which also included actual rather than estimated return on investment value resulting in an overall increase of net pension liabilities of £750,000. The Council has adjusted for this in the final version of the statement of accounts. We assessed the reasonableness of the adjustment and are satisfied that the approach and assumptions used by the actuary in the calculation of the estimate are reasonable</p>

Audit of the Financial Statements

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.

Risks identified in our audit plan (continued)	How we responded to the risk	Findings and conclusions (continued)
<p>Valuation of net pension liability (continued)</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>		<p>We recommended in 2017/18 that 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 that the Council bears the risks in relation to changes in actuarial assumptions. We highlighted that 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. The Council was unable to amend the tripartite agreement. An alternative legal agreement was finalised between the Council, Publica and Gloucestershire Pension Fund which agrees that a fixed LGPS contribution rate is in place with Publica and that the impact of triennial valuations will be the responsibility of the Council. We received a signed copy of the agreement on the 25 September 2019.</p> <p>Our audit work has not identified any issues in respect of the Pension Fund net liability.</p>

Audit of the Financial Statements

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.

Risks 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 override 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 therefore identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and determine the criteria for selecting high risk unusual journals tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>Following a recommendation raised in 2017/18, our testing of journals identified that journals raised by the Deputy S.151 Officer should be subject to review and approval by the Chief Finance Officer. Our testing identified that although the majority of journals raised by the Deputy S.151 officer were reviewed by the Chief Finance Officer, 2/15 had not been subject to review and evidence of approval could not be located for one.</p> <p>We recommended in our audit findings report that all journals posted by the Deputy Section 151 Officer, including accruals should be subject to review and approval by the Chief Finance Officer.</p> <p>Our audit work has not identified any other issues in respect of management override of controls.</p> <p>Management response</p> <p>The process for identifying journals processed by the Deputy S.151 Officer is manual and onerous. Therefore, we will comply with this recommendation as far as is reasonably practicable.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 15 October 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and overall provided us with a good set of working papers to support them.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 26 September 2019.

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 in the Statement of Accounts in line with the statutory requirements.

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 certified that we have completed the audit of the financial statements of Cotswold District Council in accordance with the requirements of the Code of Audit Practice on 15 October 2019.

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 risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in September 2019, we agreed a recommendations to address our findings.

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 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
<p>Medium Term Financial Strategy (MTFS)</p> <p>The Authority has been required to deliver substantial savings since 2010/11 and forecast continued significant savings requirements going forward. The current MTFS indicates that the Authority has identified that it needs to find savings of £2.1m between 2019/20 and 2021/22. The Authority may need to use the General Fund Working Balance in order to balance the budget from 2020/21 onwards unless further savings of £1.5m can be identified.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> • Reviewed the MTFS, including the robustness of the assumptions underpinning the strategy. • Understood how savings were identified and monitored to ensure they supported the delivery of budgets • Considered 2018/19 performance against savings plans • Considered the use of reserves in 2019/20 to reach the balanced budget. <p>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> <p>We recommend that Members and Officers should work together as part of the 2020/21 Budget and MTFS planning process to identify and develop further plans to resolve the funding gap.</p> <p>Management response</p> <p>Work is already taking place with the new Administration to develop both a contingency plan to address likely reductions to central government funding, which will now take effect from 2021/22, and to increase income to fund activity to support the priorities of the new Administration. The Council will consider the contingency plans and income generation plans as part of the updated MTFS and detailed budgets for 2020/21 in February 2020.</p>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
<p>Publica Group (Support) Ltd</p> <p>Publica is a Council owned employment company which delivers shared services between Cotswold, West Oxfordshire, Forest of Dean and Cheltenham Borough Council. 2018/19 is the first full year of operation for Publica. The success of Publica is critical to the medium term financial strategy of the Authority.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> • Reviewed the contract monitoring processes in place to ensure performance and quality standards are delivered in line with the original Business Plan • Reviewed the arrangements in place at the Council to ensure Publica is delivering required financial savings while maintaining 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.</p>

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	January 2019
Audit Findings Report	September 2019
Annual Audit Letter	November 2019

Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	34,557	34,557	44,879
Additional Audit Fee*		4,500	8,000
Total fees	34,557	39,057	52,879

* Fee variations are subject to PSAA approval.

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £34,557 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the table on the next page.

Fees for non-audit services

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

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.

A. Reports issued and fees (continued)

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £34,557 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the table below.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	1,500
Pensions – IAS 19	<p>The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we increased the level of scope and coverage in respect of IAS 19 this year to reflect this.</p> <p>This additional work involved areas including:</p> <ul style="list-style-type: none"> - Additional testing of data provided to the actuary and Gloucestershire pension fund to inform the IAS 19 valuation - Further scrutiny and review of the assumptions used by the Council's actuary to determine its valuation for reasonableness and changes to previous years. 	1,500
PPE Valuation – work of experts	<p>As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.</p> <p>This additional work involved areas including:</p> <ul style="list-style-type: none"> - Additional sample testing of valuations carried out during the year to understand reasons for valuation changes and key assumptions informing these valuations - Additional review and testing of information and finance and asset data provided to the valuer used to inform their valuation exercise - Enhanced scrutiny and challenge around those assets not subject to formal valuation during the period to support management's view that these are materially stated within the financial statements 	1,500
Total		4,500



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