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Informing the audit risk assessment for Cotswold District Council

Year ended 31 March 2020

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Authority's external auditors and the Authority's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

This report includes a series of questions on each of these areas and the response we have received from the Authority's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?</p>	<p>The pandemic has had a considerable impact on the Council, lockdown has meant that many local businesses across the district have had to close – impacting on the local economy. The way in which the Council operates has also changed dramatically with a large majority of staff working at home from the 23 March.</p> <p>The Covid-19 pandemic impacted at the very end of the year and therefore the full impact of this has not been felt in the 2019/20 statement of accounts. The Council are expecting significant challenges in the year ahead as it deals with the on-going crisis. PPE valuations made by both the internal and external valuer at 31 March 2020 are subject to 'material uncertainty'.</p>
<p>Have you considered the appropriateness of the accounting policies adopted by the Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Accounting policies are reviewed and updated on an annual basis as part of closedown process to ensure that any new policies are incorporated and that existing policies are correct. The Government Grants and Contributions policy has been updated in the 2019/20 statement to include the policy in respect of the Community Infrastructure Levy.</p> <p>The financial instruments accounting policies have been updated in relation to designated equity instrument for 'Financial assets measured at fair value through other comprehensive income'.</p> <p>The implementation of IFRS 16 has been delayed by one year the policy has therefore not been updated.</p>

General Enquiries of Management

Question	Management response
Is there any use of financial instruments, including derivatives?	<p>The Council's financial instruments include: investments, cash equivalents, debtors, short term borrowing, designated equity investment, finance Lease assets and liabilities.</p> <p>Financial instruments are accounted for as per the requirements of IFRS 9.</p> <p>Financial instruments are per approved investment strategy developed with advice from Arlingclose. Strategic investment reviews take place during the year with senior officers and any proposed changes to long-term investments are considered in consultation with Audit Committee.</p>
Are you aware of any significant transactions outside the normal course of business?	None in 2019/20.
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	None in 2019/20.
Are you aware of any guarantee contracts?	The contract with Publica guarantees the company against future LGPS pension liabilities. Costs are passed through from Publica to the Council.

General Enquiries of Management

Question	Management response
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None in 2019/20.
Other than in house solicitors, please provide details of those solicitors utilised by the Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years.	A number of external solicitors are engaged on an ad hoc basis when there is no capacity in house. However, none are engaged on contentious matters. The external solicitors are there to support the in house team on non contentious matters, such as property transactions and S106 work. Firms engaged include Trowers and Hamlins, Bevan Britton, VWV and Martin Evans & Co.
Have any of the Authority's service providers reported any items of fraud, non-compliance with laws and regulations, or uncorrected misstatements which would affect the financial statements?	None reported.

General Enquiries of Management

Question	Management response
<p>Please provide details of other advisors consulted during the year and the issue on which they were consulted.</p>	<p>Tax advice (operational) provided by EY CIPFA FAN and advisory services on accounting matters Arlingclose for Treasury Management advice Various consultants for development of the Local Plan. Pixel Financial Management/LG Futures – Financial Advisory Service in respect of Government funding including Business Rates. Hymans Robertson – Pension Actuary</p>

Fraud

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Authority's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Authority's management.

