

# The Audit Findings for Cotswold District Council

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Year ended 31 March 2019

17 September 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Cotswold District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the Council and Council's income and expenditure for the year; and</li><li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site between July and September. Our findings are summarised on pages 4 to 15. We have identified two adjustments to the financial statements that have resulted in an £1.8m adjustment to the Council's Comprehensive Income and Expenditure Statement and Balance Sheet. These adjustments have no impact on the Council's General Fund position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"><li>- receipt of signed variation to Publica pension agreement;</li><li>- Review of impact of IFRS 9</li><li>- a small number of outstanding queries</li><li>- receipt of management representation letter; and</li><li>- review of the final set of financial statements.</li></ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unqualified</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Cotswold District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 17 to 21.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"><li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li></ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>
<b>Acknowledgements</b>	<p>To certify the closure of the audit.</p> <p>We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.</p>	

# Summary

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 29 January 2019. The scope of our work has broadened in response to the outcomes of the McCloud court ruling, as set out further on page 8.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 26 September 2019, as detailed in Appendix E. These outstanding items include:

- receipt of signed variation to Publica pension agreement;
- review of impact of IFRS 9;
- receipt of management representation letter;
- completion of a small number of outstanding queries; and
- review of the final set of financial statements.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our assessment of the value of materiality for the financial statements has been adjusted to reflect the actual gross expenditure disclosed in the draft accounts. We detail in the table below our determination of materiality for Cotswold District Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	812,900	<ul style="list-style-type: none"> <li>• This equate to 2% of your gross expenditure</li> </ul>
Performance materiality	569,000	<ul style="list-style-type: none"> <li>• This equates to 70% of materiality</li> </ul>
Trivial matters	40,645	<ul style="list-style-type: none"> <li>• ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</li> </ul>
Materiality for Senior Officer Remuneration	20,000	<ul style="list-style-type: none"> <li>• Senior Officers' Remuneration are balances which require a lower materiality due to the sensitive nature of these balances.</li> </ul>

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

1

### Improper revenue recognition

Under ISA 240 (UK) there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

### Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Cotswold District Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Cotswold District Council.

Our audit work has not identified any issues in respect of revenue recognition.

2

### Management override of controls

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.

We therefore identified management override of controls as a risk requiring special audit consideration.

### Auditor commentary

We have performed the following work in respect of this risk:

- 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.

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. Further details are provided in Appendix B.

We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Our audit work has not identified any other issues in respect of management override of controls.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

3

### Valuation of property, plant and equipment

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 will 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.

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.

### Auditor commentary

We have performed the following work in respect of this risk:

- 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.

Our audit work has not identified any issues in respect of valuation of property, plant and equipment

4

### Valuation of investment property

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.

Management have engaged the services of an external valuer to estimate the current value as at 31 March 2019.

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.

### Auditor commentary

We have performed the following work in respect of this risk:

- 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

Our audit work has not identified any issues in respect of valuation of investment properties

# Significant findings – audit risks

## Risks identified in our Audit Plan

5

### Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

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.

## Commentary

### Auditor commentary

We have performed the following work in respect of this risk:

- 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.

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. See further details on page 8.

Our audit work has not identified any issues in respect of the Pension Fund net liability.



# Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.





Issue	Commentary	
<p><b>1 Potential impact of the McCloud judgement</b></p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <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 an increase in pension liabilities of £310,000 (£237,000 and £73,000 respectively). A revised IAS 19 report was issued in July 2019 which also included actual rather than estimated returns on investment value resulting in an overall increase of net pension liabilities of £750,000.</p> <p>We recognise that the adjustment of £750,000 is close to our materiality level of £812,000. Management took the decision to amend the statement of accounts to reflect the estimated increase in pension liability.</p>	<p>The Council has agreed to incorporate the revised actuarial valuation into its 2018-19 financial statements. We have 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> <p>We have reported this as an adjustment within Appendix C.</p>
<p><b>2 Publica Pension Liability</b></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 the Council bears the risks in relation to changes in actuarial assumptions.</p> <p>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.</p>	<p>The Council was unable to amend the tripartite agreement. An alternative legal agreement is in the process of being 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.</p> <p>The wording has been agreed by all three parties and a legal document has been drafted. The document is now in the process of being signed by the parties.</p>	<p><b>Auditor view</b></p> <p>Given the significance of the transactions involved, we are unable to issue our opinion until the supplementary agreement between Publica, the Council and Gloucestershire Pension Fund is received.</p> <p>We continue to monitor progress with officers.</p>




# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Provisions for NNDR appeals - £2.063m</b>	<p>The Council is responsible for repaying a proportion of successful rateable value appeals.</p> <p>A provision of £2.063m has been estimated for Cotswold District Council for 2018/19 (£1.043m in 2017/18).</p> <p>The Council's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.</p> <p>A significant level of risk remains due to the volume of outstanding appeals against the 2010 valuation list and a new 2017 list came into effect in April 2017 together with a new Check, Challenge and Appeal process, replacing the former appeal process. The provision in relation to the 2017 is calculated at 4.7% of net business rates payable. This percentage has been based on guidance provided to Councils nationally by the Institute for Fiscal Studies in partnership with CIPFA.</p> <p>The Council is yet to see the settling of any appeals against the 2017 list and therefore the provision has been increased to reflect the potential claims.</p>	<ul style="list-style-type: none"> <li>From our review of the Provision for NNDR appeals, no issues were identified in regard to the valuation basis.</li> <li>Overall we consider management's process and key assumptions to be reasonable.</li> <li>We have requested that management update note E8 – Assumptions and Other Major sources of estimations to consider the assumptions and uncertainty in respect of the NNDR appeals provision.</li> </ul>	 <b>Green</b>
<b>Publica Group (Support) Ltd</b>	<p>Judgement applied when decision taken not to prepare group accounts in respect of Publica (Group) Support Limited.</p> <p>Judgement applied when including pension liability of Publica on balance sheet of the Council</p>	<ul style="list-style-type: none"> <li>Overall we consider management's process and key assumptions to be reasonable.</li> <li>The estimate is adequately disclosed in the financial statements</li> </ul>	 <b>Green</b>





## Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious


# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Leases</b>	In assessing the classification of leases in accordance with the Code, the Council has made a number of judgements to establish the nature of such leases.	<ul style="list-style-type: none"> <li>Overall we consider management's process and key assumptions to be reasonable.</li> <li>The estimate is adequately disclosed in the financial statements.</li> </ul>	 <b>Green</b>





## Assessment

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-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
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# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<b>Land and Buildings – Other - £65.9m</b>	<p>The Council revalues its land and buildings on a rolling 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>Other land and buildings comprises £59.3m of assets. The council formally re-values its land and buildings on a rolling programme to ensure they are revalued at least every five years, however in accordance with the Code all land and building values are reviewed annually for material changes and re-valued at 31st March if necessary. Valuations have been carried out by the Council's internal valuer as at 31 March 2019. Valuations of land and buildings were carried out using the methodologies and bases of estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council holds a number of specialised assets which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>Surplus assets (£6.6m) are valued at their "highest and best use" and are deemed to be level 2 Valuations.</p> <p>Investment Properties of £4.8m are valued annually at fair value. Valuations have been carried out by the external valuers Carter Jonas as at 31 March 2019. Valuations were carried out using the methodologies and bases of estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.</p> <p>71% of Other Land and Buildings were revalued during 2018/19, by value. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued by considering national indices to determine whether there has been a material change in the total value of these properties, and have considered other local factors. Management's assessment of assets not revalued has identified no material change to the property values. The total year end valuation of Other land and buildings was £59.2m, a increase of £9.9m from 2017/18 (£50.6m)</p>	<ul style="list-style-type: none"> <li>From our review of management's processes and assumptions for the calculation of the estimate, no issues were identified in regard to the valuation basis.</li> <li>We 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.</li> <li>Overall we consider management's process and key assumptions to be reasonable.</li> <li>The estimate is adequately disclosed in the financial statements.</li> </ul>	 <b>Green</b>





## Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
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# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment																								
<b>Net pension liability – £46.8m</b>	<p>The Authority's net pension liability at 31 March 2019 is £46.8m before adjustments (PY £39.18m) comprising the Local Government Pension Scheme.</p> <p>The Council uses the actuary firm Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes.</p> <p>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p> <p>There has been a remeasurement of the net defined benefit liability of (£6.7m) before adjustments during 2018/19.</p>	<ul style="list-style-type: none"> <li>From our review of management's processes and assumptions for the calculation of the estimate, no issues were identified in regard to the valuation basis.</li> <li>Overall we consider management's process and key assumptions to be reasonable.</li> <li>The estimate is adequately disclosed in the financial statements.</li> <li>We have undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary PwC (as auditor's expert) and performing any additional procedures suggested within the report.</li> <li>We have obtained assurances from the auditor of Gloucestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data.</li> </ul>	 <b>Green</b>																								
		<table border="1"> <thead> <tr> <th data-bbox="768 608 1384 672">Assumption</th> <th data-bbox="1384 608 1572 672">Actuary Value</th> <th data-bbox="1572 608 1763 672">PwC range</th> <th data-bbox="1763 608 1943 672">Assessment</th> </tr> </thead> <tbody> <tr> <td data-bbox="768 672 1384 751">Discount rate</td> <td data-bbox="1384 672 1572 751">2.4%</td> <td data-bbox="1572 672 1763 751">2.4-2.5%</td> <td data-bbox="1763 672 1943 751">   <b>Green</b> </td> </tr> <tr> <td data-bbox="768 751 1384 858">Pension increase rate</td> <td data-bbox="1384 751 1572 858">2.5%</td> <td data-bbox="1572 751 1763 858">2.4-2.5%</td> <td data-bbox="1763 751 1943 858">   <b>Green</b> </td> </tr> <tr> <td data-bbox="768 858 1384 965">Salary growth</td> <td data-bbox="1384 858 1572 965">2.8%</td> <td data-bbox="1572 858 1763 965">Dependent on employer</td> <td data-bbox="1763 858 1943 965">   <b>Green</b> </td> </tr> <tr> <td data-bbox="768 965 1384 1072">Life expectancy – Males currently aged 45 / 65</td> <td data-bbox="1384 965 1572 1072">24.0/22.4</td> <td data-bbox="1572 965 1763 1072">23.7-24.4 / 21.5-22.8</td> <td data-bbox="1763 965 1943 1072">   <b>Green</b> </td> </tr> <tr> <td data-bbox="768 1072 1384 1168">Life expectancy – Females currently aged 45 / 65</td> <td data-bbox="1384 1072 1572 1168">26.4/24.6</td> <td data-bbox="1572 1072 1763 1168">26.2-26.9 / 24.1-25.1</td> <td data-bbox="1763 1072 1943 1168">   <b>Green</b> </td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4-2.5%	 <b>Green</b>	Pension increase rate	2.5%	2.4-2.5%	 <b>Green</b>	Salary growth	2.8%	Dependent on employer	 <b>Green</b>	Life expectancy – Males currently aged 45 / 65	24.0/22.4	23.7-24.4 / 21.5-22.8	 <b>Green</b>	Life expectancy – Females currently aged 45 / 65	26.4/24.6	26.2-26.9 / 24.1-25.1	 <b>Green</b>	
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.4%	2.4-2.5%	 <b>Green</b>																								
Pension increase rate	2.5%	2.4-2.5%	 <b>Green</b>																								
Salary growth	2.8%	Dependent on employer	 <b>Green</b>																								
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#### Assessment

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# Going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

## Going concern commentary

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### Management's assessment process

Management have set out their consideration of the appropriateness of the adoption of the going concern assumption in a assessment provided in September 2019.

Officers have a reasonable expectation that the Council will continue in existence for the foreseeable future, based on cashflow projections and level of useable reserves (£4.9m general fund balance and £8.3m earmarked reserves balance at 31 March 2019. For this reason, they continue to adopt the Going Concern basis in preparing the financial statements.

### Auditor commentary

- The disclosure in the accounts that they have been prepared on the assumption that the Council is a going concern. is considered appropriate
- Management's assessment of the use of going concern basis of accounting is appropriate.
- Management processes in respect of the going concern assessment is sufficient.

### Work performed

We have reviewed the Council's assessment, including the Medium Term Financial Strategy 2019/20 – 2028/29, and the 2019/20 budget, and are satisfied that the going concern basis is appropriate for the 2018/19 financial statements.

### Auditor commentary

- We have not identified a material uncertainty in relation to management's assessment of the use of the going concern basis of accounting.

### Concluding comments

### Auditor commentary

- The CIPFA Code of Practice sets a presumption that the accounts are prepared on a Going Concern basis. Our audit opinion will be unmodified in this respect.

