

# Public Document Pack



**COTSWOLD**  
DISTRICT COUNCIL

Wednesday, 21 April 2021

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## AUDIT COMMITTEE

A meeting of the Audit Committee will be held remotely, via Cisco Webex on **Thursday, 29 April 2021 at 4.00 pm.**

Rob Weaver  
Chief Executive

To: Members of the Audit Committee  
(Councillors Stephen Andrews, Tony Berry, Patrick Coleman, Mark Harris, Roly Hughes, Nick Maunder and Ray Theodoulou)

Due to the current social distancing requirements and guidance relating to Coronavirus Regulations 2020 – Part 3 – Modification of meetings and public access requirements this meeting will be conducted remotely using Cisco Webex.

Members of the public will be able to follow the proceedings through a broadcast on [Cotswold District Council Facebook account](#) (You do not need a Facebook account for this).

Recording of Proceedings – The law allows the public proceedings of Council, Cabinet, and Committee Meetings to be recorded, which includes filming as well as audio-recording. Photography is also permitted.

As a matter of courtesy, if you intend to record any part of the proceedings please let the Committee Administrator know prior to the date of the meeting.

# AGENDA

1. **Apologies**
2. **Substitute Members**  
To note details of any substitution arrangements in place for the meeting.
3. **Declarations of Interest**  
To receive any declarations of interest from Members and Officers, relating to items to be considered at the meeting.
4. **Minutes (Pages 3 - 10)**  
To confirm the minutes of the meeting of the Committee held on 28 January 2021.
5. **Public Questions**  
To deal with questions from the public within the open forum question and answer session of fifteen minutes in total. Questions or supplementary questions from each member of the public should be no longer than two minutes each and relate issues under the Committee's remit.
6. **Member Questions**  
To deal with written questions by Members, relating to issues under the Committee's remit, with the maximum length of oral supplementary questions at Committee being no longer than one minute. Responses to any supplementary questions will be dealt with in writing following the meeting
7. **KPMG LLP Reports - Housing Benefit Subsidy Certification (Pages 11 - 14)**
8. **Corporate Risk Register Update (Pages 15 - 28)**
9. **Counter Fraud Unit Report and Proceeds of Crime and Money Laundering Policy (Pages 29 - 46)**
10. **Internal Audit Progress Report (Pages 47 - 72)**
11. **Internal Audit Plan 2021/22 and Internal Audit Charter (Pages 73 - 90)**
12. **Draft Accounting Policies 2020-2021 (Pages 91 - 108)**
13. **Informing the Audit Risk Assessment - External Audit Assurance (Pages 109 - 162)**
14. **External Audit Plan - 2020/2021 (Pages 163 - 188)**
15. **Draft Work Plan 2021/22 (Pages 189 - 190)**

(END)

Audit Committee  
28 January 2021



COTSWOLD  
DISTRICT COUNCIL

## Minutes of a meeting held remotely of Audit Committee held on 28 January 2021

In accordance with relevant legislation, these minutes are a record of decisions taken. They are not intended to be a verbatim account of the meeting. A full recording of the meeting is available to be viewed at [www.cotswold.gov.uk](http://www.cotswold.gov.uk).

Councillors present:

Patrick Coleman – Chair

Stephen Andrews

Tony Berry

Roly Hughes (left 6.57)

Nick Maunder (left 6.34pm)

Ray Theodoulou

Councillor observing: Mike Evemy

Officers present:

Deputy Chief Executive

Assistant Director - SWAP

Chief Accountant

Accounting Technician

Senior Procurement Business Partner

Managing Director, Ubico

External Auditors – Grant Thornton

Contracts Business Manager

ICT Audit and Compliance Manager

Monitoring Officer

Democratic Services

AUD.43 Apologies were received from Councillor Mark Harris.

AUD.44 **Substitute Members** – There were no substitute arrangements in place.

AUD.45 **Declarations of Interest**

Councillor Berry confirmed he was the interim Chair of the Friends of the Corinium Museum.

AUD.46 **Minutes of the meeting held on 26 November 2020**

**RESOLVED** that the minutes of the meeting of Committee held on 26 November 2020 be approved.

**Record of Voting - for 5, against 0, abstention 0, absent 2. One Councillor joining following the vote on the minutes.**

**AUD.47 Chair's Announcements**

The Chair announced that the Assistant Director, SWAP would only attend the meeting for the Internal Audit Progress Report Item.

**AUD.48 Public Questions**

No questions had been received from the Public.

**AUD.49 Member Questions**

No questions had been received from Members.

**AUD.50 Internal Audit Progress Report**

The Assistant Director, SWAP, introduced the report, highlighting that during the pandemic, continuous assurance reporting had taken place within areas such as accounts payable/receivable and payroll, any concerns were brought to the attention of the Chief Finance Officer. The team had also been involved in processing business grants, through to payment. The audit planning process for the next financial year would be ready for consideration when the plan is presented to the next meeting.

SI06 and CIL payments were of concern to Members. Officers explained that a new system had been introduced for processing these payments, which was being reviewed to ensure the payments were being processed correctly, although there was still further work to be carried out.

Concern was also expressed about the control of ICT accounts with administrative privileges. Committee sought reassurance that procedures were in place for the correct closing down of accounts when necessary. Officers explained that robust procedures were in place and people were taken off the network, access removed and accounts closed immediately.

Commissioning/procurement training was taking place.

**RESOLVED that the comments made by Committee be noted.**

**AUD.51 Annual Audit Letter**

Grant Thornton introduced the report explaining that an unqualified opinion had been issued for the accounts, although an uplift in the scale of fees, recognised the additional work which had needed to be done, due to the Pandemic.

The Chief Finance Officer explained that the increase in fees could be included in the next return to Government, therefore, they would see the true impact of Covid-19 on the accounts.

The Committee thanked the team at Grant Thornton for their work under very difficult circumstances.

Queries from Members and answers from Officers, included issues such as the pension fund did not invest in single properties, this was described as managed funds. The scale of risk, reflecting Government funding, around the new homes bonus, was a potential risk not an actual risk and it was felt that the audit letter should specify that. Specialist skills were required for valuation of investment properties in 2019/20, it had not yet been decided if the external audit team would need to use internal valuers in 2020/21, which would be presented in the audit plan to a future meeting. Financial sustainability, at the time of putting the plan together, the MTFS showed a combined savings plan of £3.6m to balance the budget from 2020/21 to 2022/23, although the impact of Covid-19 had put the Council in a challenging financial position.

Councillors would be kept updated on progress as to the timing of the sign off of accounts for 2020/21.

**RESOLVED that the comments from Committee on the Annual Audit Letter be noted.**

#### AUD.52 **Ubico Governance Overview and Business Plan Update**

The Managing Director and Finance Director of Ubico, had attended Committee to update Members. They explained that the board effectiveness review had taken place. From this review, new board members had been appointed. The new board structure took effect from February 2020.

A Risk and Audit Committee and Governance and Nominations Committee had been formed. A new annual performance review process had been introduced for all Non-Executive Directors.

A new five year vision strategy would be recommended to shareholders, next week, together with the draft 2021/22 Business Plan. Annual reports and audited accounts were published on Ubico's Website.

**RESOLVED that the report be noted, with appreciation.**

#### AUD.53 **Arrangements for investigating allegations under the Member Code of Conduct**

The Monitoring Officer presented this report, which made recommendations to Council on the adoption of arrangements to deal with complaints, which were covered in the recommendations to this item. The Monitoring Officer would informally consult the Town and Parish Councils as they would be covered by these arrangements. Adoption of these arrangements would ensure that the Monitoring Officer could report back to the Committee on Standards in Public Life that the Council was in compliance with these recommendations.

Queries from Members and answers from Officers, included issues such as, a question of whether the Council should have a hearings panel or standards committee. There was no statutory requirement to have a standards committee. If the Council adopted these recommendations, all 15 requirements of the Committee on Standards in Public Life would have been complied with. Sanctions following an alleged breach of the code of conduct was set out in the report, a Member could not currently be suspended for breaches of the code.

Training on the Model Code of Conduct should be arranged and this should be rolled out to Town and Parish Councils, recommending that they adopt the model code.

It was highlighted that in Section 2 of the report, 'Making a Complaint', it stated that complaints should be made in writing by email, and whether this could be amended to allow people, who do not have access to email, to make the complaints by other means, such as a letter.

The word 'Chairperson' of Audit and Standards Committee should read 'Chair' of Audit Committee, in paragraph 12 – Revision of these Arrangements.

**RESOLVED that RECOMMENDATIONS were made to Council to:**

- a) **Note the requirement that the Committee for Standards in Public Life Best Practice recommendations should be adopted by all councils**
- b) **Note that the LGA Model Code of Conduct and the draft Arrangements implement all but two of the Best Practice recommendations**
- c) **Consider the draft Arrangements for investigating complaints appended to this report and, subject to any changes it wishes to make, recommend them to the next appropriate meeting of Council for adoption.**
- d) **Authorise the Monitoring Officer to provide town and parish councils with the proposed Arrangements for investigating complaints for information and comment prior to consideration by Council at the next appropriate meeting**
- e) **Instruct the Monitoring Officer to ensure that the register of members gifts and hospitality is updated and published quarterly**
- f) **Instruct the Monitoring Officer & Section 151 Officer to provide a report on any separate bodies set up or owned by the Council as part of the Annual Governance Statement to the committee and giving a full picture of its relationship with those bodies**
- g) **Consequent upon all of these recommendations being approved, authorise the Monitoring Officer to make a report to the Committee for Standards in Public Life that the best practice recommendations have been adopted in their entirety**

**Record of Voting - for 6, against 0, abstention 0, absent 1.**

#### AUD.54 **Update to Council Contract Rules**

The Senior Procurement Business Partner highlighted that a new procurement process for officers was in place. The threshold for approving purchase orders, when three quotes had been obtained, without going to procurement, had increased from £10,000 to £25,000. All references to OJEU had been removed.

Members highlighted references to the EU which should be removed, 2.1, threshold should be £25,000 for goods, services and supplies.

Questions relating to the climate emergency plans would be covered in tender documents, which was more of a process issue.

Paragraph 1.1.2 in the rules, contract regulations should replace EU procurement rules and reference should be made to the new procurement regulations for the UK and not the EU.

**RESOLVED that the comments from Committee be noted and forwarded to Cabinet for consideration.**

#### AUD.55 **Capital, Investment and Treasury Management Strategies**

The Chief Finance Officer introduced the report, explaining that these strategies were part of the budget setting process and supported the financial strategy of the council.

During discussion issues were raised, such as, reduced government funding, reserves earmarked for specific items specifically, delivering charging points across the district, light railway option from Cirencester to Kemble, charges for waste containers, disabled facilities grants, recovery investment from Covid-19, money set aside for devolution and broadband, commercial activities, current running yield or purchase yield, ensure the Council had skills and experience to invest in properties, treasury management and opportunities for potential future borrowing, concern relating to corporate bonds, in relation to this officers explained that they worked closely to do due diligence with Arlingclose,

**RESOLVED that feedback from the Audit Committee, on the draft Capital, Investment and Treasury Management Strategies for 2021/22 was provided to the Cabinet for consideration as part of the Council's budget setting process.**

The meeting adjourned at 18.30 and resumed at 18.40

#### AUD.56 **Corporate Risk Register Updates**

An update was given to the Committee on the Risk Register.

Members considered that risk - CRR-D01018 - If the Government did not provide adequate funding to the Council to enable the Council to fulfil new expectations of

the Council's role in preparations for the UK exit from the EU, there could be negative implications on the Council's reputation or the Council's finances, could be removed from the register. Officers explained that work was still ongoing with the transitional arrangements.

**RESOLVED that Committee notes the updates to the Council's Corporate Risk Register.**

**AUD.57 Changes to Governance Arrangements at SWAP Internal Audit Services Ltd.**

The Chief Finance Officer introduced this report which explained the changes to the teckal organisation, who provided audit services to the Council and Publica.

Appointment of directors to SWAP would be a new decision taken by shareholders, and would be made as a reserve matter. It was acknowledged that appointment of directors was a practical matter and the Board should be making the appointments.

**RESOLVED that the changes to the SWAP Governance arrangements are noted; and**

**RECOMMENDED to Cabinet that delegated authority be granted to the Chief Executive to sign the updated Members Agreement.**

**Record of Voting - for 5, against 0, abstention 0, absent 2.**

**AUD.58 Consultation on the 2021/22 audit fee scale**

Consultation was taking place on the 2021/22 audit fee scale for opted-in local government and police bodies. This had been circulated to Members and the Chair asked for comments from the Committee in order for the Council's response to be given.