Fraud Risk Assessment

Question	Management response
<p>Has the Authority assessed the risk of material misstatement in the financial statements due to fraud?</p>	<p>The Council has a robust financial control framework, supported by financial regulations, standing orders, scheme of delegation and an independent and objective Internal Audit function and Counter Fraud Unit. Responsibility for ensuring that fraud and corruption risks are addressed sits with the Chief Finance Officer. The Internal Audit plan includes a risk based audit of the core financial systems that are used in the compilation of the financial statements. These core systems are audited annually, any risks that are identified that may result in the financial statements being materially mis-stated due to fraud will be reported to the Council's leadership team and the Audit Committee as part of the quarterly reporting cycle.</p> <p>The finance team comprises skilled, qualified accounting officers responsible for regular monitoring of management accounts to report actual income and expenditure against budgeted and forecast performance. This process includes discussions with service leads and review of variances to identify any instances of fraud and error. The annual budget is risk assessed and reported, and then monitored as part of the revenue and capital budget monitoring process. All reports to Cabinet include a section on financial implication and risk assessment to ensure that members are aware of the financial risks of making a decision.</p>
<p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p>	<p>The Counter Fraud and Anti-Corruption Policy, the Whistleblowing Policy, and the Internal Audit Charter are formally agreed by the Council (at a meeting of the appropriate Committee/Executive). These documents set out the role of Internal Audit in the prevention and investigation of fraud.</p> <p>The Audit Committee also approves the risk-based annual audit plan and counter fraud plan which includes allocation of resources to respond to fraud allegations and prepare audits to consider possible areas where fraud may be a risk.</p>

Fraud Risk Assessment

Question	Management response
<p>How does the Authority's risk management processes link to financial reporting?</p>	<p>The work of the Counter Fraud Team is reported to the Audit Committee on a biannual basis. The overall remit is to prevent, detect and deter the abuse of public funds within the Council by working closely with other public sector organisations. The team can undertake reactive investigation work where a referral is received and where necessary, proactive fraud drives in high risk areas.</p> <p>The Council also employs a number of Enforcement Officers within the various service areas who undertake work to tackle abuse of public funds.</p> <p>The Committee is not aware of any significant risks in this regard but is aware of fraud in the Housing Benefits and Council Tax systems. Some internal investigations have taken place by the Counter Fraud Team and appropriate action has been taken.</p> <p>Where an investigation takes place due to the suspicion of fraud, any areas of risk or poor control that are identified will also be reported to the appropriate manager with remedial recommendations. Internal Audit will include a follow up audit in the Audit Plan to ensure the recommendations have been implemented.</p> <p>The year end risk registers contain information to identify possible contingent assets/liabilities and/or requirements to include provisions. The data in the register is used to identify cost or resource pressures or income streams. The information can be used to inform the financial planning process. The Council's risk register contains any significant risks from the Publica and/or Transformation Programme risk registers. A separate Covid-19 risk register is also in place from April 2020</p>

Fraud Risk Assessment

Question	Management response
<p>What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Housing and Council Tax Benefit Business Rate and Council Tax evasion.</p>
<p>Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Authority as a whole or within specific departments since 1 April 2019?</p>	<p>Not aware of any material instances of actual, suspected or alleged fraud, error or other irregularities. Benefit fraud is dealt with by the DWP. Abuse of the Council Tax Reduction Scheme is supported by the Revenues and Housing Support Department.</p> <p>The Counter Fraud team investigate allegations of wrongdoing. These matters are managed in line with Council's policies, including disciplinary policy, and will be reported to the police where appropriate. In some instances recommendations have been made in respect of control procedures.</p>
<p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The Audit Committee approves the risk based Annual Audit Plan which includes a risk based system audit of core financial systems and resources for auditing non financial systems on a risk basis.</p> <p>The Counter Fraud team has a similar annual plan for its work which includes an allocation of resources to investigate any alleged fraud.</p>



Fraud Risk Assessment

Question	Management response
	<p>Performance against the Internal Audit Plan and Counter Fraud Plan and any specific issues identified are reported quarterly/half yearly to the Audit Committee.</p> <p>The Council's Overview and Scrutiny Committee also receives the Council's quarterly performance reports, which includes risk registers and financial performance.</p>
<p>Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Authority where fraud is more likely to occur?</p> <p>What processes does the Authority have in place to identify and respond to risks of fraud?</p>	<p>We have not identified any specific fraud risk or locations within the Council where fraud is more likely to occur. Common risks include procurement, grants, Housing and Council Tax Benefit, Cash, Contracts, Business Rates and Council Tax Evasion.</p> <p>The work of the Counter Fraud team focuses on the key fraud risk areas and the Council maintains compliance officers in Revenues and Benefits to deal with that area where risk is perceived to be higher.</p> <p>The team is tackling areas of known abuse with Enforcement Teams where appropriate and corporately with the direction of the Council's leadership team. The Counter Fraud Team provides Audit Committee direct updates biannually to the April and August/September meetings.</p> <p>The Council also feeds data in to the National Fraud Investigation process to identify potential fraud for investigation.</p>