# Other communication requirements

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

Issue	Commentary
① <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to the Council's bank and investment institutions. This permission was granted and the requests were sent. All of these requests were returned with positive confirmations.</li> <li>We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have received the final response from the pension fund auditor and have not identified any issues in respect of the Pension Fund net liability.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review identified a number of disclosure omissions that have been amended by management. Further details are set out in Appendix C.</li> </ul>
⑦ <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided</li> <li>We did not experience any significant difficulties during the course of the audit.</li> </ul>

# Other responsibilities under the Code

Issue	Commentary
① <b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to appendix E.</p>
② <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>This work is not required as the Council does not exceed the threshold.</p>
④ <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of Cotswold District Council in the audit opinion, as detailed in Appendix E.</p>

# Value for Money

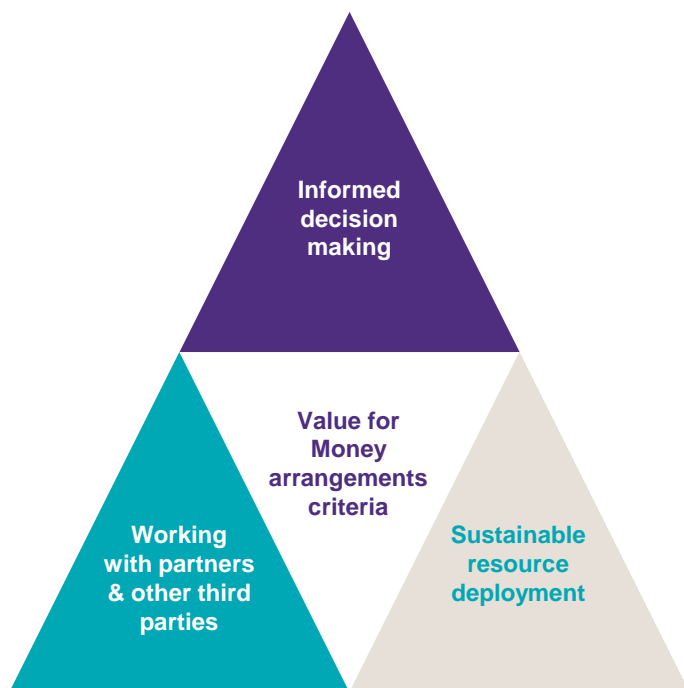
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single 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."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in January 2019 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated January 2019

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



# Value for Money

## **Our work**

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

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council's Medium Term Financial Strategy
- Monitoring, governance and communication arrangements in place between the Council and Publica Group (Support) Ltd.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 18 to 21.

## **Overall conclusion**

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

## **Recommendations for improvement**

We discussed findings arising from our work with management and have agreed a recommendation for improvement.

Our recommendation and management's response to this can be found in the Action Plan at Appendix A.

## **Significant difficulties in undertaking our work**

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

## **Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

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

Significant risk	Findings and Conclusions
<p><b>1 Medium Term Financial Strategy (MTFS)</b></p> <ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Our detailed review of the assumptions underpinning the MTFS concludes that they are satisfactory and reasonable.</li> <li>The Council has a strong track record of delivering balanced budgets and identifying required savings. Savings for 2018/19 have been achieved including £307k in respect of underspend on the Publica Contract achieved through a combination of vacancies, efficiencies and pension cost savings from marginally higher than expected staff turnover. The Council has delivered an underspend of £491k during the year, allowing the Council to transfer £490k to the 'Council Priorities Fund' Earmarked Reserve and £1.4k to the general fund.</li> <li>The underspend was largely a result of a financial gain from the Gloucestershire 100% Business Rates Retention Pool Pilot, which exceeded budget by £497k. Operationally the Council underspent against budget by £153k which was similar to the underspend reported at quarter 3 of £135k. There were no material variances to budget.</li> <li>The Council's ten year MTFS was approved by Council in February 2019. Following over ten years of stable Council tax levels, the Council approved proposals to increase Council tax by 2%.</li> <li>Savings are monitored by Finance on a monthly basis. Savings are built into the base budget, and are therefore monitored through the variances reported in quarterly revenue budget monitoring. The savings for 2019/20 of £314k have been identified and can be attributed to specific plans, such as the forecast transformational change programme to be delivered through Publica. Savings through the transformational programme of £664k are forecast to 2022/23.</li> <li>Due to changes to central government funding from 2020/21, cumulative additional savings of £2m will need to be delivered in the period to 2022/23, including savings of £1m to be achieved in 2020/21. Assuming these savings are deliverable, the MTFS forecasts that the Council will also need to use a significant amount of the General Fund to balance the budget in 2019/20 to 2021/22. To avoid using the general fund working balance savings of £1m (£500k in both 2021/22 and 2022/23) would need to be delivered in 2020/21. The MTFS forecasts that £1.563m of General Fund balance would be used between 2019/20 and 2022/23, comprising £164k in 2019/20, £988k in 2020/21 with the remainder in the period to 2022/23.</li> <li>At the end of the MTFS period (2028/29), the Council plans to hold approximately £1.9m in General Fund Working Balance and £3.1m in earmarked reserves. The chief finance officer considers that this level of reserves is adequate and in excess of the minimum level calculated of £1.5m</li> <li><b>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.</b></li> <li><b>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.</b></li> </ul>

### Management response

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.