**RESOLVED that the Chief Finance Officer in consultation with the Chair of the Audit Committee respond on behalf of the Council.**

**Record of Voting - for 5, against 0, abstention 0, absent 2.**

**AUD.59 Work Plan 2020/21**

There were no alterations to the Work Plan, although the Chair reiterated that the briefing sessions on Audit Committee Effectiveness and Corporate Risk and Risk Policy were still to take place.

AUD.60 **Exclusion of the Public and Press**

**RESOLVED** that under Section 100A(4) of the Local Government Act 1972 the public and Press be excluded from the Meeting for the following item of business on the grounds that it involves likely disclosure of exempt information as defined in paragraphs (3) and (7) of Part I of Schedule 12A to the said Act:

**Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information).**

**Paragraph 7 - Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime**

**and that the public interest in maintaining the exemption outweighs the public interest in disclosing the information concerned.**

**Record of Voting - for 5, against 0, abstention 0, absent 2.**

AUD.61 **Exempt Report**

The ICT, Audit and Compliance Manager gave an update on the agreed actions plans and progress made during 2020, also highlighting what activities were planned for 2021.

Member training would take place to ensure awareness of Councillors on such things as data protection and ensuring that Councillors are aware of scams which were sent in the form of phishing emails.

The Officer reassured Members that during the pandemic and staff working at home, systems were in place to ensure security was not compromised.

**RESOLVED** that the report and any comments made by Committee, be noted.

The Meeting commenced at 4.00pm and closed at 7.26pm.

Chair

(END)

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# Agenda Item 7

 <p><b>COTSWOLD</b> DISTRICT COUNCIL</p>	<p><b>COTSWOLD DISTRICT COUNCIL</b></p>
<p>Name and date of Committee</p>	<p><b>AUDIT COMMITTEE – 29 APRIL 2021</b></p>
<p>Report Number</p>	<p><b>AGENDA ITEM 7</b></p>
<p>Subject</p>	<p><b>KPMG LLP REPORTS – HOUSING BENEFIT SUBSIDY CERTIFICATION</b></p>
<p>Wards affected</p>	<p>None</p>
<p>Accountable member</p>	<p>Cllr Mike Evely, Deputy Leader and Cabinet Member for Finance Email: <a href="mailto:mike.evely@cotswold.gov.uk">mike.evely@cotswold.gov.uk</a></p>
<p>Accountable officer  Author</p>	<p>Jon Dearing. Group Manager : Resident Services Tel: 01285 623000 Email: <a href="mailto:jon.dearing@publicagroup.uk">jon.dearing@publicagroup.uk</a> Mandy Fathers. Business Manager for Operational Support and Enabling Tel: 01285 623571 Email: <a href="mailto:mandy.fathers@publicagroup.uk">mandy.fathers@publicagroup.uk</a></p>
<p>Summary/Purpose</p>	<p>For the Audit Committee to note the outcome of the Housing Benefit Subsidy Grant Certification audit for 2019/2020</p>
<p>Annexes</p>	<p>None</p>
<p>Recommendation/s</p>	<p><i>To note the outcome of the housing benefit subsidy certification work</i></p>
<p>Corporate priorities</p>	<p>Delivering our services to the highest standards</p>
<p>Key Decision</p>	<p>No</p>
<p>Exempt</p>	<p>No</p>
<p>Consultees/ Consultation</p>	<p>The Deputy Leader and Cabinet Member for Finance, The Chief Executive, The Deputy Chief Executive, The Monitoring Officer, Group Manager for Resident Services</p>

## **1. BACKGROUND**

- 1.1.** In financial years prior to 2018/19, the annual housing benefit subsidy audit formed part of the procurement process for external audit services. This procurement was carried out on behalf of local authorities by the Audit Commission.
- 1.2.** Since the demise of the Audit Commission, the Council has used PSAA Ltd (a company established and owned by the Local Government Association) to procure its external audit services.
- 1.3.** Due to changing legislation, the procurement for external audit services from 2018/19 onwards could not include the audit of the Housing Benefit Subsidy claim. Therefore, with effect from the 2018/19 financial year, the Council has been required to procure this specialist service directly and has procured the services of KPMG LLP to carry out the Housing Benefit subsidy claim audit for the 2018/19 and 2019/20 financial years.

## **2. MAIN POINTS**

- 2.1.** The Certification process aims to ensure that subsidy claims are fairly stated and provides assurance that the housing benefit scheme is being administered correctly.
- 2.2.** During 2019/2020 the Housing Benefit Team administered approximately 11,291 changes in circumstances, and paid out approximately £13,890,185 in Housing Benefit. The total subsidy claimed for by Cotswold District Council was £13,890,185. The Team also identified £422,019 of overpaid Housing Benefit recoverable from claimants. In the year, claimants repaid a total of £464,604, including recovery of debts from previous years.
- 2.3.** In the initial sample of Housing Benefit cases, KPMG LLP found an error in one case of £725 resulting in the subsidy claim being overstated. This error was due to an incorrect assessment of a household size and the incorrect application of the bedroom tax. Due to this one error a further check on 40 similar cases was carried out which did not identify any further discrepancies.
- 2.4.** The total amount of housing benefit paid that was subject to the bedroom tax was £6,214,722. The total value of the cases that were subject to sample checks was £299,392. Of this sample 0.24% (£725) was subject to error. KPMG LLP were therefore required to extrapolate the impact of this error across the total value of housing benefit paid in respect of the bedroom tax. This resulted in an adjustment to the Council's subsidy of £14,915 and the adjustment will be deducted from future subsidy payments to the Council.
- 2.5.** The Council's Deputy Chief Executive has received and reviewed a copy of the Certification Letter which summarises the key findings from the work carried out by KPMG LLP on the Council's Housing Benefit Subsidy Claim for 2019/2020. There were no recommendations made by KPMG LLP in the Letter.

## **3. FINANCIAL IMPLICATIONS**

- 3.1.** The fees for the Housing Benefit Subsidy certification work will be in line with budget.  
The Council has overstated its Housing Benefit expenditure by £14,915. Government will reduce a future subsidy payment by this amount.

**4. LEGAL IMPLICATIONS**

4.1. There are no legal implications in respect of this report.

**5. RISK ASSESSMENT**

5.1. There are no risks associated with this report.

(END)

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# Agenda Item 8

 <p><b>COTSWOLD</b> DISTRICT COUNCIL</p>	<p><b>COTSWOLD DISTRICT COUNCIL</b></p>
<p>Name and date of Committee</p>	<p><b>AUDIT COMMITTEE – 29 APRIL 2021</b></p>
<p>Report Number</p>	<p><b>AGENDA ITEM 8</b></p>
<p>Subject</p>	<p><b>CORPORATE RISK REGISTER UPDATE</b></p>
<p>Wards affected</p>	<p>ALL</p>
<p>Accountable member</p>	<p>Clr Joe Harris, Leader Email: <a href="mailto:joe.harris@cotswold.gov.uk">joe.harris@cotswold.gov.uk</a></p>
<p>Accountable officer</p>	<p>Rob Weaver, Chief Executive Email: <a href="mailto:rob.weaver@cotswold.gov.uk">rob.weaver@cotswold.gov.uk</a></p>
<p>Summary/Purpose</p>	<p>To update the Committee on the changes to the Council’s corporate risk register at the end of 2020/21 Q.4.</p>
<p>Annexes</p>	<p>Annex A Corporate Risk Register 2020/21 Q.4 Annex B Risk Scoring Matrix</p>
<p>Recommendation</p>	<p>To note the updates to the Council’s corporate risk register</p>
<p>Corporate priorities</p>	<p>Not applicable</p>
<p>Key Decision</p>	<p>NO</p>
<p>Exempt</p>	<p>NO</p>
<p>Consultees/ Consultation</p>	<p>None</p>

## **1. BACKGROUND**

**1.1.** The Corporate Risk Register was updated by the risk owners at the end of Q4 and is attached at Annex A.

**1.2.** The methodology for scoring is attached at Annex B for information.

**1.3.** The key changes to the risk outlook of the Council between Q3 20/21 and Q4 20/21 are set out below:-

- CRR D01 017 Deletion of the Brexit risk – clearly the exit from the European Union has now been completed so the risk as specified should now be deleted. We may need to consider reframing the risk arising from the exit but will work with partners to understand these risks.
- CRR D02 027 Publica Savings Risk – this risk has been downgraded to minor as the bulk of the business case savings have now been made and the savings in the new year are of a significantly lower value for the Council.
- CRR D02 032 Procurement Risk – this rating has been reduced as new training has been rolled out to employees and contract rules have been updated

**1.4.** The key high risks (Red) are:-

- CRR D01 014 Legislative changes – principally around additional Covid responsibilities
- CRR D02 030 Ubico Delivery risk and budget impact – high volumes continue to put pressure on delivery and budgets

## **2. FINANCIAL IMPLICATIONS**

There are no direct financial implications of this report but there are a number of financial risks facing the Council which are set out in the risk register.

## **3. LEGAL IMPLICATIONS**

None.

## **4. RISK ASSESSMENT**

The purpose of this report is to consider the range of risks facing the Council.

## **5. BACKGROUND PAPERS**

None.

Cotswold District Council - Corporate Risk Register 2020-21 Q4  
Overarching strategic risks

Risk Code	Description	Risk Factors	Internal Controls	Current Impact	Current Likelihood	Current Rating	Last Review Date	Latest note	Assigned To
CRR-D01-014	If the Government imposes legislative changes that are not expected then it could have an impact on the Council's finances and other resources	Financial Community	Horizon scanning Professional publications Four year funding settlement	3	5	15	21-Apr-21	21-April-2021 The Council continues to respond to the Government's requirements of local authorities to implement initiatives related to Covid-19. The Government has provided some funding for additional costs and lost income and the Council has profiled budgets accordingly based on financial risks associated with the pandemic, a revised budget was approved in September 2020 and the new budget agreed in February 2021.	Chief Finance Officer
CRR-D01-019	If there are insufficient resources to deliver the objectives of the new Corporate Strategy and Plan then the expectations of our communities may not be met resulting in lower satisfaction and reputational damage	Financial Community Reputational	Medium Term Financial Strategy	3	3	9	21-Apr-21	21-April-2021 No change in rating. The financial implications of the Council's new Corporate Strategy have been included in the Medium Term Financial Strategy. The latest MTFs was approved by Council in February 2021 and includes additional funding for resources to support the Council's new priorities which were identified in 2020 within the revised MTFs (Sept 2020) and within the Recovery Investment Strategy which also allocates capital funding for investment in Council Priorities and to provide a revenue stream to the Council.  This risk links to risk CRR-D02-028 regarding the Local Government Funding Settlement over the Medium Term. This is the biggest risk to the deliverability of the objectives in the new Corporate Strategy.	Chief Finance Officer
CRR-D01-018	If the Government does not provide adequate funding to the Council to enable the Council to fulfil new expectations of the Council's role in preparations for the UK exit from the EU, there could be negative implications on the Council's reputation or the Council's finances	Financial Community	Public Executive Director undertaking role of Brexit Lead Officer as per requirement from MHCLG  Local Resilience Forum  Government funding	3	2	6	21-Apr-21	21-April-2021 No change to rating. Brexit has completed and the Council continues to monitor any risks or issues as a result of the related legislative changes. The Brexit Risk Register is being maintained and any change to this assessment will be reflected accordingly. Funding has been provided by the government to CDC to fund its Brexit preparations.	Executive Director - Commissioning; Interim Chief Executive
CRR-D01-017	If the UK leaves the European Union with no deal then there could be a disruption to the delivery of Council services which would impact on residents/communities	Community Financial Performance	Support from the LGA - Local Resilience Forum - Government funding to support Councils - Business Continuity Plans  Service specific planning – Publica ERS, Ubice and GLL  Publica Executive Director undertaking role of Brexit Lead Officer as per requirement from MHCLG	3	4	3	21-Apr-21	Risk now removed	Executive Director – Commissioning; Interim Chief Executive
CRR-D01-016	If the government does not provide timely and adequate guidance on the proposed changes to the planning system then the Council will be unable to identify the type of Local Plan update that is required. Delays to preparing an updated Local Plan may result in an increase of speculative planning applications on the fifth anniversary of the local plan's adoption (2023).	Financial Reputational	Local Plan Adopted in Aug 2018.  Local Plan Programme Board reconvened with updated Terms of Reference and membership	3	1	3	21-Apr-21	21-Apr-2021 Risk of speculative applications has reduced in the short term. Forthcoming request will be made to Cabinet to reboot the partial update of the local plan project  The Local Plan has been adopted for some time now. Key risk now is the government's planning reform white paper (WP) and how this will affect the recent decision to partially update the adopted Local Plan. The WP seeks to partially dispense with the extant discretionary planning system and move partially to zonal planning system. The expectation is that a new style Local Plan should be adopted by 2024. The government is simultaneously seeking to make specific changes to the national 'standard method for calculating housing need'. In February 2021 the government confirmed that the district's housing need will be 490 dwellings per year rather than the proposed 1,209 dwellings per year for the next 10 years. However, this must be seen in the context of another WP proposals that proposes to create a national 'standard method for calculating the housing requirement', which will use the housing need figure together with local constraints such as the AONB to create a Local Plan housing target. This may reduce to eventual housing target for the district - but the WP does not offer any details at this stage. The risk of speculative developers seeking to apply the unconstrained 'housing need' figure has reduced significantly as a direct result of the now confirmed and smaller housing need figure. In May 2021, Cabinet will be asked to reboot the formal plan making activities and to proceed with preparing a partial update to the local plan.	Group Manager - Strategic Support

