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For the attention of Julie Masci

Our ref: Assurance from management

When calling please ask for:

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19th April 2018

Dear Ms Masci

**Cotswold District Council - Financial Statements for the year end 31 March 2018
Understanding how the Audit Committee gains assurance from management**

I refer to your letter of 26th March 2018 regarding compliance with International Auditing Standards. I have set out my responses to each of your questions in the table attached to this letter.

I hope that these responses are sufficient for your purposes, if you require any further information please contact me.

Yours sincerely

Cllr. L Wilkins
Chair of the Audit Committee

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Response from the Audit Committee Chair

Fraud risk assessment

Auditor Question	Response
<p>Has the Audit Committee 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 mis-stated 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 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. 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>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, and the Internal Audit Charter are formally agreed by the Council (at a meeting of the appropriate Committee/Executive).</p> <p>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> <p>The work of the Counter Fraud Team is</p>

	<p>reported to the Audit Committee on a biannual basis.</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>The work of the new Counter Fraud team is anticipated to focus 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 Corporate Management Team.</p> <p>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>
<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. Appropriate testing by internal audit advises on their effectiveness and is covered through audit reports.</p>
<p>If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>N/A</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>
<p>Are there any areas where there is a potential for misreporting?</p>	<p>There is always the potential but we believe appropriate checks and balances are in place within the shared Finance Team to</p>

	ensure mis-reporting does not occur.
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	<p>The lead Counter Fraud Officer gives periodic update reports 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>
What arrangements are in place to report fraud issues and risks to the Audit Committee?	<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.</p> <p>In addition, the Counter Fraud Team report regularly to Committee.</p>
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	<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 Whistleblowing 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 South West Audit Partnership 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 where necessary. Publicity with regard to identified fraud and error will also</p>

	be encouraged to act as a deterrent.
How do you encourage staff to report their concerns about fraud?	See above. The Counter Fraud Team remit includes staff and member awareness sessions to encourage reporting which is further complimented by the Whistle blowing Policy.
Have any significant issues been reported?	Yes – see detail below.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	No – but the Councils 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. Prevention methods for bribery and corruption are also detailed within the Counter Fraud and Anti-Corruption Policy. With the establishment of Publica, the Council has 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.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council since 1 April 2017?	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. A small number of internal 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.

Law and regulation

Auditor Question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	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 South West Audit Partnership, identifies noncompliance with relevant laws and regulations.

	<p>There is a dedicated legal services team that provides advice to members and officers in relation to laws and regulations.</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 management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>The Council's Legal Services, Counter Fraud Team, Revenues and Benefit 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 Corporate Team for advice and to gain approval and, when necessary, recommend approval from committee.</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>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 South West Audit Partnership, 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 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 2017?</p>	<p>Only matters identified as part of Internal Audit reviews of service areas. In these cases, Management have agreed actions to improve compliance.</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 Finance Team 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</p>

	<p>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>Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>The Council has entered into a claim against Royal Mail for the recovery of VAT paid on postal charges. In addition, the Council has entered a claim against VISA and Mastercard to recover excessive interchange rate fees and a claim for recovery of costs relating to a Truck Cartel. There is a claim from a NHS Trust relating to the award of charitable relief from business rates in Cheltenham Borough Council and Gloucester City Council. Although there is no direct impact upon business rates for Cotswold District Council, there is a potential impact through the Gloucestershire Business Rates Pool. The Council is defending the claim in collaboration with other local authorities through the Local Government Association. At this stage none of the above would have a material impact on the accounts.</p>
<p>Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?</p>	<p>No</p>