The Annual Audit Letter for Cotswold District Council

Year ended 31 March 2020

17 December 2020

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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 2020.

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 November 2020.

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

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

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £790,000, which is 1.9% of the Council's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 27 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings, investment properties and its share of the property investments within Gloucestershire Pension Fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council’s consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

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 26 November 2020.
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 27 November 2020.

Working with the Council

Remote working arrangements and redeployment of staff to critical front line duties had the potential to impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation

We are pleased to report that the process worked well with both teams collaborated to identify solutions to hurdles presented by remote working. Inevitably the remote working impacted on delivery and additional resources were necessary on both sides to complete the work in accordance with the new extended reporting timetable.

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
December 2020

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 £790,000, which is 1.9% of the Council's gross cost of services. 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 £4,000.

We set a lower threshold of £553,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

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

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach 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
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation’s ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. The draft financial statements were provided on 6 August 2020, which was in line with the planned commencement of the audit; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; and • evaluated management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment.	Our audit work did not identify any significant issues in respect of Covid-19 specific risks. This is not to say that there has not been an impact. The Council have identified a material uncertainty in relation to land and building valuations and investment property valuations. The disclosure of these has been clarified in the revised financial statements following auditor challenge.

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal 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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals made 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 considered their reasonableness; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	Our audit work, including our review of journal entries and the related control environment, did not identified any significant issues with regards to management override of controls.
Improper revenue recognition Under ISA (UK) 240 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.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, 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. We have reviewed material revenue transactions as part of our audit and we are satisfied that there have been no changes of circumstances requiring us to alter our proposed strategy with regards to revenue recognition in the latter part of the year.	Our audit work has not identified any issues in respect of improper revenue recognition.

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings The Authority revalues its land and buildings on a rolling five-yearly 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, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation; • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated the assumptions made by the valuer for those assets revalued at 31 March 2020. For the assets not formally revalued in year we have assessed how management has satisfied themselves that these assets are not materially different to current value at year end.	We identified issues with the valuation of surplus assets which resulted in a material prior period adjustment. As highlighted previously in this report, we included an emphasis of matter paragraph in the audit opinion to reflect the uncertainty surrounding land and building valuations at year end. In line with RICS guidance, the valuer employed by the Council included a material uncertainty in their final valuation report. Officers reflected this in the financial statements. The emphasis of matter paragraph refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements and reflects the increased uncertainty in global markets created by covid-19. This is in line with other local councils.

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of 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 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 2020. 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	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • engaged our own expert to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation. • written to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation; • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and evaluated the assumptions made by the valuer.	As highlighted previously in this report, we included an emphasis of matter paragraph in the audit opinion to reflect the uncertainty surrounding investment property valuations at year end. In line with RICS guidance, the valuer employed by the Council included a material uncertainty in their final valuation report. Officers reflected this in the financial statements. The emphasis of matter paragraph refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements and reflects the increased uncertainty in global markets created by covid-19. This is in line with other local councils.

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk of material misstatement.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated 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 Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council 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; • undertaken 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;	We have received 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 sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. The Pension Fund's financial statements disclosed a material uncertainty regarding the valuations of property investments at the year end. Given the significant share of the Pension Fund assets that are attributable to Gloucestershire County Council, there is a similar material uncertainty associated with the Council's pension net liability and a new disclosure is to be included with the Council's revised accounts. Our audit opinion refers to this disclosure as an Emphasis of Matter. Our work in this area has not identified any other issues in respect of valuation of the net liability.

Audit of the Financial Statements

Audit opinion
We gave an unqualified opinion on the Council's financial statements on 27 November 2020.

Preparation of the financial statements
The Council presented us with draft financial statements on 6 August which was in line with the planned commencement of the audit, and provided a good set of working papers to support them. The finance team responded efficiently to our queries during the course of the audit.

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 November 2020.

Annual Governance Statement and Narrative Report
We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts.

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

Whole of Government Accounts (WGA)
We carried out work 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.

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 27 November 2020.