Financial management & control

Risk Code	Description	Risk Factors	Internal Controls	Current Impact	Current Likelihood	Current Rating	Last Review Date	Latest Note	Assigned To
CRR-D02-028	If the Local Government settlement over the medium term is unfavourable then the Council's savings target may need to increase	Financial	Medium Term Financial Strategy  Only legacy Payments of New Homes Bonus in MTFS  Publica Transformation Programme  Recovery Investment Strategy approved by Council Sept 20	3	3	9	21-Apr-21	21-Apr-2021 No change to rating. The MTFS was approved in Feb 2021. New Homes Bonus awarded for 2020/21 and 2021/22 is for one year only (no legacy payments from 2021/22). The significant changes to LG Funding (75% Business Rate Retention, Business Rate Reset, Fairer Funding Review and new Spending Round) have been delayed until 2022/23 and is reflected in the update of the MTFS which was approved by Council in Feb 21. MTFS includes savings targets to address changes to government funding.  The Council approved a Recovery Investment Strategy in Sept 20 which aims to increase income to the Council to mitigate against reduced government funding.	Chief Finance Officer
CRR-D02-018	If unavoidable budget pressures exceed provision within the MTFS then the Council may need to: find additional income or savings, use its reserves, or there may be pressures on services or tax levels and agreed budget targets will not be achieved	Financial	Service Delivery Planning  Budgetary control system  Publica Strategic Directors/Group Managers and Business Managers engaged in updated of budget and MTFS  Key variances reported to Cabinet and Overview and Scrutiny Committee	3	3	9	21-Apr-21	21-April-2021 No change to rating. The 2020/21 budget was revised to reflect the impact of Covid 19. Key service providers (Publica, Ubico and SLM) have been engaged in the revised budget and have also fed in to the budget for 2021/22 approved in February 2021.  The Council has determined its Priorities and the financial resources required to enable the Council to deliver against its priorities had been included in the MTFS and associated 2021/22 budget.  Members and Officers are working on a plan to increase income to the Council to fund both new objectives from the new Corporate Strategy and to bridge the expected funding gap from 22/23 as a result of changes to local government funding.	Chief Finance Officer
CRR-D02-030	If Ubico is unable to deliver services to the required standard or to budget then it could damage the Council's reputation and result in additional costs for the Council	Financial Reputational	Service management  Performance monitoring  Service risk registers	4	5	20	21-Apr-21	21-Apr-2021 Waste and recycling volumes have remained consistently the same as that seen during 2020 (approximately 20% increase) and so the additional vehicles and resources are still required and in place. The need for additional personal protective equipment is also still in place for Ubico to protect its staff from Covid-19. The Council has provided additional funding in 2020/21 and 2021/22 budgets accordingly. Ongoing budget implications will be included within the MTFS Update and budget for 2022/23.	Business Manager - Commissioning strategy
CRR-D02-027	If Publica does not deliver the agreed objectives in accordance with its business plan then the planned savings for the Council would not be delivered and consequently there would be a risk that services could not be delivered in line with the budget	Financial Reputational	Programme Board  Local Political Support  National Political Support  Early Engagement with employees and Unions  Funding provided to develop detailed business case	2	2	4	21-Apr-21	21-Apr-2021 Impact risk reduced from 3 (moderate) to 2(minor). After a successful 2020/21 where the preliminary outturn suggests the overall savings target of £0.5m was delivered Publica has now largely delivered its business case targets. The target for 21/22 is a further £0.5m and steps are in place to deliver the bulk of this. Any risk of under delivery against the Cotswold share of the target is low and falls within the definition of minor in the policy (less than £100k).	Chief Executive; Managing Director
CRR-D02-024	If the Council is unable to meet the savings required to balance the budget then it may need to make unplanned use of revenue reserves, raise council tax, find further savings and/or cut services	Financial Performance Community	Regular meetings with Members and Cabinet  MTFS and budget process  Publica Group Managers/Business Managers and Strategic Directors involved in budget process  Publica Transformation Programme  Recovery Investment Strategy	3	3	9	21-Apr-21	21-April-2021 No change in rating. Impacts on income resulting from the Covid-19 which include leisure services management fee, rental and parking incomes have been considered and incorporated into the 2021/22 budget.  The level of savings required as a result of changes to local government funding which will now come into effect in 2022/23 remains unclear. The Council has approved a Recovery Investment Strategy to deliver the savings, or generate additional income, required from changes to local government funding.	Chief Finance Officer

CRR-D02-029	If contractors do not meet their obligations under key contracts then it could lead to a fall in service standards, reduced customer service or a failure to meet legal requirements	Financial Reputational	Robust and effective contract management to ensure standards and requirements in contracts are met and any failings are identified and addressed quickly and effectively  Regular meetings to review performance/standards	3	3	9	21-Apr-21	21-Apr-2021 No change in rating.	Group Manager - Commercial Growth
CRR-D02-005	If there is a legal challenge to any of the Council's decisions or actions then there may be financial or policy implications	Financial Legal Reputational	Managerial advice and supervision  Legal advice and effective role of monitoring officer  Robust internal procedures  200k in MTFS for planning appeals	3	2	6	21-Apr-21	21-Apr-2021 No change in rating	Head of Legal
CRR-D02-002	If the Council fails to meet income targets then it may need to make unplanned use of revenue reserves, raise council tax, find further savings and/or cut services	Financial Performance Community	Systems of budgetary control  Appropriate marketing of services and consideration of effective charging levels  Project management arrangements	3	3	9	21-Apr-21	21-Apr-2021 No change in rating. 2020/21 budget revised to reflect impact of Covid-19 on income budgets. Budget 2021/22 has been prepared in consultation with Publica officers and reflects reduced development control income and provides for reduced income in first quarter of the financial year offset by Government funding through Sales and Charges Compensasion Scheme.	Chief Finance Officer
CRR-D02-017	If the level of pay inflation exceeds provision in the MTFS then the Council may need to make unplanned use of revenue reserves, raise council tax, find further savings and/or cut services	Financial	National negotiations on pay award	3	3	9	21-Apr-21	21-Apr-2021 Budget 2021/22 includes provision for a pay award of 1%. Government has proposed a public sector pay freeze. This is subject to negotiation with unions.	Chief Finance Officer
CRR-D02-023	If there was a civil emergency in the District then there could be a financial burden on the Council in responding to it	Financial	Mutual aid arrangements would enable support and reduce the resource burden on one individual council  The Belwin scheme enables costs incurred over a threshold (approx. £22K) to be reclaimed  Insurance of Council's assets and some loss income  General Fund Working Balance  Flood engineering schemes in place to minimise the impact of severe weather and reduce the risk of property flooding	2	3	6	21-Apr-21	21-Apr-2021 No change in rating. There are good internal controls in place to help mitigate this financial risk. The Covid-19 response has increased the risk to capacity if a concurrent event were to occur; but as section 31 grants have been forthcoming to support the Covid-19 response from an emergency planning perspective and with Belwin in place for other events the financial risk remains the same as pre-Covid-19.	Group Manager - Strategic Support
CRR-D02-031	District Councils are required to provide rest centres for the Public during a Civil Emergency. If staff are unwilling to come forward and volunteer with the running of a rest centre, there is a risk that the Council will be unable to fulfil its duty in providing a safe rest centre.	Legal Reputational	Small team of volunteers established (although some have left Publica in recent months). Training and support provided by the County Civil Protection Team.  New staff have emergency planning incorporated in Job Roles  Mutual aid can be called upon  It is becoming more common place to use hotels as opposed to rest centres	3	2	6	21-Apr-21	21-April-2021 No change in rating. The Council managed the concurrent pandemic and flooding emergencies in December 2020 which saw temporary accommodation provided to residents.	Group Manager - Strategic Support

CRR-D02-032	Without clear and robust procurement procedures, Publica and Partner Councils will not benefit from the most economically advantageous procurement opportunities and may fail to comply with the law governing Public Procurement Rules.	Financial Legal Reputational	Procurement rules approved Council. Publica Procurement Team able to provide procurement advice and assistance on major procurements.	3	2	6	21-Apr-21	21-Apr-2021 Reduced rating - The mandatory procurement training was rolled out January 2021. As of today, 380 people have completed it but a total of 451 people have accessed it. We have also updated the Contract Rules, and will be shortly scheduling in the training once it has been finalised with the legal team.	Executive Director: Commissioning
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Customer focus

Risk Code	Description	Risk Factors	Internal Controls	Current Impact	Current Likelihood	Current Rating	Last Review Date	Latest Note	Assigned To
CRR-D03-007	If the Council does not consult properly, or Publica does not consult properly on the Council's behalf, then the Council's decisions could be challenged	Community Reputational Legal Financial	Communication team  Engagement strategy  Neighbourhood coordination meetings  Annual Town & Parish council meetings  Annual Budget consultation	3	2	6	21-Apr-21	21-Apr-2021 No change in rating.	Deputy Chief Executive

Organisational learning, staffing & development

Risk Code	Description	Risk Factors	Internal Controls	Current Impact	Current Likelihood	Current Rating	Last Review Date	Latest Note	Assigned To
CRR-D04-003	If Publica or the Council is unable to recruit suitable staff and retain them, particularly in some key service areas then the level of service delivery may be reduced	Performance Financial Reputational Community	Financial incentives (market force supplement scheme)  Work with partners to address skill shortages	3	3	9	21-Apr-21	21-Apr-2021 No change in rating. Quarterly performance reports are shared with Joint Management Team so any necessary mitigation to maintain service delivery levels can be discussed. A review of recruitment has recently been established and feedback from managers, staff (both Publica and Retained), clients and Councillors is being collated to help ensure the service meets users' needs and is both flexible and modern going forward. Work is also underway to develop career graded roles to assist with retention and development of staff in key areas.	Chief Executive; Managing Director
CRR-D04-009	If staff morale and motivation is low in Publica then the level of service delivered may be reduced in some services	Performance Community	Communication  Comprehensive consultation and engagement process  Change management training  Joint Liaison Forum  2020 Engagement Strategy	2	3	6	21-Apr-21	21-Apr-2021 Despite the continued impact of Covid-19 on working arrangements and significant impact on workloads the resilience of staff has been remarkable. The last welfare surveys carried out in February showed that responses remained overall positive despite the impact of the 3rd lockdown.	Chief Executive; Managing Director
CRR-D04-011	If key Officers in the Council (such as the Chief Executive, Deputy Chief Executive or Monitoring Officer) are not available, the Council may not be able to respond effectively to urgent matters which could result in reputational or financial damage	Legal Financial Reputational	Deputy CFO and Monitoring Officers in place  Support from Shared Legal Services team- employed by the Publica Partner Councils  Support from professionals within Publica (e.g. Strategic Directors, Group Managers, Accountants, HR)  Support available from other Statutory Officers from across the Publica Partner Councils  Effective working relationships between Officers and Cabinet Members  Risk management processes	3	2	6	21-Apr-21	21-Apr-2021 No change to rating.	Chief Executive; Managing Director