Fraud Risk Assessment

Question	Management response
<p>How would you assess the overall control environment for the Authority, including:</p> <ul style="list-style-type: none"> - does the process for reviewing the effectiveness the system of internal control exist and work effectively? - do internal controls exist and work effectively, including segregation of duties? 	<p>The Council's internal audit service is provided by SWAP Internal Audit Services (SWAP). SWAP provide the Council with an audit opinion for 2019/20 using findings from review work carried out across the Council services. At the point of preparing this response, it is expected that the Council will have a "Reasonable" internal audit opinion, confirming that internal control processes are effective. As part of the core audit of systems, appropriate internal controls (or their absence/non-compliance) is considered by internal audit. Appropriate testing by internal audit, enables advice to be produced on the effectiveness of internal controls. The outcome of internal audit reviews are reported to management through audit reports and to the Audit Committee as part of quarterly performance updates.</p> <p>There is a good working relationship between the Counter Fraud Unit and Internal Audit, which ensures that internal control weaknesses identified through CFU reviews are followed up, following management action to address the weaknesses by internal audit reviews.</p> <p>Internal Audit Plans are approved at Council's leadership team and subsequently Audit Committee. Internal Audit then reports their findings and recommendations to both bodies and Audit Committee has a monitoring and challenge role to ensure the system of internal control is robust.</p> <p>External Audit also report their findings and recommendations to Audit Committee, which is subject to the same process of monitoring and challenge.</p> <p>The outcome of internal and external audit work, together with Assurance Statements prepared by senior managers feed into the preparation of the Annual Governance Statement which is considered by Council's leadership team and the Audit Committee. Internal Audit provides assurance on the robustness of the arrangements for production of the AGS.</p> <p>In summary, internal controls work effectively, including segregation of duties.</p>

Fraud Risk Assessment

Question	Management response
<p>If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>N/A</p>
<p>What other controls are in place to help prevent, deter or detect fraud?</p>	<p>The Counter Fraud team submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation.</p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>On occasions such issues have been raised by both internal and external audit as part of the audit work. Appropriate recommendations for changes to internal controls are made on these occasions for management to implement.</p>

Fraud Risk Assessment

Question	Management response
<p>Are there any areas where there is potential for misreporting?</p>	<p>The financial reporting process is subject to review and challenge by both the Deputy S151 Officer and Chief Finance Officer.</p> <p>There is always the potential but we believe appropriate checks and balances are in place within the shared Finance Team to ensure mis-reporting does not occur.</p>
<p>How does the Authority communicate and encourage ethical behaviours and business processes of its staff and contractors?</p>	<p>The Council communicates and encourages ethical behaviour and business processes of its staff and contractor through its policies and strategies including Anti Fraud and Corruption Policy, Employee Code of Conduct and Whistleblowing policy all of which are available on the intranet site. Updates are communicated through induction and refresher training and other channels such as 'Keeping You Connected', emails or staff training events.</p> <p>The Audit Committee approves the risk-based annual audit plan. The annual plan includes resource allocation to core financial and governance audits as well as service audits which will include a review of various policies and strategies such as: the Counter Fraud and Anti-Corruption Policy, Employee Code of Conduct and Whistle-blowing Strategy. The various strategies will be reviewed for timeliness and completeness as well as how well they are communicated to employees through processes such as induction training, appraisals and refresher training. Any areas of concern are reported to the Audit Committee through the SWAP quarterly monitoring reports.</p> <p>In terms of contractors, significant contracts are let following a robust process which seeks assurance from the potential contractor that the organisation has appropriate policies and processes in place. The Council monitors performance and quality and adherence to standards of service delivery.</p>