## Key findings

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

### Significant risk

### Findings and Conclusions

2

#### Publica Group (Support) Ltd

- In our Audit Plan dated January 2019 we identified the following significant risk:
- 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.

#### Background

- The company, Publica Group was registered in the latter part of 2016/17. Executive and Non-Executive Directors were appointed to the Board in March 2017, and the first monthly Publica Board meeting took place in April 2017. The majority of staff transferred to the Company on the 1st November 2017.
- For three of the member councils, including Cotswold District Council, Publica directly manages public services. Publica provides reduced-scope services to Cheltenham Borough Council which include ICT, HR and finance functions.
- The Council hold 25% of the voting rights of Publica, and service delivery is managed within the company in accordance with the service contracts agreed by the Council.

#### Contract monitoring processes in place to ensure performance and quality standards are delivered in line with the original Business Plan

- The company provides a mechanism to bring employees from across the partner Councils under a single employment arrangement. The company is independent of individual councils but accountable equally to all partners. As part of the establishment of Publica a number of items were identified as reserved matters for council approval to ensure that member councils retained an element of control over their company. The reserved matters were approved in September 2016 as part of the governance principles underpinning the establishment of Publica.
- Frequent informal and formal reporting is provided by Publica to enable the Councils to monitor performance and quality standards (including, for example, standards around data protection). This also includes informal, regular meetings and correspondence with the s151 Officer at the Council; providing an additional platform for issues to be discussed. A joint management team comprising management from Publica and the partner Councils has been introduced. A Design Authority Working group is also in place which deals with transformation and other appropriate matters.
- Cabinet and the Overview and Scrutiny Committee continue to receive quarterly performance and finance reports which provide members with an understanding of the performance and quality of services delivered. Any underperformance issues would be addressed and challenged at these key meetings. Members have also received briefings during the year from the Publica management team at regular Member Liaison briefings, Full Council briefings, and specific Publica Scrutiny briefings.
- Reports provided by Publica also provide a review of outturn against budget which include savings to be achieved through Publica. Explanations are provided for significant under and over spends. The Council has also included a risk around Publica service delivery within their corporate risk register which is reported to Audit Committee. The Shared Risk Management Group (SRMG) for Cotswold District Council, West Oxfordshire District Council and Forest of Dean District Council comprises staff from Publica and retained staff from all three partner Councils. Corporate risks are reviewed by the SRMG. The group also has oversight of Publica's strategic risk register and high scoring risks from the Transformation Programme risk register.
- New Performance managements metrics have been created, which went live in quarter 1 of 2019/2020 and have been reported to the Publica Board.

**We concluded that the Council has appropriate arrangements in place to monitor Publica's performance against quality standards in line with the original Business Plan.**

## Significant risk

## Findings and Conclusions

2

**Publica Group (Support Ltd (cont))****The arrangements in place at the Council to ensure Publica is delivering required financial savings while maintaining agreed service standards**

- Publica's business plan includes a number of objectives, ambitions and key tasks against which their performance (and in particular, delivery of financial targets) can be measured and highlights the importance of providing robust data and performance metrics to the Councils' to that they can track their performance. The 2019/20 Business Plan was presented to Cabinet in March 2019.
- Cabinet and the Overview and Scrutiny Committee continue to receive quarterly performance and finance reports which provide members with an understanding of the performance and quality of services delivered. Reports also provide a review of outturn against budget which include savings to be achieved through Publica.
- The year end performance report identified that over 93% of KPIs are on or exceed target. The Plan notes that Publica delivered £0.48m of savings across the 2018/19 financial year for all four Councils in total against a target of £0.43m. These savings are in addition to the contract underspend referred to on page 18. Publica have an overall savings target of £0.93m for 2019/20, good progress has been made during 2019/20 with 70 per cent of these savings reported as delivered at the close of quarter one. For the Council, savings plans are significant for 19/20, with £0.346m attributable to the transformational change programme delivered through Publica.
- Overall, this demonstrates the process by which the Council hold Publica to account through the Overview and Scrutiny Committee (which is responsible for monitoring performance, quality and improvement). Weekly meetings are held between officers of the Council and Publica, and briefings are provided to members on a regular basis.