Business processes

Risk Code	Description	Risk Factors	Internal Controls	Current Impact	Current Likelihood	Current Rating	Last Review Date	Latest Note	Assigned To
CRR-D05-001	If the Council's data is of poor quality or it does not make appropriate use of its data then the decisions it makes may be flawed	Reputational Financial Legal Performance Community	Internal processes and self assessments  Internal audit assurance and support  Dedicated staff resource on performance management and data quality  Performance Management Framework	3	3	9	21-Apr-21	21-Apr-2021 No change in rating. Data quality and the use of information is being addressed as part of the organisational re-design. The Business Manager responsible for business analytics is working with the Lead officer for information on data quality. Two new data analysis posts have been recruited	Chief Finance Officer; Interim Chief Executive
CRR-D05-016	If the Council does not comply with relevant Information Management legislation including the new GDPR and Transparency Agenda then the government may intervene which could have a reputational impact on the Council	Financial Reputational Legal	Access to Information Policy  FOI process reviewed  LGA guidance and supporting documents & templates	3	3	9	21-Apr-21	21-Apr-21 No change to rating Progress on the UK-GDPR Action Plan & GDPR Risk Register is being reported to the Council and Publica on a regular basis.  Mandatory refresher Information Security / Data Protection on-going , target completion date Oct 2021. Increase internal communications on portal to raise staff awareness on data security  Covid Information Sharing Protocols internal and externally with NHS and OCC continually updated  Conducting a Data (applications) audit  Implement new UK – GDPR changes to Council systems  Introduction of new Data Security Portal	Data Protection Officer; Interim Chief Executive
CRR-D05-019	If contractors do not comply with health and safety requirements then there could be both financial and reputational implications for the Council	Financial Reputational	Contract management in place to ensure appropriate measures such as risk assessments, appropriate policies, and training is in place.  Health and Safety business partners provide advice and support  Concerns can be escalated to contractors' senior management	4	2	8	21-Apr-21	21-Apr-2021 No change in rating	Group Manager - Commercial Growth
CRR-D05-013	If there is insufficient capacity to respond to an emergency then the Council may not be able to deal effectively during emergencies resulting in reputational damage	Reputational Legal Financial Community Performance	Contract terms with SLM (Everyone Active) e.g. use of leisure centre as a rest centre  Mutual aid arrangements  Good will of staff  Ward Members, Town & Parish Councillors on hand/training provided  Enhanced community resilience arrangements  Emergency management framework in place with duty officer arrangements	3	3	9	21-Apr-21	21-Apr-2021 The new emergency management framework has been in place since late 2019, which includes two deputy DEPLOs for Cotswold District, as a well as an overall emergency planning lead for the Publica partnership.  A review of the flood response in December 2020 has been conducted.	Chief Executive; Managing Director
CRR-D05-010	If there is severe weather then the Council may be unable to deliver key services which could impact on residents	Performance Community Reputational	BCPs  Weather reports/national news  Remote working solution available to staff	3	2	6	21-Apr-21	21-Apr-2021 No change in rating.	Chief Executive; Managing Director

CRR-D05-011	If the Council's IT System / infrastructure failed due to cyber attacks and/or virus then system performance could be reduced leading to poor service delivery/financial impact	Performance Financial Legal Reputational	Preventative measures introduced such as blocking of USB and other devices  Undertaken and passed a central government ICT audit, meeting the very high standards set for network security  Introduction of new / revised joint policies  Periodic staff awareness training  BCP in place and reviewed & tested	3	2	6	21-Apr-21	21-Apr-2021 No change in risk rating.  Council achieved PSN accreditation in Oct 2021  Publica to achieve Cyber Essentials accreditation in Sept 2021  Ongoing network Internal & External Penetration checks  Regular review of User Privileges  Progress on the Cyber Security updates and Action Plan is being reported to the Council and Publica on a regular basis.  Continual update Information Asset Register  Additional Phishing awareness training to educates employees on how to spot and report suspected phishing attempts  Continual Password Audits across our network to evaluate weak passwords  Periodic reviews Business Continuity & Disaster Recovery Plans  Continual review of staff development	Group Manager - Business Support Services
CRR-D05-012	If there is a loss of data (both on site and as a result of remote/mobile working) / security failure in our IT systems then it could lead to a reduced level of service and have a negative impact on the Council's reputation and finances	Performance Financial Legal Reputational	Preventative measures introduced such as blocking of USB and other devices  Undertaken and passed a central government ICT audit, meeting the very high standards set for network security  Introduction of new / revised joint policies  Periodic staff awareness training  BCP in place and reviewed & tested	3	2	6	21-Apr-21	21-Apr-21 No change to the risk rating - All partner Councils achieved PSN accreditation in Oct 2021  Publica to achieve Cyber Essentials accreditation in Sept 2021  Ongoing network Internal & External Penetration checks  Regular review of application User Privileges  Progress on the Cyber Security updates and Action Plan is being reported to the Council and Publica on a regular basis.  Continual update Information Asset Register  Additional Phishing awareness training to educates employees on how to spot and report suspected phishing attempts  Continual Password Audits across our network to evaluate weak passwords  Periodic reviews Business Continuity & Disaster Recovery Plans  Continual reviews of staff development	Group Manager - Business Support Services
CRR-D05-014	If the Council's buildings are destroyed then it would be unable to operate/deliver services which would impact on residents /communities	Reputational Financial Legal Performance Community	BCPs including ICT contingency plans  Remote access  Mutual aid through Shared working strategy  Insurance  Fail over protocol	2	2	4	21-Apr-21	21-Apr-2021 No change in rating. Move to Agile working strategy during the pandemic has proved majority of services can be delivered remotely.	Group Manager - Strategic Support

Longer term risks

Risk Code	Description	Risk Factors	Internal Controls	Current Impact	Current Likelihood	Current Rating	Last Review Date	Latest Note	Assigned To
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CRR-D06-002	If Health and Safety procedures and risk assessments are not in place /being followed then staff could be injured undertaking Council duties which would impact on their health and wellbeing, affect their ability to work and create liability issues for the Council	Legal Financial Reputational	Health and Safety procedures Access to weather forecasts Lone workers policy Business Continuity Plans	4	2	8	21-Apr-21	21-Apr-2021 No reportable incidents to the Health & Safety Executive in the quarter. Public Health & Safety Officers met with Unions on the 21st Jan and the 20th April where an update on the new H&S Plan, Audit Schedule and Accidents / Issues were presented.	Chief Executive; Managing Director
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## APPENDIX B

### Management Methodology Evaluation Criteria

#### Likelihood

1	Improbable	<ul style="list-style-type: none"> <li>● Has not occurred before</li> <li>● Has not occurred at other similar organisations</li> <li>● Extremely unlikely to occur (less than 10% chance) but may do so in at least 10 years' time</li> </ul>
2	Remote	<ul style="list-style-type: none"> <li>● Remote risk but could happen within next 3 to 10 years</li> <li>● Has not occurred at Publica but isolated cases have occurred at other similar organisations</li> </ul>
3	Possible	<ul style="list-style-type: none"> <li>● Could happen at least once every 1 to 3 years</li> <li>● New circumstances with little data to indicate likelihood of occurrence</li> <li>● 50 / 50 chance of it happening</li> </ul>
4	Probable	<ul style="list-style-type: none"> <li>● More likely to happen than not</li> <li>● Could occur within next 3 – 12 months</li> <li>● Has occurred in the last five years</li> <li>● Has occurred at <b>some</b> other similar organisations</li> </ul>
5	Almost certain	<ul style="list-style-type: none"> <li>● Has occurred in the last two years</li> <li>● Has occurred at <b>many</b> other similar organisations</li> <li>● More than an <b>80%</b> chance of it happening</li> <li>● Likely to happen within next three months or is occurring at present</li> </ul>

**Impact** (Achievement of objectives or service delivery /achievement of projects/health and safety/ staff motivation/ legal and regulatory issues/ reputational damage / financial loss or additional expenditure necessitated).

1	Insignificant	<ul style="list-style-type: none"> <li>● Negligible impact on achievement of service objectives/delivery</li> <li>● Negligible impact on delivery of project – slight slippage or reduction in quality/scope with no overall impact</li> <li>● Negligible financial impact</li> <li>● Health and Safety of very small number of individuals affected</li> <li>● Limited impact on staff and culture – a few individuals only affected</li> <li>● Minor legal/regulatory impact – no sanction or legal action likely</li> <li>● No damage to reputation or will not result in adverse media comment</li> </ul>
2	Minor	<ul style="list-style-type: none"> <li>● Moderate impact on service objectives/delivery - only partially achievable without additional time / resources</li> </ul>

		<ul style="list-style-type: none"> <li>● Some impact on project – slight slippage against published milestones/targets and some ‘nice to have’ elements not possible</li> <li>● Minor injuries possible to relatively small number of individuals</li> <li>● Likely to affect motivation of small groups of staff</li> <li>● Some legal/regulatory impact – could lead to warnings/threats of sanctions/ legal action</li> <li>● Some public embarrassment but no damage to reputation or standing in the community</li> <li>● Financial impact can be contained within service budget (&lt;£100,000)</li> </ul>
3	Moderate	<ul style="list-style-type: none"> <li>● Service objectives/delivery not achievable without considerable additional time / resources</li> <li>● Moderate effect on project timetable and significant elements of scope or functionality may not be available</li> <li>● Moderate number of injuries possible – not life threatening</li> <li>● Moderate impact on staff motivation within particular service(s)</li> <li>● Significant legal/regulatory impact leading to reprimand, sanctions or legal action</li> <li>● Some public embarrassment leading to limited reputational damage (adverse local press) – short term impact</li> <li>● Financial impact cannot be contained within budget and needs additional resourcing (&gt;£100,000 &amp; &lt;£250,000).</li> </ul>
4	Major	<ul style="list-style-type: none"> <li>● Significant impact on achievement of service objectives/delivery even with additional resources (possibly leading to closure of facilities / service being withdrawn)</li> <li>● Failure to meet key project deadlines or project fails to meet needs of proportion of stakeholders</li> <li>● Possibility of serious injury to individuals</li> <li>● Significant impact on employee motivation generally – possibly leading to poor quality service in particular service(s)</li> <li>● Serious legal/regulatory impact leading to sanctions or legal action with significant consequences</li> <li>● Loss of credibility and public confidence in the service / organisation (of interest to the national press)</li> <li>● Significant financial impact (&gt;£250,000)</li> </ul>
5	Extreme	<ul style="list-style-type: none"> <li>● Unable to achieve corporate objective or prolonged closure/withdrawal of service</li> <li>● Major project’s viability jeopardised through delay or level of quality makes it effectively unusable</li> <li>● Possibility of fatalities or multiple serious injuries</li> <li>● Severe impact on staff motivation generally, leading to dissatisfaction and industrial unrest</li> <li>● Major legal/regulatory impact leading to sanctions or legal action with substantial financial or other consequences</li> <li>● Highly damaging to reputation with immediate impact on public confidence</li> <li>● Incident of interest to government agencies</li> </ul>

		<ul style="list-style-type: none"><li>● Incident potentially leading to resignation or dismissal of an Executive Director on Publica Board. Severe and unmanageable financial impact</li></ul>
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**Risk Score**

The Risk Score is calculated by multiplying the Likelihood score by the Impact score. Service Risks which score 15 or above are considered to be Primary Risks and will be considered with other corporate risks on the Strategic Risk Register.