Fraud Risk Assessment

Question	Management response
<p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>The Counter Fraud Team remit includes staff and member awareness sessions and alerts where necessary to encourage reporting which is further complimented by the Whistle blowing policy. Training and briefings are provided by the Counter Fraud Unit to highlight activity and their role. Publicity with regard to identified fraud and error will also be encouraged to act as a deterrent.</p> <p>Staff are expected to report any concerns they have about fraud or the misuse of public funds.</p> <p>No significant issues have been reported in 2019/20. Any allegations received are referred to the Counter Fraud Unit for investigation. These matters are managed in line with the Council policies, including disciplinary policy, and will be reported to the Council's leadership team where appropriate. In some instances, recommendations have been made in respect of control processes.</p>
<p>From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Each role in the Council or Publica, as the Council's service provision body, is assessed for the requirement to undertake post holder security checks.</p> <p>Officers with significant operational financial responsibilities, such as roles in the Treasury Management team, Chief Finance Officer/Deputy Finance Officer, and roles in Revenues and Benefits are subject to regular security checks, at recruitment and then regularly every three years</p>

Fraud Risk Assessment

Question	Management response
<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Not aware of any related party relationships or transactions that could give rise to instances of fraud.</p> <p>The risks associated with fraud related to related party relationships and transactions are mitigated through the requirement within the Constitution for members to make declarations of all relevant relationships and transactions and update their declarations on a quarterly basis. They are also required to disclose any relevant interests at Committee meetings and where appropriate withdraw and disclose any gifts and/or hospitality received via the Council register. Officers are also required to declare any related party transactions.</p> <p>Prevention methods for bribery and corruptions are detailed within the Counter Fraud and Anti Corruption Policy.</p> <p>With the establishment of Publica, the Council reviewed the appointment of Statutory Officers to ensure that they are employed by the Council (or shared with a partner Council) rather than Publica and to minimise any risk of conflict of interest.</p>

Fraud Risk Assessment

Question	Management response
<p>What arrangements are in place to report fraud issues and risks to the Audit Committee?</p>	<p>On a quarterly basis, the Audit Committee receives monitoring reports from the South West Audit Partnership regarding work carried out by the internal audit team. The report details the work carried out compared to the plan, the level of assurance resulting from the audit, the key issues regarding internal controls or fraud including any breaches. Reporting includes the outcome of internal audit follow-up reviews of the implementation of audit recommendations.</p> <p>In addition, the Counter Fraud Team report regularly to Committee.</p>
<p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p>	<p>The Audit Committee approves the risk based Annual Audit Plan which includes a risk based system audit of core financial systems and resources for auditing non financial systems on a risk basis.</p> <p>The Counter Fraud Unit has a similar annual plan for its work which includes an allocation of resources to investigate any alleged fraud. Performance against the Intern Audit Plan and Counter Fraud Plan and any specific issues identified are reported quarterly/half yearly to the Audit Committee.</p> <p>The Committee is consulted on any proposed changes to relevant Council Policy – e.g. Whistleblowing Policy, Counter Fraud and Anti-Corruption Policy, Money Laundering Policy, RIPA Policies etc.</p> <p>Changes to the Council's Corporate Risk Register are also reported to the Audit Committee on a quarterly basis. The Council's Overview and Scrutiny Committee also receives the Council's quarterly performance reports, which includes changes to the Council's risk registers and details of financial performance.</p>