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 April 2020 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 November 2020, we agreed 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 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability Like many other similar local authorities, the financial outlook remains challenging. The latest MTFS shows a combined savings plan of £3.6m to balance the budget from 2020/21 to 2022/23. The impact of the Covid-19 lockdown on income generation compounded by additional costs of responding to the outbreak will place further strain on the Council's financial health.	Historically the Council has a strong track record of meeting its financial targets, and in a challenging year, the Council have delivered a deficit against budget of £0.271m. The Council ended the year with General Fund Reserves of £4.475m and General Fund Earmarked Reserves of £7.812m. As set out in our Audit Plan the Council faced a significant financial challenge pre Covid-19. At that point the Council's Medium-Term Financial Strategy indicated required savings over the medium term of £3.6m. Whilst there were specific areas identified to make these savings, this is likely to have been impacted by Covid-19. The global pandemic has exasperated the financial challenges faced by the Council. Although the outbreak had limited impact on 2019/20 it has serious consequences for 2020/21 and beyond. The projected lost income and increased costs, have to date only been partially offset by additional central government funding. It is clear from our review that the Council's financial reporting arrangements are effective and the level of reporting has increased in response to the uncertainty presented by the virus. Despite the Council's good track record of delivering savings, delivering increase savings to plug any gap in the current climate will be challenging and the use of reserves and balances is not sustainable into the long term. The longer-term impact of the virus is not yet known and there are likely to be significant impacts across the medium term. The Councils initial forecasts indicate that whilst the 2020/21 outturn will be impacted, and the original budget gaps remain these are likely to increase.	Based on the work completed we have concluded that the Council have adequate arrangements in place to deliver financial sustainability. We have concluded that you had good arrangements in place to set a realistic and achievable budget for 2020/21. We have concluded that the Council has responded appropriately to the impact of Covid-19 on its medium term financial planning. The Council recognises the inherent risk due to this and the combination of loss of income and increased costs compounded by greater expectation and continued austerity. Whilst balances and reserves are adequate any planned use of them in future budgets is not sustainable into the long term. The financial years 20/21 and 21/22 will see perhaps the peak of the challenge with reduced levels of income, impact on savings, and uncertainty of funding. It is therefore business critical that officers and members take immediate action to identify further mitigations by way of reducing costs or increasing income. It is also crucial the medium-term financial plan is refreshed at the earliest opportunity. Continued close in year monitoring and timely corrective action will be required to ensure budgets are delivered and service redesign with partners implemented.

A. Reports issued and fees – Cotswold District Council

Audit fees 2019/20	**Proposed fee**
Council scale fee	34,557
Additional proposed audit fee at planning stage	11,250
Total proposed audit fees (excluding VAT) at planning	**£45,807**
Further additional fees proposed at completion	6,870
Total proposed audit fees (excluding VAT) on completion	**£52,677**

Reports issued

Report	Dated issued
Audit Plan	June 2020
Audit Findings Report	18 November 2020
Annual Audit Letter	17 December 2020

The Cotswold District Council Audit Plan date June 2020 included £11,250 of proposed addition fees to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator. This is reflected in the total proposed audit fees at planning above of £45,807.

Since the presentation of the audit plan we have now reflected on the additional time taken to discharge our responsibilities as a result of Covid-19. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted and further information is provided on the next page. As a result of this extra work we are proposing a further increase in fees of £6,870 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee up to £52,677. Further details on the breakdown of all additionall fees is provided on the next page.

This further charge has not been entered into lightly but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Appendix A – Cotswold District Council Audit fee variations – Further analysis

Final proposed audit fees

The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval

Audit area	£	Rationale for fee variation
Scale fee	**34,577**	
Raising the bar	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This required additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – (IAS) 19	1,750	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	1,750	We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
Housing Benefit	1,250	Note that PSAA's original scale fee for this contract was set in March 2018, so any new developments since that time need to be priced in. You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust.
Investment Property – Auditor's expert	4,000	This is a direct recharge of the costs we will incur in obtaining expert valuation advise in respect of your investment properties.
Revised planning fee	**45,807**	
Covid-19	6,870	Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: • Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. • Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. • Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. • Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including managing around agreed dates for receiving the accounts in light of knock on implications of other sector audits, and delays in responses during audit fieldwork. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.
Total proposed audit fees on completion	**52,677**	