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 <p><b>COTSWOLD</b> DISTRICT COUNCIL</p>	<p><b>COTSWOLD DISTRICT COUNCIL</b></p>
<p>Name and date of Committee</p>	<p><b>AUDIT COMMITTEE – 29 APRIL 2021</b></p>
<p>Report Number</p>	<p><b>AGENDA ITEM 10</b></p>
<p>Subject</p>	<p><b>COUNTER FRAUD UNIT REPORT AND PROCEEDS OF CRIME AND MONEY LAUNDERING POLICY</b></p>
<p>Wards affected</p>	<p>All indirectly</p>
<p>Accountable member</p>	<p>Cllr Mike Evemy Deputy Leader and Cabinet Member for Finance Tel: 07850 373022 Email: Mike.Evemy@cotswold.gov.uk</p>
<p>Accountable officer</p>	<p>Emma Cathcart, Counter Fraud Unit Manager Tel: 01285 623356 Email: <a href="mailto:Emma.Cathcart@cotswold.gov.uk">Emma.Cathcart@cotswold.gov.uk</a></p>
<p>Summary/Purpose</p>	<p>To provide the Audit Committee with assurance over the counter fraud activities of the Council. The Counter Fraud Unit will continue to provide the Audit Committee with direct updates biannually.</p> <p>The 2020/21 work plan is presented, with progress and results for consideration and comment.</p> <p>The report outlines the annual update in relation to the Regulation of Investigatory Powers Act 2000 (RIPA), the Investigatory Powers Act 2016 (IPA) and the Council’s existing authorisation arrangements.</p> <p>The report also provides the Audit Committee with an updated Money Laundering and Proceeds of Crime Policy, which sets out the Councils legislative obligations, for approval and adoption.</p>
<p>Annexes</p>	<p>Annex A – Work Plan 2020/2021 Annex B – Money Laundering and Proceeds of Crime Policy</p>
<p>Recommendation/s</p>	<p>a) <i>That the Audit Committee notes the report and the work plan at Annex A.</i></p> <p>b) <i>That the Audit Committee approves and adopts the Proceeds of Crime and Money Laundering Policy attached at Annex B.</i></p> <p>c) <i>That the Audit Committee Authorises the Deputy Chief Executive (Chief Finance Officer) to approve future minor amendments to the Policy in consultation with Finance, Legal and the Counter Fraud Unit.</i></p>
<p>Corporate priorities</p>	<p>In administering its responsibilities; this Council has a duty to prevent fraud and corruption, whether it is attempted by someone outside or within the Council such as another organisation, a resident, an employee or Councillor.</p>



	The Council is committed to an effective counter fraud and corruption culture, by promoting high ethical standards and encouraging the prevention and detection of fraudulent activities, thus supporting corporate and community plans.
Key Decision	No
Exempt	No
Consultees/ Consultation	Work plans are agreed and reviewed regularly with the Deputy Chief Executive.  Any Policies drafted or revised by the CFU have been reviewed by the Legal Team and have been issued to the relevant Senior Officers, Management and Governance Officers for comment.

## **1. BACKGROUND**

- 1.1. The Audit Committee oversees the Council's counter fraud arrangements and it is therefore appropriate for the Committee to be updated in relation to counter fraud activity.
- 1.2. Work plans have been agreed with the Deputy Chief Executive and the Council's Management. The Audit Committee, as the body charged with governance in this area, is presented with a copy of the work plan for information.
- 1.3. Attached at Annex A is a copy of the work plan for 2020/2021.

## **2. MAIN POINTS**

### **2.1. Counter Fraud Unit Update.**

- 2.2. The Counter Fraud Unit (CFU) has been supporting work streams created as a consequence of the Covid-19 pandemic by providing advice relating to fraud risk and abuse, most significantly in relation to the Business Grant Schemes. The CFU have assisted with the application and verification processes of all schemes and to date, the team has received 59 referrals to review resulting in the following:
  - 20 cases that were confirmed as eligible and the grant was paid.
  - 7 cases of loss prevention, in that the grant monies were not paid, totalling £136,334 (2 classed as fraudulent attempts).
  - 27 cases of post payment recovery totalling £374,319 (4 classed as fraud) have been identified and invoices have been raised. Of this £374,319, £323,076 has been repaid.
  - 2 cases that are still under review and 3 cases have been referred back to the team with recommendations for service area decisions.
  - The CFU are working with SWAP (Internal Audit) in relation to post payment activities for each scheme and have responsibility for the Fraud Risk Assessment returns to BEIS. A comprehensive template has been provided to ensure a consistent approach to fraud risk assessment in this area and requires details relating to how these are mitigated and managed.
- 2.3. All Local Authorities participate in the Cabinet Office's National Fraud Initiative, which is a data matching exercise to help prevent and detect fraud nationwide. The use of data by the Cabinet Office in a data matching exercise is carried out with statutory authority under Part 6 of the Local Audit and Accountability Act 2014. It does not require the consent of the individuals concerned under Data Protection Legislation.
- 2.4. Matches are awaited via the Cabinet Office's National Fraud Initiative which has collated and compared business grant data nationwide. This is in addition to the matches relating to Council Tax and the Council Tax Reduction Scheme which the Council receive, and the CFU review, each year. The team reviewed 876 matches. Of these matches 37 Council Tax accounts have been amended generating £19,722 increased Council Tax revenue and 11 Civil Penalties, totalling £770, have been applied.
- 2.5. A number of cases involving serious offences against animals continues to be submitted from the RSPCA's Inspectorate and this is expected to increase as the financial and psychological consequences of the pandemic continue to impact on people's ability to look after their animals. The CFU is actively collaborating with the RSPCA proposing better working relationships with the Partner Councils, to include new data sharing agreements, as the number of referrals increase.

- 2.6. In addition to the work carried under the annual work plan attached at Annex A, as a dedicated investigatory support service, the CFU undertakes a wide range of enforcement and investigation work according to the requirements of each Council. This includes criminal investigation and prosecution support for enforcement teams, investigations into staff/member fraud and corruption, or tenancy and housing fraud investigation work.
- 2.7. Below is a summary of 2020/2021 investigation and enforcement work:
- The team received 15 referrals from across the Council and closed 13 cases.
  - The team undertakes disciplinary investigations for Publica across the partnership. 2 cases were referred and 3 cases were closed. The closed cases resulted in 2 resignations; 1 prior to a disciplinary hearing and 1 during the investigation. The other case resulted in management action only.
  - A case of Housing Application Fraud was investigated which resulted in the offer of a property being withdrawn. As a rough guide, the Cabinet Office estimated the following savings or loss avoidance as £93,000 per property recovered based on average four year fraudulent tenancy – this includes temporary accommodation for genuine applicants, legal costs to recover the property, re-let cost and rent foregone during the void period between tenancies.
  - There are currently 4 cases listed in the Magistrates Court for consideration – 1 is listed for first hearing and relates to the unlawful works to trees protected by a Tree Preservation Order. 2 cases are listed for trial following not guilty pleas and relate to Licensing offences. The final case is listed for sentencing following a guilty plea and relates to unauthorised works to a Listed Building. There is a case listed in the Crown Court following a not guilty plea relating to Fraud offences.
- 2.8. **Regulation of Investigatory Powers Act 2000 / Investigatory Powers Act 2016 Policies**
- 2.9. The Council's Policies are based on the legislative requirements of these Acts and the Codes of Practice relating to directed surveillance and the acquisition of communications data.
- 2.10. The Policies were reviewed and presented to the Audit Committee in November 2019; these were adopted by Cabinet in December 2019.
- 2.11. The Council must have a Senior Responsible Officer and Authorising Officers to approve any applications for surveillance or the use of a Covert Human Intelligence Source, before the Court is approached. The Senior Responsible Officer is the Chief Executive, Robert Weaver and the Authorising Officers are the Deputy Chief Executive, Jenny Poole and the Interim Group Manager Legal Services and Monitoring Officer, Patrick Arran.
- 2.12. All applications for communications data are made online via the National Anti-Fraud Network (NAFN) which acts as the single point of contact for Councils. There is a requirement for the Council to nominate a Designated Senior Officer who will confirm to NAFN that the Council is aware of any request and approves its submission. This role is undertaken by the Counter Fraud Unit Manager and the Deputy Counter Fraud Unit Manager.
- 2.13. There have been no RIPA applications made by the Council during 2020/2021 and no applications for communications data. There have been no Non-RIPA applications made during 2020/2021.
- 2.14. The Council takes responsibility for ensuring its procedures relating to surveillance and the acquisition of communications data are continuously improved and all activity is recorded.

- 2.15. The Policy relating to the use of the internet and social media in enforcement and investigations has been reviewed by Governance Group and is to be presented to Corporate Management for final approval. It will then be presented to Audit Committee.
- 2.16. **Money Laundering and Proceeds of Crime Policy**
- 2.17. The Policy, at Annex B, defines a best practice approach to dealing with money laundering obligations and suspicious activity reports.
- 2.18. Proceeds of Crime and Money Laundering legislation govern the responsibilities of individuals and organisations.
- 2.19. The Policy and the related Officers Procedural Guidance addresses the way in which the Council, its employees and its Members can formally discharge these obligations.
- 2.20. The nominated Money Laundering Reporting Officer is the Officer appointed under section 151 of the Local Government Act 1972, in the case of the Council, this is the Deputy Chief Executive.

### **3. FINANCIAL IMPLICATIONS**

- 3.1. The report details financial savings generated by the Counter Fraud Unit.

### **4. LEGAL IMPLICATIONS**

- 4.1. In general terms, the existence and application of an effective fraud risk management regime assists the Council in effective financial governance which is less susceptible to legal challenge.
- 4.2. The Council is required to ensure that it complies with the Regulation of Investigatory Powers Act 'RIPA' 2000, the Investigatory Powers Act 2016 and any other relevant/statutory legislation regarding investigations. Any authorisations for directed/covert surveillance or the acquisition of communications data undertaken should be authorised by the appropriate Officer and recorded in the Central Register.
- 4.3. The Council has a statutory obligation for enforcing a wide range of legislation, where it is necessary and proportionate to do so. Human rights implications are a consideration of this type of activity and this is included within any enforcement Policies.
- 4.4. The Proceeds of Crime and Money Laundering Policy sets out the legislative obligations that the Council must adhere to. Whilst the risk to the Council of contravening the law is low, it is important that all employees are familiar with their duties and responsibilities.

### **5. RISK ASSESSMENT**

- 5.1. The Council is required to proactively tackle fraudulent activity in relation to the abuse of public funds. The Counter Fraud Unit provides assurance in this area.
- 5.2. Failure to undertake such activity would accordingly not be compliant and expose the authority to greater risk of fraud and/or corruption.
- 5.3. If the Council does not have effective counter fraud and corruption controls it risks both assets and reputation.
- 5.4. The RIPA and IPA Policies demonstrate the Council's consideration of necessity, proportionality and public interest when deciding on surveillance activity or the decision to obtain personal communication data.

5.5. The Proceeds of Crime and Money Laundering Policy mitigates the risk that the Council will fail to fulfil its legal obligations.

## **6. EQUALITIES IMPACT**

6.1. The promotion of effective counter fraud controls and a zero tolerance approach to internal misconduct promotes a positive work environment.

6.2. The application of the RIPA and IPA Policies and Procedures, to govern surveillance and the obtaining of personal communications data, minimises the risk that an individual's human rights will be breached. Furthermore it protects the Council from allegations of the same.

## **7. ALTERNATIVE OPTIONS**

7.1. The Council is the lead authority for the Gloucestershire Counter Fraud Unit. This Unit is working with all of the Gloucestershire Local Authorities, West Oxfordshire District Council and other public sector bodies such as housing associations.

7.2. The service is a shared one across the County and as such overheads and management costs are also shared equally meaning there is increased value for money.