Fraud Risk Assessment

Question	Management response
<p>What has been the outcome of these arrangements so far this year?</p>	<p>The Audit Committee exercise oversight over management processes for identifying and responding to risks of fraud and breaches of internal control through challenge of internal audit and counter fraud, monitoring the implementation of recommendations and seeking additional assurances from operational management.</p> <p>See reports presented to Audit and Overview and Scrutiny Committee.</p>
<p>Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Reports from whistle blowers are investigated by the Counter Fraud Team. Once the investigation is complete, appropriate recommendations are made for action which may include prosecution, civil penalties, improvements to internal controls, and (where an employee is the subject), consideration of disciplinary action.</p> <p>There have been whistle blowing reports during the year and appropriate action has been taken, although there is nothing particularly significant warranting a report to the Audit Committee. For example, outcomes have resulted in disciplinary action being taken against employees and recommendations for improvements to internal controls which will be followed up by internal audit, however, there were no significant financial implications for the Council.</p>
<p>Have any reports been made under the Bribery Act?</p>	<p>None</p>

Law and Regulations

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Authority's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of Laws and Regulations

Question	Management response
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>Internal Audit review are designed to ensure services are complying with internal and external policies and procedures and all legislation. Where non compliance is identified, this is reported to Management and Members via the Council's Audit Committee.</p>
<p>What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>There is a dedicated legal services team that provides advice to members and officers in relation to laws and regulations. The Council's Legal Services, Counter Fraud Team, Revenues and Benefits Team and Enforcement Teams for various services receive regulatory updates and changes via their own services sources e.g. CIPFA, MHCLG and DWP statutory regulations, RIPA updates, newsletters and best practice guidance. The implications of such changes are fed to the Council's leadership team for advice and to gain approval and, when necessary, recommend approval from Committee/Cabinet.</p> <p>In addition, the Whistle-blowing Strategy provides staff with the ability to report to management where laws and regulations have not been complied with.</p> <p>Any allegations that relate to criminal offences can be investigated by the Counter Fraud Team with appropriate legal action being taken by the Council where appropriate.</p> <p>The Chief Finance Officer is responsible for preparing the Statement of Accounts in accordance with the relevant legal and regulatory requirements.</p>

Impact of Laws and Regulations

Question	Management response
<p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>Not aware of any significant changes to regulatory environment.</p>
<p>How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Internal Audit review are designed to ensure services are complying with internal and external policies and procedures and all legislation. Where non compliance is identified, this is reported to management and Members via the Council's Audit Committee. Management actions are agreed where non compliance is identified.</p> <p>Senior managers within Publica and the Council complete and Annual Assurance Statement at the end of the financial year. These governance declarations provide appropriate management assurance that key area of the system of internal control are in place and working effectively.</p> <p>In addition, training sessions are used to explain new legislation.</p> <p>Where the changes would have a significant impact on the Council they will appear on the Corporate Risk Register which is reported to the Audit Committee on a quarterly basis. Any accounting requirements are explained to members as part of the approval of the accounts. For any specific cases a special would be report prepared for the Audit Committee.</p> <p>Any allegations that relate to criminal offences can be investigated by the Counter Fraud Team with legal action being taken by the Council where appropriate.</p>

Impact of Laws and Regulations

Question	Management response
<p>Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>	<p>Only matters identified as part of Internal Audit review of service areas which have been reported to management and the Audit Committee.</p> <p>In these cases management have agreed actions to improve compliance.</p>
<p>Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>None identified other than potential NNDR appeals claims.</p>

Impact of Laws and Regulations

Question	Management response
<p>What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?</p>	<p>The Council's legal team work with management when any potential claims or litigation are identified. Legal provides the Finance Team with details of any litigation or claims for inclusion within the financial statements.</p> <p>The Group Manager of Legal and Property Services provides detail of litigation and claims for inclusion in the financial statements. All issues are brought to the attention of the Chief Finance Officer as they arise.</p> <p>The Council has robust risk management procedures which includes the recording of any risks of litigation or claims either within service areas or corporately.</p> <p>The Council has processes in place to manage significant contracts so they operate on a partnership basis and any issues can be raised and managed with the aim of minimising litigation or claims. Contract performance is monitored by the use of management information including key performance indicators.</p>
<p>Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?</p>	<p>None</p>