**We concluded that the Council has appropriate arrangements in place to ensure Publica is delivering required financial savings while maintaining agreed service standards.**

## Significant risk

## Findings and Conclusions

2

**Publica Group (Support) Ltd (cont)**

**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.**

- We have considered the Governance arrangements of the Council over Publica, to provide appropriate oversight as one of the partnership organisations. In September 2016, the Council agreed the detailed governance principles applicable to Publica. These principles were incorporated within the Company's Articles and Association and the Members' Agreement, providing Councillors with rights to monitor the operational performance of the company.
- The 2019/20 Publica Business Plan was presented by the Publica Managing Director to Cabinet for consideration by members. This plan is based upon the principles and targets set out in business case which was approved by Council in 2016.
- Internally, the Council hold to account the managing director of Publica, and monitor the partnership through the Overview and Scrutiny Committee – this Committee is responsible for monitoring performance, quality and improvement. Weekly meetings are held between officers of the Council and Publica and briefings are provided to members.
- A Member Group comprised of the Chairmen of the Overview and Scrutiny Committees, representatives of the Cabinet and the Leaders of the Political Groups had been established to review the work of Publica, agreed as part of the year end performance meeting in May 2018. This Group represents a member platform for queries and discussions around Publica's performance and operations.
- In 2017/18 we raised a recommendation that arrangements for Council members to formally liaise and communicate with Publica should be agreed following the year anniversary of the operation of Publica. We understand that the first meeting has taken place in January 2019.
- We note that the Council has made progress in terms of the formal liaison and communication arrangements in place. We recommend that the progress of these arrangements should be monitored, and in this way the council can continue to develop clarity on respective roles and responsibilities, and continue to strengthen the communication process with Publica Group (Support) Ltd officers.

**We concluded that the Council has appropriate arrangements in place 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.**

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Audit and 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 following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
None			
<b>Non-audit related</b>			
CFO insights	3,750	Self-Interest (because this is a recurring fee)	We have provided subscription services only; any decisions are made independently by the Council. The work is undertaken by a team independent to the audit team.




These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

# Action plan

We have identified two 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 this recommendation during the course of the 2019/20 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	 <b>Medium</b>	<p>As a result of changes to central government funding from 2020/21, the Council's MTFS identifies an additional savings requirement of £2m to 2022/23, including savings of £1m in 2020/21.</p> <p>There is a risk that further pressures will be placed on the Council's reserves if sufficient savings plans are not developed or achieved. To meet these additional financial challenges going forward, it is important that members work closely with officers to identify alternative income generation and cost savings measures to address the expected funding gap.</p>	<ul style="list-style-type: none"> <li>Members and Officers should work together as part of the 2019/20 Budget and MTFS planning process to identify and develop further plans to resolve the funding gap.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>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.</li> </ul>
2	 <b>Medium</b>	<p>Our review of journal controls identified that the Deputy Section 151 Officer posted two accrual journals which were not subject to review or approval. We would expect these accruals to be authorised given his key role in preparing the financial statements.</p>	<ul style="list-style-type: none"> <li>All journals posted by the Deputy Section 151 Officer, including accruals should be subject to review and approval by the Chief Finance Officer.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>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.</li> </ul>

## Controls

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

# Follow up of prior year recommendations

We identified the following issues in the audit of Cotswold District Council's 2017/18 financial statements, which resulted in five recommendations being reported in our 2017/18 Audit Findings report. We have followed up on the implementation of our recommendations and note one is still in progress and one is partially completed.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	In progress	<p>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> <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>	<ul style="list-style-type: none"> <li>The pension regulations prevent the Council being able to amend the tripartite agreement. An alternative legal agreement is in the process of being finalised between the Council, Publica and Gloucestershire Pension Fund which agrees that a fixed LGPS contribution rate in place with Publica and that the impact of triennial valuations will be the responsibility of the Council.</li> <li>The wording has been agreed by all three parties and a legal document has been drafted. The document is now in the process of being signed by the parties.</li> </ul>
2	In progress	<p>Our review of journal controls identified that the Deputy S.151 Officer 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> <p>All journals posted by the Deputy S.151 Officer should be subject to review and approval by the Chief Finance Officer.</p>	<ul style="list-style-type: none"> <li>The majority of journals raised by the Deputy S 151 officer are now subject to review. We did however identify that accrual journals raised by the Deputy s151 officer were not subject to approval by the Chief Finance Officer.</li> <li>Our testing identified that 2/15 journals had not been subject to approval and evidence of approval could not be located for one journal.</li> <li>Recommendation included in action plan at Appendix A.</li> </ul>
3	✓	<p>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> <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>	<ul style="list-style-type: none"> <li>A formal lease between Ubico and Cotswold District Council is now in place.</li> <li>The lease supports the accounting treatment within the financial statements.</li> </ul>