## **8. BACKGROUND PAPERS**

8.1. None.

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Department / Contact	Task	Dates / Notes
Corporate / Strategy	Delivery of two reports for Audit Committee	April (cancelled) & November
Corporate / Strategy	RIPA Coordinator Role - Review of Policies / annual report to Members / advisory role for staff / IPCO liaison	Annual update - CDC October IPCO Inspection complete and report issued Draft Internet and Social Media Investigations Policy and Procedure approved by Governance Group
Corporate / Strategy	Home Office Serious and Organised Crime Checklist and accompanying work plan	Commenced / Ongoing
Corporate / Strategy	Home Office Bribery and Corruption Assessment Template and accompanying work plan	To be transferred to 2021/2022 work plan
Corporate / Strategy	Development / Review of Fraud Response Plan	To be transferred to 2021/2022 work plan
Corporate / Strategy	Development of Service Specific Fraud Risk Register	To be transferred to 2021/2022 work plan
Corporate / Strategy	Development of Fraud awareness literature for staff and members	Completed - JMT approval pending
Corporate / Strategy	Development of RTB / debt recovery process	To be transferred to 2021/2022 work plan
Corporate / Strategy	Staff and Members Fraud Awareness Sessions	Online provision
Corporate / Strategy	Collation and Publication of Fraud Transparency Data	Published June
Procurement	Assist with review of Procurement and Contract Strategy	Complete / training to be provided to staff
Procurement	Supplier payment review	To be transferred to 2021/2022 work plan
SWAP	Policy and Procedure: Staff Declarations of Interest / Conflicts of Interest	Complete
SWAP	Review of the Gifts and Hospitality Policy and Procedure	Complete. Revised form to be uploaded to portal for staff use
HR	Review of HR Recruitment and Vetting Policy and Procedures	To be transferred to 2021/2022 work plan
Policy	Review Whistle-Blowing Policy	To be transferred to 2021/2022 work plan
Policy	Drafting / consultation / adoption of Money Laundering Policy	Draft issued to Finance and Chief Finance Officer for consideration
Revenues and Housing	National Fraud Initiative Match Review	Commenced
Revenues and Housing	NNDR Charity Shop Exemption Review	To be transferred to 2021/2022 work plan due to resource
Revenues and Housing	Business Grants Post Payment Assurance	Commenced
ERS	Licensing / Invoice Review	698 licenses reviewed, results pending.
Planning	Waterpark Review	Instruction to Legal Department / Awaiting decision from Chief Executive

SOC = Serious and Organised Crime

IPCO = Investigatory Powers Commissioner's Office

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# Proceeds of Crime and Anti-Money Laundering Policy

<b>Version Control:</b>	
<b>Document Name:</b>	Proceeds of Crime and Anti-Money Laundering Policy
<b>Version:</b>	1.0
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## Revision History

Revision date	Version	Description

## Consultees

Internal	External

## Distribution

Name	

# Proceeds of Crime and Anti-Money Laundering Policy

## Contents

1. INTRODUCTION.....	3
2. POLICY STATEMENT .....	3
3. SCOPE OF THE POLICY .....	3
4. PURPOSE .....	4
5. WHAT IS MONEY LAUNDERING? .....	4
6. THE COUNCIL'S OBLIGATIONS.....	5
7. THE MONEY LAUNDERING REPORTING OFFICER (MLRO).....	5
8. DISCLOSURE PROCEDURE .....	5
9. CONSIDERATION OF THE DISCLOSURE BY THE MLRO.....	6
10. CLIENT IDENTIFICATION PROCEDURE.....	7
11. RECORD KEEPING.....	8
12. GUIDANCE & TRAINING.....	8

# Proceeds of Crime and Anti-Money Laundering Policy

## 1. INTRODUCTION

- 1.1 The legislation in respect of Money Laundering is set out in the following:
- Proceeds of Crime Act 2002 as amended by the Crime and Courts Act 2013 and the Serious Crime Act 2015;
  - The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 and The Money Laundering and Terrorist Financing (Amendment) Regulations 2019;
  - The Terrorism Act 2000 as amended by the Anti-Terrorism, Crime and Security Act 2001, the Terrorism Act 2006 and the Terrorism Act 2000 and Proceeds of Crime Act 2002 (Amendment) Regulations 2007.
- 1.2 The combined legislation is referred to in this Policy as 'the money laundering legislation'.
- 1.3 There have been significant changes to the money laundering legislation which have broadened the definition of money laundering and increased the range of activities caught by the statutory framework. As a result, the obligations now impact on certain areas of Council business and require Councils to establish internal procedures to prevent the use of their services for money laundering.
- 1.4 Money laundering may be defined as the process whereby the origin of dishonest and or illegally obtained money is concealed so that it appears to come from a legitimate source.

## 2. POLICY STATEMENT

- 2.1 The Council will do all it can to:
- Prevent, wherever possible, the organisation, its employees and Members being exposed to money laundering;
  - Identify the potential areas where money laundering may occur and take appropriate action to minimise the risk; and
  - Comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.
- 2.2 Every employee (see 3.1 and 3.2 below) and elected Member has a personal responsibility to be vigilant.

## 3. SCOPE OF THE POLICY

- 3.1 This Policy applies to all officers (including external appointments, contractors and seconded staff) and elected Members of the Council. The Policy sets out the procedures which must be followed to enable the Council to comply with its legal obligations.
- 3.2 The Policy specifically covers employees of contractors and other public authorities delivering a service on behalf of the Council, for example Ubico or Publica. The term "officer" or "staff" includes employees of the contractor / other authority.

# Proceeds of Crime and Anti-Money Laundering Policy

- 3.3 Failure to comply with the procedures set out in this Policy may lead to disciplinary action being taken in accordance with existing Council policies in addition to any criminal prosecution which may ensue.
- 3.4 This policy should be read in conjunction with the Whistle-Blowing Policy and the Counter Fraud and Anti-Corruption Policy.

## 4. PURPOSE

- 4.1 The Council has a duty to ensure it complies with its obligations under the legislation but it is acknowledged that it is a low risk area. Criminal sanctions may be imposed for breaches of the legislation.
- 4.2 The purpose of this Policy is to make officers and members aware of the money laundering legislation; their responsibilities regarding the legislation; and the consequences of non-compliance with this Policy.
- 4.3 Any officer or Member of the Council could be subject to the provisions of the money laundering legislation if they suspect money laundering and either fail to report their concerns or become involved in any actions to process the suspicious transaction. This Policy sets out how any concerns should be raised.

## 5. WHAT IS MONEY LAUNDERING?

- 5.1 Under the Proceeds of Crime Act 2002 (POCA), money laundering means:
- Concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of Proceeds of Crime Act [POCA]). This covers hiding an item or its source, removing serial numbers, or changing an item for something else (e.g. unexplained large cash payment claimed to be from death of relative or lottery win, a person using illegally earned money to buy a house or piece of land); or
  - Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328 of POCA). This is actual involvement in helping to cover up an act (e.g. a housing officer becoming suspicious that a tenant on benefits is buying valuable items when they are on limited income and failing to report this); or
  - Acquiring, using or possessing criminal property (section 329 of POCA). Accepting stolen items knowingly or knowingly taking advantage of them or accepting items paid for by the proceeds of crime. This might involve paying significantly less than the value of an item with the suspicion or knowledge that it may be stolen; or
  - Becoming concerned in an arrangement facilitating concealment, removal from the jurisdiction, transfer to nominees or any other retention or control of terrorism property (section 18 of the Terrorism Act 2000). This is about hiding income or other items which are being used to fund or carry out terrorist activities.

# Proceeds of Crime and Anti-Money Laundering Policy

- 5.2 Criminal property is defined in Section 340 (3) of POCA as “property”<sup>1</sup> that is or represents the person’s benefit from illegal actions in whole or part and the person knows or suspects that it is the proceeds of a criminal act.

## 6. THE COUNCIL’S OBLIGATIONS

- 6.1 Organisations conducting “relevant business” under the legislation must:

- Appoint a Money Laundering Reporting Officer (MLRO) to receive disclosures from employees of money laundering activity (their own or anyone else’s);
- Implement a procedure to enable the reporting of suspicions of money laundering;
- Maintain client identification procedures in certain circumstances; and
- Maintain records.

- 6.2 Some of the Council’s business is “relevant” for the purposes of the legislation, including the accountancy and audit services carried out by Financial Services and the financial, company and property transactions undertaken by Legal Services.

## 7. THE MONEY LAUNDERING REPORTING OFFICER (MLRO)

- 7.1 The officer nominated to receive disclosures about money laundering activity is the Officer appointed under section 151 of the Local Government Act 1972.

## 8. DISCLOSURE PROCEDURE

- 8.1 Where it becomes known or is suspected, that money laundering is taking/has taken place or there is concern by an officer that involvement in a matter may amount to a prohibited act under the legislation (see definition in 5 above), it must be disclosed immediately. Disclosure must be within hours of the information becoming known. Failure to disclose may lead to prosecution.

- 8.2 The disclosure should be made to the MLRO initially verbally (in person or by telephone). The report must include as much detail as possible, for example:

- Full details of the people involved (including the officer making the report) e.g. full name, date of birth, address, company names, directorships, phone numbers etc.
- Full details of the nature of their involvement.
- The types of money laundering activity involved. The MLRO can help identify this.

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<sup>1</sup> Defined by Section 340 (9) of POCA – “Property is all property wherever situated and includes:

(a) Money;  
(b) All forms of property, real or personal, heritable or moveable;  
(c) Things in action and other intangible or incorporeal property.”

## Proceeds of Crime and Anti-Money Laundering Policy

- The dates of such activities, including whether the transactions have happened, are ongoing or are imminent.
  - Where the transactions took place.
  - How they were undertaken.
  - The (likely) amount of money/ assets.
- 8.3 If there is concern that involvement in the transaction would amount to a prohibited act under sections 327-329 of POCA (see section 5 above for details), then consent will be needed from the National Crime Agency (NCA), via the MLRO, to take any further part in the transaction. It must therefore be made clear in the report whether there are any deadlines for giving such consent e.g. a completion date or court deadline.
- 8.4 The MLRO must be given all available information to help them decide whether there are reasonable grounds for knowledge or suspicion of money laundering, and to enable them to prepare a report to the NCA, if required.
- 8.5 Following the initial contact, the officer reporting the money laundering activity should then promptly complete the “Report to Money Laundering Reporting Officer” (See Guidance Notes) and attach copies of any supporting documentation.
- 8.6 Once reported to the MLRO the officer that made the report must follow any directions given and must not make any enquiries into the reported event. The MLRO will, if appropriate, refer the matter to the NCA who will undertake any necessary investigations. Officers will be required to co-operate fully with those investigating the matter.
- 8.7 It is imperative that nothing is said to the person suspected of money laundering; this would constitute “tipping off” which carries a maximum penalty of 5 years imprisonment and an unlimited fine.
- 8.8 All disclosure reports including those made to the NCA must be kept securely for a minimum of five years.

### **9. CONSIDERATION OF THE DISCLOSURE BY THE MLRO**

- 9.1 On receiving a disclosure report, the MLRO must note the date of receipt on his/her section of the report and acknowledge receipt of it. He/she should also advise the officer, who made the report, of the timescale within which he/she expects to respond.
- 9.2 The MLRO will consider the report and any other available internal information he/she thinks relevant, such as:
- Reviewing other transaction patterns and volumes;
  - The length of any business relationship involved;
  - The number of any one-off transactions and linked one-off transactions;
  - Any identification evidence held.
- 9.3 The MLRO will undertake such other enquiries as they think appropriate to ensure they take all available information into account in deciding whether to report the incident to the NCA. The MLRO may also need to discuss the report with the officer that submitted it.

# Proceeds of Crime and Anti-Money Laundering Policy

- 9.4 Once the MLRO has evaluated the disclosure report and any other relevant information, they must make a timely decision whether:
- There is actual or suspected money laundering taking place; or
  - There are reasonable grounds to know or suspect this; and
  - Whether they need consent from the NCA for a particular transaction to proceed.
- 9.5 Where the MLRO decides to refer a case to the NCA, they should do this promptly and on their standard report form (see Guidance Notes).
- 9.6 Where consent is required from the NCA for a transaction to proceed, then the transaction(s) in question must not proceed until the NCA has specifically given consent, or there is deemed consent because the relevant time limit has expired without objection from the NCA.
- 9.7 Where the MLRO suspects money laundering but has a reasonable excuse for nondisclosure, then the MLRO must note the report accordingly; consent can then be granted immediately for any ongoing or imminent transactions to proceed.
- 9.8 In cases where legal professional privilege may apply, the MLRO must liaise with the legal adviser to decide whether there is a reasonable excuse for not reporting the matter to the NCA.
- 9.9 Where the MLRO concludes that there are no reasonable grounds to suspect money laundering they must mark this on the report accordingly and authorise the transaction to go ahead.
- 9.10 The MLRO is criminally liable if they know or suspect, or have reasonable grounds to do so on the basis of a disclosure made to them, that money laundering is happening and they do not disclose this promptly to the NCA.
- 9.11 All disclosure reports referred to the MLRO and reports made by the MLRO to the NCA must be retained by the MLRO in a confidential file kept for that purpose, for a minimum of five years.

## **10. CLIENT IDENTIFICATION PROCEDURE**

- 10.1 Where the Council is carrying out relevant business (examples of relevant business may be defined for this Council as, legal services, investments, cash handling and accountancy services) and:
- a) Forms an ongoing business relationship with a client; or
  - b) Undertakes a one-off transaction involving payment by or to the client of €10,000 (or equivalent) or more; or
  - c) Undertakes a series of linked one-off transactions involving a total payment by or to the client(s) of €10,000 (or equivalent) or more; or
  - d) It is known or suspected that a one-off transaction or a number of them involves money laundering; then this Client Identification Procedure must be followed before any business is undertaken.

# Proceeds of Crime and Anti-Money Laundering Policy

- 10.2 In the above circumstances staff in the applicable department must obtain satisfactory evidence of the identity of the prospective client as soon as practicable after instructions are received. This applies to existing clients, where such information has not been obtained, as well as new clients (see Customer Due Diligence process outlined in Guidance Notes).
- 10.3 The evidence should be retained for at least five years from the end of the business relationship or one-off transaction.
- 10.4 If satisfactory evidence is not obtained at the outset then the business relationship or one-off transaction cannot proceed. If there is an unjustifiable delay in obtaining evidence of identity or the where the client is deliberately not providing evidence a disclosure will have to be made.