Going Concern

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going Concern Considerations

Question	Management response
<p>Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Authority? What was the outcome of that assessment?</p>	<p>The Chief Finance Officer, as the Council's S151 Officer, is satisfied that the budget proposals are based on robust assumptions and reasonable estimates and the proposed use and remaining balance of Council reserves is appropriate. This was reported in the 2019/20 Budget report and Medium Term Financial Strategy (MTFS) which was supported and approved by the Council's leadership team, Cabinet and Full Council.</p> <p>The MTFS was revised following consultation with Scrutiny Committee and Cabinet and incorporated the latest position of government funding, Business Rates and New Homes Bonus. It demonstrated the financial position of the Council over a ten year period. As part of the preparation of the MTFS, various scenarios were prepared to check the Council's financial sustainability.</p> <p>Inflationary factors are applied using past experience and forecasts.</p> <p>Going concern is considered taking into account financial performance against budget, NNDR 3 outcome against estimates, central government announcements, risk registers and the level of reserves compared against budget.</p> <p>Note E7 to the draft statement of accounts confirms that the accounts have been prepared on a going concern basis.</p> <p>The Council is currently revisiting the assumptions included in the last iteration of the MTFS in recognition of the impact of the covid-19 pandemic.</p>

Going Concern Considerations

Question	Management response
	<p>The Council has £4.5m of general fund reserves to allow future planning should the financial position deteriorate further.</p> <p>There is a high degree of uncertainty about the future levels of funding and income for local government, particularly following the covid-19 pandemic. The Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision. The Council has therefore prepared its accounts on the basis that it is a going concern. As authorities cannot be created or dissolved without statutory prescription, the assumption has been made that the Council's services will continue or to operate for the foreseeable future. It would not be appropriate for the accounts to be prepared on anything other than a going concern basis.</p> <p>A report on the financial impact of Covid 19 was presented to Cabinet in June 2020 and Cabinet approved a recommendation to revise the budget for 2020/21 in September 2020.</p>

Going Concern Considerations

Question	Management response
<p>Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Authority's Business Plan and the financial information provided to the Authority throughout the year?</p>	<p>The MTFS supports the strategic and operational plans of the Council. The financial assumptions are therefore consistent with both Publica and the Council's business plans and the financial information reported to both Cabinet, Council and the Overview and Scrutiny Committee regarding future levels of income and expenditure.</p> <p>The Council is currently revisiting the assumptions included in the last iteration of the MTFS in recognition of the impact of the pandemic. This review is being carried out in conjunction with the development of the Council's Corporate Plan. The Corporate Plan sets out how the Council will deliver against its Corporate Strategies which were approved in September 2019.</p>
<p>Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p>The Council's financial and business plans consider changes in statutory and policy changes and plans are updated to reflect changes in assumptions in both income and spend and the resulting impact upon levels of investment and savings plans required.</p> <p>The Council is currently revisiting the assumptions included in the last iteration of the MTFS in recognition of the impact of the pandemic. The update will also consider potential changes to local government organisation as result of the Government White Paper expected in the Autumn.</p>

Going Concern Considerations

Question	Management response
<p>Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control)</p>	<p>There have been no significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made. The quarterly Internal Audit Progress Reports have not highlighted any issues in respect of financial performance or significant weaknesses in the financial control environment.</p>
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?</p>	<p>No adverse financial indicators have been identified.</p>
<p>Does the Authority have procedures in place to assess its ability to continue as a going concern?</p>	<p>The Council has a robust planning process which considers its financial resources in the context of its strategic objectives.</p> <p>The Council undertakes regular budget monitoring of the revenue budget and capital programme and on a quarterly basis reports performance to Overview and Scrutiny and Cabinet. Any large deviations from budget or areas of concern can then be addressed and corrective action taken to ensure that the Council continues to provide services that are affordable and within budget.</p>