#### Assessment

- ✓ Action completed
- X Not yet addressed



# Follow up of prior year recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4	✓	<p>A number of IT deficiencies were identified as part of our 2017/18 IT review.</p> <p>The Council should implement the recommendations arising from our IT review</p>	<ul style="list-style-type: none"> <li>No ongoing issues identified. Recommendations from 2017/18 implemented appropriately.</li> </ul>
5	✓	<p>Formalise liaison and communication arrangements between members and Publica to ensure members have the opportunity to challenge and scrutinise Publica's performance.</p>	<ul style="list-style-type: none"> <li>Liaison and communication arrangements now in place between members and officers which enables them to challenge and scrutinise Publica's performance. See review of Publica arrangements at p19-22.</li> </ul>

#### Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 Accumulated depreciation which was written off to zero on revaluation of Property, Plant and Equipment was incorrectly used to reduce the depreciation cost for the year charged to the income and expenditure account.	Cost of services 1,080 Adjustments between Accounting basis and funding Basis under regulation (1,080)		1,080
2 The Authority requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was a possible increase in pension liabilities of £310k, including £73k in respect of an adjustment for the impact of GMP. A £440k adjustment will also be made to reflect the actual investment performance in the financial year of the fund (the original IAS 19 calculation was based on an estimate). The Authority has agreed to incorporate the revised actuarial valuation into its 2018-19 financial statements.	Cost of services, 310 5 Net Interest on net defined benefit pension liability, 5 Remeasurement of the net defined benefit liability (Other comprehensive income and expenditure), 435	Pension Liability (750) Pension Reserve 750	750
<b>Overall impact</b>	<b>£1,830</b>	<b>£(750)</b>	<b>£1,830</b>

# Audit Adjustments

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which officers have agreed to amend in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations
<b>Movement in Reserves Statement</b>	<ul style="list-style-type: none"> <li>The statement should be amended to present the transfer of the available for sale financial instrument reserve balance on transition to IFRS9 as an adjustment to the opening balance 1 April 2018 rather than to the closing balance at 31 March 2018</li> </ul>	<ul style="list-style-type: none"> <li>Amendment required</li> </ul>
<b>Note B2, Expenditure and Income Analysed by Nature</b>	<ul style="list-style-type: none"> <li>Investment interest and similar income did not include net investment property income of £445k as disclosed in note B4.</li> </ul>	<ul style="list-style-type: none"> <li>Amendment required</li> </ul>
<b>Note B7, External Audit Costs</b>	<ul style="list-style-type: none"> <li>Prior year audit fee to be adjusted to reflect fee variation of £8,000.</li> <li>Note to be added to highlight that KPMG deliver Housing Benefit audit in 2018/19.</li> </ul>	<ul style="list-style-type: none"> <li>Amendment required</li> </ul>
<b>Note C1, Note B8 and D9</b>	<ul style="list-style-type: none"> <li>These notes include a number of inconsistencies in relation to capital receipts and grant funding</li> </ul>	<ul style="list-style-type: none"> <li>Amendment required</li> </ul>
<b>Note E2, Pension Liability</b>	<ul style="list-style-type: none"> <li>The narrative note should be updated to reflect the impact of the McCloud judgement</li> </ul>	<ul style="list-style-type: none"> <li>Amendment required</li> </ul>
<b>Note E3, Financial Instruments</b>	<ul style="list-style-type: none"> <li>Finance lease incorrectly included as a reconciling items within note</li> </ul>	<ul style="list-style-type: none"> <li>Amendment required</li> </ul>
<b>Note E7, Critical Judgements</b>	<ul style="list-style-type: none"> <li>This note should be updated to reflect the fact that a formal lease is now in place with Ubico</li> </ul>	<ul style="list-style-type: none"> <li>Amendment required</li> </ul>
<b>Note E8 – Assumptions and Other Major Sources of Uncertainty</b>	<ul style="list-style-type: none"> <li>No disclosure made in respect of assumptions in relation to housing benefit provision for impairment (where 100 per cent of outstanding debt is provided for)</li> <li>No disclosure made in respect of the assumptions and uncertainty in respect of the NNDR appeals provision.</li> </ul>	<ul style="list-style-type: none"> <li>Amendment required</li> </ul>
<b>Note E10, Contingent Assets</b>	<ul style="list-style-type: none"> <li>The contingent asset note in relation to right to buy clawback can be removed as amounts involved unlikely to be material.</li> </ul>	<ul style="list-style-type: none"> <li>Amendment required</li> </ul>
<b>Note E12, Events after the Balance Sheet Date</b>	<ul style="list-style-type: none"> <li>This note should be updated to reflect the impact of the McCloud pension judgement</li> </ul>	<ul style="list-style-type: none"> <li>Amendment required</li> </ul>