## 11. RECORD KEEPING

- 11.1 Staff within the areas of the Council conducting relevant business must maintain records of:
- Client identification evidence obtained and;
  - Details of all relevant business transactions carried out for clients.
- 11.2 As a minimum the records must provide an audit trail to aid any subsequent investigation, for example, distinguishing the client and the relevant transaction and recording in what form any funds were received or paid.
- 11.3 In all cases evidence should be retained for at least five years from the end of the business relationship or transaction(s). This is so that they may be used as evidence in any subsequent investigation.

## 12. GUIDANCE & TRAINING

- 12.1 In support of this policy the Council will make staff aware of the requirements and obligations placed on the Council and on themselves as individuals by the legislation and give training to those most likely to encounter money laundering.
- 12.2 As a minimum they should be made aware of the relevant legislation and their responsibilities.

# Agenda Item 10

 <p><b>COTSWOLD</b> DISTRICT COUNCIL</p>	<p><b>COTSWOLD DISTRICT COUNCIL</b></p>
<p>Name and date of Committee</p>	<p><b>AUDIT COMMITTEE – 29 APRIL 2021</b></p>
<p>Report Number</p>	<p><b>AGENDA ITEM 10</b></p>
<p>Subject</p>	<p><b>INTERNAL AUDIT PROGRESS REPORT</b></p>
<p>Wards affected</p>	<p>N/A</p>
<p>Accountable member</p>	<p>CIlr Mike Evely, Cabinet Member for Finance Email: <a href="mailto:mike.evely@cloud.cotswold.gov.uk">mike.evely@cloud.cotswold.gov.uk</a></p>
<p>Accountable officer</p>	<p>Jenny Poole, Chief Finance Officer Tel: 01285 623313 Email: <a href="mailto:jenny.poole@cotswold.gov.uk">jenny.poole@cotswold.gov.uk</a></p>
<p>Summary/Purpose</p>	<p>To present a summary of the audit work concluded since the last meeting of this Committee.</p>
<p>Annexes</p>	<p>Annex A – REPORT OF INTERNAL AUDIT ACTIVITY – PLAN PROGRESS 2020/21 (April 2021)</p>
<p>Recommendation/s</p>	<p><i>That the Committee considers the report at Annex A and comments as necessary</i></p>
<p>Corporate priorities</p>	<p>Ensure that all services delivered by the Council are delivered to the highest standard.</p>
<p>Key Decision</p>	<p>NO</p>
<p>Exempt</p>	<p>NO</p>
<p>Consultees/ Consultation</p>	<p>N/A</p>

## **1. BACKGROUND**

- 1.1.** The Internal Audit Service is provided to this Council by SWAP Internal Audit Services (SWAP). SWAP is a local authority-controlled company.
- 1.2.** The report attached at Annex A sets out the work undertaken by SWAP for the Council since the last meeting of this Committee. It follows the risk-based auditing principles and, therefore, this is an opportunity for the Committee to be aware of emerging issues which have resulted in SWAP involvement.
- 1.3.** Officers from SWAP will be in attendance at the Committee meeting and will be available to address Members' questions.

## **2. MAIN POINTS**

- 2.1.** The progress report enables the Audit Committee to monitor the work of the Internal Audit Service and ensure that it remains effective. It also provides the Committee with assurance opinions over areas reviewed within the reporting period, details of audit recommendations and the outcome of follow-up reviews conducted on previous audit recommendations.

## **3. FINANCIAL IMPLICATIONS**

- 3.1.** The Internal Audit Service is operating within the contract sum.

## **4. LEGAL IMPLICATIONS**

- 4.1.** None directly from this report. Internal Audit reviews consider compliance with legislation relevant to the service area under review.

## **5. RISK ASSESSMENT**

- 5.1.** Any weaknesses in the control framework, identified by Internal Audit activity, continues to threaten organisational objectives until recommendations are implemented.

## **6. BACKGROUND PAPERS**

- 6.1.** Internal Audit Reports

# Cotswold District Council

## Report of Internal Audit Activity

April 2021

Page 49

# Contents

The contacts at SWAP in connection with this report are:

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- Appendices:

Appendix A – Internal Audit Definitions

Page 5 – 6

Appendix B – Audit Plan Progress

Page 7 - 11

Appendix C – Summary of Audit Findings

Page 12 – 17

Appendix D – High Priority Findings and Agreed Actions

Page 18 – 23

Appendix E – Summary of Agreed Actions

Page 24

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- No
- Limited
- Reasonable
- Substantial



Audit Framework Definitions

Control Assurance Definitions

<b>No</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
<b>Limited</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Substantial</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Non-Opinion – In addition to our opinion based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendations are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

Page 52

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

● Audit Framework Definitions

**Categorisation of Recommendations**

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

	<b>Categorisation of Recommendations</b>
<b>Priority 1</b>	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
<b>Priority 2</b>	Important findings that need to be resolved by management
<b>Priority 3</b>	Finding that requires attention.

**Definitions of Risk**

<b>Risk</b>	<b>Reporting Implications</b>
<b>High</b>	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
<b>Medium</b>	Issues which should be addressed by management in their areas of responsibility.
<b>Low</b>	Issues of a minor nature or best practice where some improvement can be made.

# Audit Plan Progress

# APPENDIX B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
<b>2019/20 Audits in Draft / In Progress at Annual Opinion</b>									
Key Financial Control	Accounts Receivable		Final Report	Reasonable	4		1	3	Reported in October
Follow-Up	S106 Agreements and Funds								Support to the Project Team. Audit review included in 2021/22 audit plan
Follow-Up	Procurement		Final Report	N/A	-				Reported in October
Follow-Up	Procurement and Contract Management		Final Report	N/A	-				Reported in October
Operational	Asset Management and Commercial / Investment Property		Position Statement	N/A					See Appendix C
Advisory	Use of Volunteers		Final Report	N/A	-				Reported in October
Advisory	Grants		Final Report	N/A	-				See Appendix C
ICT	Business Continuity		Final Report	Reasonable	2		2		See Appendix C
ICT	Incident Management		Final Report	Reasonable	4		2	2	Reported in January

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
<b>2020/21 Audit Plan</b>									
Operational	Business Grant Funding		Complete	N/A	-				Support to the Council in respect of Data Input
Advisory	Leisure Funding		Complete	N/A	-				Support to the Council in respect of the Leisure Funding request by the Service Provider
Advisory	CFU Policies		Complete	N/A	-				Reviewing policies held by CFU and advising of changes to legislation
Operational	Continuous Assurance Reports		On-Going						Accounts Payable, Accounts Receivable, Payroll
Support	Business Grant Funding (Part 2)			N/A	-				Head of IA seconded to Council to support processing of Mandatory and Discretionary Business Grants from November onwards
Support	Co-Ordination Team – Flooding			N/A					Support to the Co-Ordination Team during flooding issues in Cirencester
Key Financial Control	Revenues and Benefits								
	<ul style="list-style-type: none"> <li>Council Tax and National Non-Domestic Rates</li> </ul>		Final Report	Limited	2		1	1	See Appendix C
	<ul style="list-style-type: none"> <li>Housing and Council Tax Benefits</li> </ul>		Final Report	Reasonable	1		1		See Appendix C
Key Financial Control	Core Financials								

Page 54

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
	<ul style="list-style-type: none"> <li>Accounts Payable</li> </ul>		In Progress						
	<ul style="list-style-type: none"> <li>Accounts Receivable</li> </ul>								
	<ul style="list-style-type: none"> <li>Main Accounting</li> </ul>		Draft Report						
	<ul style="list-style-type: none"> <li>Payroll</li> </ul>		In Progress						
	<ul style="list-style-type: none"> <li>Treasury Management and Bank Reconciliation</li> </ul>		Final Report	Substantial	1			1	Reported in January
Key Financial Control	Systems Administration		Draft Report						
Key Financial Control	Human Resources		In Progress						
Key Financial Control	Other Support Service provided by Publica <ul style="list-style-type: none"> <li>Health and Safety (Of Staff)</li> </ul>		Position Statement	N/A					Reported in January
ICT	Cyber Security		Final Report	N/A	5			5	Reported in January
ICT	Use of Anti-Malware Software		In Progress						
ICT	Automatic Back-Up of System Data		In Progress						
Governance	Risk Management		In Progress						
Governance	Performance Management								
Governance	Governance of Programmes and Projects								

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
Operational	Post Payment Assurance – Small Business Grants		Draft Report						
Operational	Authority’s Response to Covid-19		In Progress						
Operational	Publica Transformation Benefits Realisation								
Operational	The Delivery of Services by Publica								
Operational	Inclusivity and Diversity								
Operational	Publica Support Costs Recharge Process & Internal Control Process for Contract Variations (NEW)		Audit Deferred						
Advisory	Implementation of the New Revenues and Benefits System		In Progress						Support to the Project Team
Follow-Up	Follow-Ups of Recommendations made in Substantial and Reasonable Audits		On Going						
Follow-Up	Follow-Up of Control Weaknesses identified by the Counter Fraud Unit		On Going						
Follow-Up	Procurement		On Going						Further Follow-Up required
Follow-Up	Procurement and Contract Management		On Going						Further Follow-Up required
Grant Certification	Disabled Facilities Grants		Complete	N/A					

Page 56

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
Grant Certification	Income Compensation Scheme (NEW)								
Other Audit Involvement	Working with the Counter Fraud Unit		On Going						
Other Audit Involvement	Management of the IA Function and Client Support		On Going						
Other Audit Involvement	Contingency – Provision for New Work based on emerging risks								

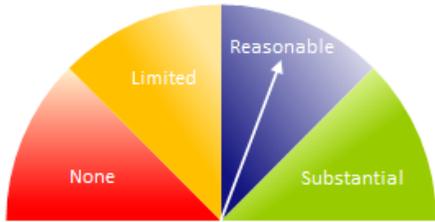
The following information provides a brief summary of each audit review finalised since the last Committee update

# ICT Business Continuity – Final Report – March 2021

## Audit Objective

The objective of the audit is to ensure that the organisation has planned for and can maintain an agreed level of business continuity to priority services in the event of a critical ICT incident.

## Assurance Opinion



There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

## Agreed Actions

Priority	Number
Priority 1	0
Priority 2	2
Priority 3	0
<b>Total</b>	<b>2</b>

## Risks Reviewed

Over reliance on the ICT service to maintain Corporate Business Continuity resulting in a loss of organisation wide service continuity in the event of a disruption to ICT services.

## Assessment

Medium

## Key Findings



Page 59

Current Service Level Business Continuity Plan (BCP) templates lack sufficient information and detail of the procedures to be followed in the event of a prolonged ICT outage. The Publica Business Continuity Steering Group have recognised that the current template is not suitable, and a new template is currently under development.



At a high level, the ICT BCP details the critical applications required to continue critical ICT services. However, it is notable that Business Applications are grouped together within a timeframe of recovery that may not meet Publica and the Council's needs.



Publica have an overarching Corporate Business Continuity Plan, and have created a Steering Group, comprised of Group Managers, together with an Emergency Planning and Business Continuity Specialist to oversee BCM strategy moving forwards. Whilst the events of 2020 have prevented a certain amount of progress being made in this area, they have also presented themselves as a live test of business continuity. When a certain amount of normality returns, the Steering Group should complete a full, lessons learned exercise in order to further improve responses in the future.

## Audit Scope

The scope of the audit included a review of:

- Critical ICT services have been identified and fully documented within Business Continuity Plans.
- Expectations set by the ICT service to the wider organisation in terms of resources and availability of applications is documented and understood.
- Reliance on third party service providers has been identified and documented in the ICT plan.
- Major services have short term recovery strategies which reference the complete loss of the ICT service.
- Critical ICT incidents affecting services are recorded and formally investigated and lessons learned documented.
- The ICT Service Continuity Plan is tested periodically and kept up to date.

## Further Information

Business Continuity planning is essential to an organisations ability to continue to deliver vital services should an event occur to disrupt normal processing. Organisations should identify critical services, complete Business Impact Assessments, and devise plans to respond when an incident occurs.

Publica are actively taking steps to develop and improve the Business Continuity arrangements across the organisation with the creation of a Business Continuity Management Steering Group, consisting of Group Managers, including a Business Continuity and Emergency Planning Manager.