Going Concern Considerations

Question	Management response
	<p>The Council also maintains robust client management process with key service providers including Publica, Ubico and SLM. Senior managers from both Publica and Ubico regularly report to officer groups and to Members via Scrutiny Committee and/or Cabinet. The performance of SLM is also reviewed by the Overview and Scrutiny Committee. Both Publica and Ubico Business Plans are considered by the Council to ensure that each entity's strategic objectives are aligned with the Council.</p> <p>The Council is currently revisiting the assumptions included in the last iteration of the MTFs and budget 2020/21 in recognition of the impact of the pandemic.</p>
<p>Does the Authority have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Authority's objectives?</p> <p>If not, what action is being taken to obtain those skills?</p>	<p>Yes. The Council has appropriately skilled and experienced senior staff in post to ensure the delivery of the Council's objectives. The Council's Chief Finance Officer role was previously shared with West Oxfordshire District Council. With effect from July 2020, the post holder is no longer shared.</p> <p>Following the retirement of the previous Head of Paid Service, a recruitment process is in place to appoint a new Chief Executive. An Interim Chief Executive has been appointed to oversee the role until a replacement has been recruited.</p> <p>The Council's Group Manager Legal and Property Services and Monitoring Officer will be retiring at the end of July. Interim arrangements have been put in place until a permanent replacement has been imp</p>

Going Concern Considerations

Question	Management response
<p>Is management aware of the existence of events or conditions that may cast doubt on the Authority's ability to continue as a going concern?</p>	<p>Due to the Covid-19 pandemic, the Council is expecting losses across revenue streams such as car park income, licensing, planning fees and investment and property rental income. Expenditure pressures will also be felt across all services. Although difficult to quantify, it is expected that financial pressures will be significant – even after the Government's funding for local authorities is taken into account. The Council is however in the fortunate position of having general fund reserve balances to draw upon. A report was presented to Cabinet in June 2020 and a revised budget for 2020/21 will be presented in September 2020. At present the Chief Finance Officer opinion is that the Council has sufficient General Fund and Revenue Reserves to operate as a going concern.</p> <p>The Council is currently revisiting the assumptions included in the last iteration of the MTFS in recognition of the impact of the pandemic.</p>
<p>Are arrangements in place to report the going concern assessment to the Audit Committee?</p> <p>How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>This report is being considered by the Audit Committee in advance of considering the draft financial statements.</p>



Related Parties

Matters in relation to Related Parties

Local Authorities are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (i.e. subsidiaries);
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Authority's perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Relating Parties

Question	Management response
<p>What controls does the Authority have in place to identify, account for and disclose related party transactions and relationships ?</p>	<p>Declarations are made at meetings by Members and Officer where appropriate and are recorded in the minutes of the meeting. The Members code of conduct requires Members to make declaration of interest when necessary which are also recorded. Registers of interest are updated annually by Members and Officers and a register of gifts and hospitality is also maintained. Members are reminded quarterly to update the register of interests.</p> <p>The above is reviewed as part of the accounts closedown process and are disclosed in the statement of accounts where the interest would be material to either party. The results of this exercise are disclosed in the draft statement of accounts.</p>

Accounting Estimates

Matters in relation to Related Accounting estimates

Local Authorities apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Authority is using as part of its accounts preparation; these are detailed in Appendix A to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates

Question	Management response
<p>Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?</p>	<p>The non-domestic (NDR) appeals provision for the 2010 list has been estimated based on past experience of successful appeals and other RV reductions, actual success rates and reductions may differ from the estimate. The process was altered from 1 April 2017 for the 2017 list. For the 2017 list, as there have been limited numbers of appeals due to the new Check, Challenge and Appeal process, the use of the standard MHCLG successful appeals per centage has been reviewed as it appears to be overly pessimistic. I am confident that the estimate is soundly based being both prudent yet realistic avoiding over provision.</p>
<p>Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?</p>	<p>Yes</p>
<p>How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?</p>	<p>The assumption which underpin the figures reported in the Statement of Accounts are reviewed in advance of preparation and such estimates and assumptions are disclosed in the notes to the Accounts for transparency.</p>

