

Cllr BS Dare
Chair of the Audit Committee
Cotswold District Council
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Dear Councillor Dare

**Cotswold District Council Financial Statements for the year ending
31 March 2016
Understanding how the Members gain assurance from management**

To comply with International Auditing Standards, we need to establish an understanding of how Members gain assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me in your role as Chair of the Audit Committee with your responses to the queries raised in the attached questionnaire.

For information, we are also required to make similar enquiries of management and are raising these issues with Jenny Poole in her capacity as the Chief Finance Officer.

Please do not hesitate to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Michelle Burge
Manager
For Grant Thornton UK LLP

**Response from Audit Committee Chair
Fraud risk assessment**

Auditor Question	Response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud?</p>	<p>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 misstated due to fraud will be reported to the Corporate Management Team, and the Audit Committee as part of the quarterly reporting cycle.</p> <p>Furthermore, should fraud be suspected, appropriate criminal investigation can be undertaken by a Counter Fraud Officer with the direction of Corporate Management Team.</p>
<p>What are the results of this process?</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.</p> <p>Should an investigation take 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.</p>
<p>What processes does the Council have in place to identify and respond to risks of fraud?</p>	<p>The Counter Fraud and Anti-Corruption Policy, the Whistleblowing Policy Internal Audit Charter and the terms of reference for the Head of Audit Cotswolds (Chief Internal Auditor) are formally agreed by Council. These documents set out the role of Internal Audit in the prevention and investigation of fraud. The Audit Committee also approves the risk-based annual audit 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> <p>In addition, Audit Cotswolds is in the process of establishing a Counter Fraud Unit following the successful bid in February 2015 to the Department of Communities and Local Government</p>

	<p>(DCLG) for funding. This will ensure the authority retains skills and resources to tackle fraud following the Department of Work and Pensions Single Fraud Investigation Service (DWP SFIS) led changes.</p> <p>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.</p> <p>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>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>An assessment of fraud risks within the Council was completed in 2014/15 to help inform the bid to DCLG. The result of this work is being used to scope the remit of the new Counter Fraud Team and set new performance targets.</p> <p>Following the transfer of benefit fraud investigation to the DWP, Internal Audit retained resource and commenced the Counter Fraud project. The Council now has more resource available to tackle a wider remit.</p> <p>The team is tackling areas of known abuse with Enforcement Teams where appropriate and corporately with the direction of the Corporate Management Team.</p> <p>Audit Committee is updated with regard to the project progress and any identified fraud risk or abuse through management reports to the Committee. The Council feeds data in to the Audit Commission's National Fraud Investigation process and reviews the information feedback from the data matching process to identify potential fraud for investigation.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively?</p>	<p>As part of the core audit of systems, appropriate internal controls (or their absence / non-compliance) is considered by internal audit.</p>

	Appropriate testing by internal audit advises of their effectiveness and is covered through audit reports.
If not, where are the risk areas and what mitigating actions have been taken?	N/A
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)?	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.
Are there any areas where there is a potential for misreporting?	There is always the potential but we believe appropriate checks and balances are in place within the teams, and through GO Shared Services, to ensure misreporting does not occur.
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	<p>The responsibility for the prevention and detection of actual or suspected fraud lies with the Head of Audit Cotswolds and the Council's Corporate Management Team. This excludes benefit fraud which must be referred to the DWP. Once an investigation has been concluded the results are reported to the Audit Committee.</p> <p>The Counter Fraud Unit is expected to continue reporting to Corporate Management Team and the Audit Committee.</p> <p>The Committee is also 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>
What arrangements are in place to report fraud issues and risks to Members?	<p>On a quarterly basis, the Audit Committee receives monitoring reports from the Head of Audit Cotswolds 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.</p> <p>In addition, a full summary of the Counter Fraud Project will be presented.</p>

<p>How does the Council communicate and encourage ethical behaviour of its staff and contractors?</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 (such as Human Resources and Democratic Services) 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 Head of Audit Cotswolds 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> <p>The Counter Fraud Team remit includes staff and member awareness sessions and alerts were necessary. Publicity with regard to identified fraud and error will also be encouraged to act as a deterrent.</p>
<p>How does the Audit Committee encourage staff to report their concerns about fraud?</p> <p>Have any significant issues been reported?</p>	<p>See above - the Counter Fraud remit includes awareness sessions to encourage reporting complimented by the Whistleblowing Policy.</p> <p>Where there have been significant issues reported, these have been reported in the appropriate manner to Strategic Director of Resources. Investigations are carried out and appropriate action taken.</p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p>No - but the Council's Constitution requires members to declare any such interests and, where appropriate, withdraw. Senior decision making officers are also required to declare any related party transactions.</p>

	Prevention methods for bribery and corruption are also detailed within the Counter Fraud and Anti-Corruption Policy.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2015?	<p>Benefit Fraud is now dealt with by the DWP. Abuse of the Council Tax Reduction Scheme is reported by the Revenues and Housing Support Department.</p> <p>A small number of allegations have been referred for investigation. These matters are managed in line with the 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 processes.</p> <p>A case involving fraudulent payment requests (from an external party to the Council) has been identified. The matter has been investigated by internal audit and reported to the police and the external auditor. Changes to internal controls have been implemented to strengthen the internal control framework and to prevent this type of fraud re-occurring.</p>

Law and regulation

Auditor Question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	<p>The internal audit team prepare audits to ensure that compliance with relevant laws and regulations are evidenced during the audit process. The quarterly report to the Audit Committee, produced by the Head of Audit Cotswolds, identifies non-compliance with relevant laws and regulations. There is a dedicated legal services team that provides advice to members and officers in relation to laws and regulations.</p> <p>All decision making reports to the Cabinet and Cabinet Members contain a section on the legal implications of the report. All of these reports are reviewed by the Head of Legal and Property services in advance of the decision making meeting.</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>How does the management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>See above - plus the Whistle-blowing Policy provides staff with the ability to report to management where laws and regulations have not been complied with.</p>
<p>How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The internal audit team prepare audits to ensure compliance with relevant laws and regulations are evidenced during the audit process. The quarterly monitoring reports, produced by the Head of Audit Cotswolds, identify any non-compliance with the relevant laws and regulations and agree with management actions to remedy the situation.</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>Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2015?</p>	<p>No</p>
<p>What arrangements does the Council 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 Head of GO Shared Services with details of any litigation or claims for inclusion within the financial statements.</p> <p>The Council has a customer complaints process which aims to resolve issues before they escalate. The Council has robust risk management in place 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</p>

	information including key performance indicators.
Is there any actual or potential litigation or claims that would affect the financial statements?	<p>During 2014/15, the Council has entered into a claim against Royal Mail for the recovery of VAT paid on postal charges. A note will be included in the accounts to this effect.</p> <p>Any other claims will be identified and disclosed in the accounts for 2015/16.</p>
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	No

(END)