# Audit Adjustments

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations
<b>Note G5, Collection Fund balance Sheet Apportionment</b>	<ul style="list-style-type: none"> <li>Comparative note to be included.</li> </ul>	<ul style="list-style-type: none"> <li>Amendment required</li> </ul>
<b>Prior year comparators</b>	<ul style="list-style-type: none"> <li>A small number of typographical and casting errors were identified when agreeing prior year comparator notes to figures included in the audited 2017/18 financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>Amendment required</li> </ul>
<b>Other minor amendments</b>	<ul style="list-style-type: none"> <li>There were a number of other minor presentational adjustments made to improve the quality of disclosure in the accounts.</li> </ul>	<ul style="list-style-type: none"> <li>Amendment required</li> </ul>

# Audit Adjustments

## **Impact of unadjusted misstatements**

We did not identify any adjustments which have not been made within the final set of financial statements

## **Impact of prior year unadjusted misstatements**

We did not identified any prior year adjustments which have not been made within the final set of financial statements

# Fees

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

## Planned Audit Fees

Our Audit Plan included a PSAA published scale fee for 2018/19 of £34,557 and assumes that the scope of the audits does not significantly change. Our audit approach, including the risk assessment, is continually reviewed throughout the year and fees are reviewed and updated as necessary as our work progresses.

## Update to our risk assessment – additional work in respect of the audit code

The table below sets out the additional work which we have undertaken to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

## Additional Audit Fees

Area of work	Comment	£
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 extent of work by audit firms in respect of IAS 19 needs to be enhanced across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.</p> <p>This additional work has involved areas including:</p> <ul style="list-style-type: none"> <li>- Additional testing of data provided to the actuary and Gloucestershire pension fund to inform the IAS19 valuation.</li> <li>- Further scrutiny and review of the assumptions used by the Council's actuary to determine its valuation for reasonableness and changes to previous years.</li> </ul>	1,500
PPE Valuation – work of experts	<p>As above, the Financial Reporting Council has highlighted that auditors need to enhance its work and documentation around its review of PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.</p> <p>This additional work has included:</p> <ul style="list-style-type: none"> <li>- Additional sample testing of valuations carried out during the year to understand reasons for valuation changes and key assumptions informing these valuations</li> <li>- Additional review and testing of information and finance and asset data provided to the valuer used to inform their valuation exercise</li> <li>- 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</li> </ul>	1,500

# Fees

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

As a result of the variation to fees set out on page 30, we propose the revised fee for the audits will be £39,057 excluding VAT. This compares with an actual fee charged for the 2017/18 audit of £52,879 excluding VAT. The revised fee provides a reduction of £13,822 (or 26%) on the prior year fee. In light of the additional work performed to provide the statutory audit opinion compared to that performed in the prior year, we believe the revised fee still provides value for money.

## Total Audit Fees

	Actual fee 2017-18	Proposed 2018-19 fee	Final 2018-19 fee
<b>Council Audit</b>	52,879	34,557	34,557
<b>Additional Audit fees proposed (see analysis per page 30)</b>	-		4,500
<b>Total audit fees (excluding VAT)</b>	<b>£52,879</b>	<b>£34,557</b>	<b>£39,057</b>

## Non Audit Fees

Fees for other services	Fees
<b>Non Audit services</b>	3,750
• CFO Insights	
	<b>£3,750</b>

# Audit opinion

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

## Independent auditor's report to the members of Cotswold District Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Cotswold District Council (the 'Authority') for the year ended 31 March 2019 which comprise, the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the financial statements, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.



# Audit opinion

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

## Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

## Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 7, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

# Audit opinion

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Responsibilities of the Authority

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

## Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Cotswold District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

# Audit opinion

## Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Signature to be added**

Julie Masci, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

**Date to be added**



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