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations	Valuations are made by a qualified valuer (RICS Member) in line with RICS guidance on the basis of 5 year valuations with interim reviews.	<p>There is a rolling programme of valuations and the finance team issue terms of engagement covering specific issues for the year.</p> <p>Valuations are performed to ensure that the current value of a revalued asset does not differ materially from its carrying amount.</p>	Yes – Internal and External Valuer	<p>Valuations are made in line with RICS guidance. Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.</p> <p>The covid-19 pandemic and impact on the global economy has meant that less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement. Valuations are therefore based on the basis of material uncertainty as per the RICS Red Book.</p>	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Estimated remaining useful lives of PPE	The following assets categories have general asset lives: <ul style="list-style-type: none"> • Buildings – 40 years • Car Parks – 20 years • Vehicles, Plant and Machinery- 4 years 	Consistent asset lives applied to each asset category.	Internal and External RICS member valuer	Life recorded in accordance with the qualified RICS internal or external valuer and can vary dependent on specific examples.	No

Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Investment property valuations	Valuations are made by a qualified valuer (RICS member) in line with RICS guidance on an annual basis.	<p>Valuations are undertaken on an annual basis by RICS qualified external valuer</p> <p>The finance team issue terms of engagement to the valuer.</p>	Yes – External Valuer	<p>Valuations are made in line with RICS guidance.</p> <p>The covid-19 pandemic and impact on the global economy has meant that less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement. Valuations are therefore based on the basis of material uncertainty as per the RICS Red Book.</p> <p>Values have been based on assumptions of rental income expected in 2020/21 adjusted to assume rent free period for a period of six to twelve months associated with Coronavirus considerations and potential void periods.</p>	No

Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and amortisation	Depreciation is provided for all fixed assets with a finite useful life on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	Consistent application of depreciation method across all assets.	No	The length of the life is determined at the point of acquisition or revaluation.	No



Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Review of assets undertaken annually in line with policy. Where indication of impairment exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year end to identify if there is any indication of impairment.	Discussion with internal and external valuers.	N/A	No
Measurement of financial instruments	Financial instruments are valued at fair value based on the advice of their external treasury consultants and Investment Fund Managers.	All financial instruments are reviewed at year end and advice taken from professional advisors	Yes	Instruments are valued on an individual basis with advice from treasury management professionals and investment fund managers.	No



Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	<p>Provision are made whenever an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.</p> <p>Provisions are charged as an expense to the appropriate service line In the CIES in the year that the Council becomes aware of the obligation, taking into account relevant risks and uncertainties.</p>	<p>Each provision is separately reviewed by financial accountants and a working is put together to support the calculation</p> <p>Charged in year that Council becomes aware of obligation</p>	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No

Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Expected credit losses	Debts are reviewed monthly where possible, and any debts that are deemed to be irrecoverable are written off.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts.	N/A	A 100% provision has been made against the housing benefit overpayment debtors to reflect the difficulty surrounding recovering debts from individuals who are already short of money.	No

Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Procedures for identifying accruals are included in the closedown instructions.	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated, the latest information has been used.	No
Non-adjusting events – events after the balance sheet date	The Chief Finance Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is a non adjusting event. For those events a note to the accounts is included identifying the nature of the event.	Group Managers notify the Chief Finance Officer.	This would be considered on individual circumstances	This would be considered on individual circumstances	N/A

Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension fund (LGPS) actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Council responds to queries raised by the administering body.	Yes, Hymans Robertson (Actuary) who provide the IAS 19 actuary report.	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field. Any major market fluctuations that may impact on the year end valuations are discussed with the actuary to ensure that forecasts are reasonable.	No



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