An audit of the ICT BackUp and Recovery controls is planned to be undertaken this year and will be able to provide further assurance of the preparedness of the organisations to be able to recover from incidents of varying size and disruption.

## Asset Management and Commercial Property – Position Statement – December 2020

### Audit Objective & Scope

To ensure the Council's activities for its property and land assets are co-ordinated to realise value (release capital and maximise income) whilst supporting its strategic objectives.

Testing included an assessment of sample properties and land assets at each of the partner Councils based on risks to achieving the above objective.

*N.B. Audit fieldwork for this review was carried out between October 2019 and February 2020. All findings reflect the position of Asset Management and Commercial Investments at that time. Due to the pandemic the audit was put on hold. Draft versions of this report were issued to the service area in May / June 2020 and work had commenced to address some of the findings.*

### Key Findings

#### Cotswold District Council

- The Asset Management Plan (AMP) should be reviewed, updated and approved by Cabinet to ensure compliance with Financial Rules. An AMP ensures that corporate priorities are built into asset management activities and helps to prioritise activities based on the annual funding available. Best practice advocates strategic review of the asset portfolio; an annual report detailing performance would aid this review.  
We identified inconsistencies in the application of rent deposits as a procedure isn't available. Any decisions made are based on officer knowledge and could result in challenge to the authority or potential errors in raising charges. We would suggest that a document is drafted (similar to the Commercial Rents Guidance and Procedure from a partner Council) to ensure consistency and reduce potential challenge.
- An external review was commissioned for the Council's investment properties in March 2019 and recommendations made for each of the properties reviewed. The Business Manager (Assets) advised that the Council's property and land assets are revalued in line with the terms of a lease or on renewal/expiry of a lease. If periodic reviews are undertaken, it would allow the Council to assess alternative usage (if appropriate) and/or possible income generation for the assets in use. Given the current climate it is essential that the best possible benefit can be realised. If the AMP included the frequency of proactive activity based on the type of asset it would help to achieve this aim.
- During 2018/19 reconciliation between subscription invoices and lease charging information was suspended due to resourcing issues, this was reinstated in April 2019.

### Conclusion

Due to the pandemic, normal working arrangements were impacted, and officers were required to undertake business continuity/recovery works. This resulted in the audit not being able to be completed. The Estates Manager advised that improvements have been made in some key areas since the fieldwork was undertaken.

We have therefore not provided an assurance opinion at this stage and have planned to undertake a follow-up review in the 2021/22 audit plan to provide the assurances that the partner Councils and senior management seek.

## Council Tax and National Non-Domestic Rates – Final Report – January 2021

### Audit Objective

To ensure key financial system controls are operating effectively for Council Tax and Business Rates, and that opportunities for error, fraud or corruption are minimised.

### Assurance Opinion



Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

### Number of Actions

Priority	Number
Priority 1	0
Priority 2	1
Priority 3	1
<b>Total</b>	<b>2</b>

### Risks Reviewed

The Council does not collect all Council Tax and Business Rates due as a result of errors, omissions or fraud leading to financial loss or reputational damage.

### Assessment

Medium

### Key Findings

	Three former Publica employees had active Northgate user ID's, their access has since been removed. Four shared Northgate Accounts with enquiry access are active, these are used by the External Audit provider, Counter Fraud Team and Revenues Officers, when they do not use their individual ID's which allows them to update the CDC Revenues systems.
	The officer responsible for monitoring suppressed accounts also has system permissions to add suppressions. Segregation of duties should be introduced to protect both the officer and the council from potential allegations of wrongdoing.
	4 key control recommendations from previous audit reviews relating to suspense account monitoring, the Service level Business Continuity Plan and Council Tax and NNDR bills being reconciled to the actual bills posted are still outstanding. 1 relating to closed Council Tax accounts in credit has been partially implemented. These agreed actions should be implemented to address the weaknesses identified and ensure controls are operating effectively going forwards.
	The reconciliations of the Council Tax and NNDR systems to the General Ledger supplied for both Councils balanced.

### Audit Scope

A high-level review of key controls, financial reconciliations, variance reporting, system access and generic accounts was undertaken in October 2020. A follow up of recommendations made in last year's audit has also been undertaken.

Due to officer involvement with the project to implement Civica across all Publica sites at the time of audit work, it was agreed Data Analytics would not add value to this year's review, and sample testing would not be undertaken.

Evidence was supplied by, and discussions were held with the Business Manager Operational Services, the Revenues Technical Lead / Homeless Prevention Officer, the Revenues Technical Lead, and a Business Partner Accountant.

### Next Steps

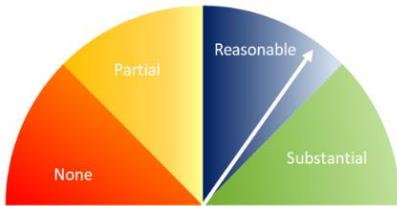
Two new actions have been agreed with management. All actions including those from previous audit reviews are due to be implemented by 31<sup>st</sup> March 2021.

# Housing Benefits and Council Tax Support – Final Report – January 2021

## Audit Objective

To ensure key financial system controls are operating effectively for Housing Benefits and Council Tax Support, and that opportunities for error, fraud or corruption are minimised.

## Assurance Opinion



There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

## Number of Actions

Priority	Number
Priority 1	0
Priority 2	1
Priority 3	0
<b>Total</b>	<b>1</b>

## Risks Reviewed

Housing Benefits and Council Tax Support claims are not processed correctly, completely and on a timely basis as a result of errors, omissions or fraud leading to financial loss or reputational damage to the Council.

## Assessment

**Medium**

## Key Findings

Page 62		Reconciliation of Housing Benefit to the General Ledger has not been undertaken for CDC during this financial year because of the increased workload due to Covid-19. This is non-compliance with the Financial Rules.
		Two former Publica employees had active Northgate user ID's and access to the CDC Benefit systems, this access has since been removed. A recommendation has been made in this year's Council Tax and NNDR audit report to check access rights on a periodic basis
		Four generic Northgate user ID's with enquiry access are currently active. These are used by the External Audit provider, Counter Fraud Team and Benefits Officers during year end processes, when they do not use their individual ID's which allows them to update the CDC Benefit systems.
		The reconciliation of the Council Tax system to the Housing Benefit and Council Tax Support Systems supplied for all three Councils balanced.
		Customers are no longer able to provide benefits evidence in person due to Council Office closure but can still make an appointment with a Benefits Officer if required. We were advised the process itself is unchanged since before the pandemic.

## Audit Scope

A high-level review of key controls, financial reconciliations, variance reporting, system access and the benefits evidence process since Covid-19 restrictions were introduced was undertaken in October 2020. There are no recommendations to follow up from last year's audit.

Due to officer involvement with the project to implement Civica across all Publica sites at the time of audit work, it was agreed Data Analytics would not add value to this year's review, and sample testing would not be undertaken.

Evidence was supplied by, and discussions were held with the Business Manager Operational Services, the Revenues Technical Lead / Homeless Prevention Officer, the Revenues Technical Lead, Benefits Technical Lead and a Business Partner Accountant.

## Next Steps

One action has been agreed with management, which was due to be implemented by January 2021, this will be followed up in due course.

## Grants – Advisory Report – November 2020

### Executive Summary and conclusion

The Council are undertaking a review of their current Community Grants processes. To inform this review, SWAP Internal Audit Services were requested to complete a benchmarking exercise, rather than the planned audit review, to compare the current Cotswold District Council (CDC) Community Grants processes and criteria to other councils' processes and criteria.

A sample of local authority policies were collated from their respective websites to identify current themes and ideas which could highlight any areas of improvement CDC could consider incorporating into their processes. Items of note were selected from the CDC application process / form and criteria to baseline against other councils' respective documentation (notes on these can be seen in the accompanying spreadsheet).

Information relating to CDC processes was provided by Council officers responsible for managing the processes, however the benchmarking data is based solely on the publicly available information from the other Councils' websites.

Overall, no standard or consistent formats, guidelines, processes or criteria were observed across the sample of Councils. We found that councils offer a number of different schemes and the provision of grants in relation to the schemes are based on the 'priorities' of each council.

Our audit identified some areas that the Council may wish to consider:

- Review of information presentation. New rules regarding accessibility come into effect from September 2020 and details of this can be found on the Publica intranet. Current documents should be reviewed to ensure they meet these requirements, and consideration could be given to publishing information in different formats to prevent potential compatibility issues or format limitations.
- Consideration could be given to presenting more information, on the schemes available, on the webpages, which could include a short video presentation, however there is no precedent for this. Consideration could be given to also separating the guidance documents from the application form and presenting them in a different, more colourful and visually appealing format. One of the Councils have online applications, however the guidance provided stands out as being visually appealing rather than being fully text based as most council's provide. One of the other councils, in our sample, provides a nicely displayed guidance document.
- The inclusion of a Data Protection and Privacy statement on the application form, or guidance, should be discussed with the Data Protection Officer, to ensure obligations, required under Data Protection Act with regards to the collection and processing of personal information, are being met.
- Although an acknowledgement of council funding involvement is stipulated, not many councils provide added information on the promotion of each project, however one of the councils provide a detailed guidance document to help with project promotion and expectations regarding acknowledgement of the council.

Generally, no common themes, processes or criteria were identified that are not already undertaken by Grants officers at CDC.

# High Priority Findings and Agreed Actions

# APPENDIX D

Audit Name	Priority	Finding	Agreed Action(s)	Due Date	Update April 2021
Council Tax and NNDR 44610	2	The Revenues Technical Lead reviews suppressed accounts but is also able to add suppressions to accounts. Ensuring there is separation of duties reduces the risk of accounts being suppressed and not checked.	To ensure there is separation of duties, the Revenues Technical Lead should have his suppression permissions removed.	Mar 2021	
Housing Benefits and Council Tax Support 44592	2	At the time of audit work the Business Partner Accountant advised that due to the increased workload brought about by Covid-19, reconciliation of Housing Benefit has not been undertaken so far during this financial year.	It was confirmed that it will be undertaken as soon as workloads allow.	Jan 2021	
ICT Business Continuity 44816	2	The current Service Level Business Continuity Plans (BCP) lack sufficient information and detail of the steps to taken by teams should the critical functions identified within them suffer a serious disruption by the extended loss of the ICT service due to and for example a significant ransomware attack.	New templates will be devised, to include: <ul style="list-style-type: none"> <li>- A comprehensive Business Impact Analysis identifying the critical functions.</li> <li>- Documented detailed action plans to consider the extended loss of ICT service.</li> </ul>	May 2021	

Page 64

# High Priority Findings and Agreed Actions

# APPENDIX D

Audit Name	Priority	Finding	Agreed Action(s)	Due Date	Update April 2021
ICT Business Continuity 44817	2	It is important the ICT service have a full understanding of each Service Area and the wider organisation's business requirements to ensure a structured recovery in the event of a disruption to service. Business applications have been grouped together and documented in the ICT BCP plans, however there are some inconsistencies between the criticality of business area's tolerable downtime, and the potential restoration of those services by the ICT team. There are also inconsistencies within the plan itself whereby it is stated Business Applications will be restored within 48 hours, but then also state recovery will be within 1 week to 10 days.	<ol style="list-style-type: none"> <li>1. Consider a permanent ICT representative in the BCM Steering Group.</li> <li>2. Work on the Asset Inventory has already commenced and is to be completed.</li> <li>3. Determine recovery timescales from the BIA, update new BCP template and DR Plans. (The Template is set to be introduced in May 21.)</li> </ol>	<p>Dec 2021</p> <p>May 2021</p>	BCM Steering Group will include ICT officials.
ICT Incident Management 44560	2	As part of the Information Security framework of policies, the Incident Management Policy is out of date and requires review, update, and approval. Update of the policies has been impacted by the Covid-19 pandemic, and the need for a review is recognised by the ICT Audit & Compliance Manager.	ICT Audit and Compliance Manager will review and update all ICT Security Policies following the completion of the Cyber Security audit report. The aim to have drafted policies by April 2021 for circulation to all network users.	Apr 2021	
ICT Incident Management 44562	2	There is a lack of detailed standard operating procedural documentation. Incident management investigation is currently based on a high-level process flow-chart denoted in the Incident Management policy; however, this lacks detailed information on how to conduct an incident investigation.	We have now commenced with documenting our cyber incident and investigation managements procedures	On Going	

Page 65

# High Priority Findings and Agreed Actions

# APPENDIX D

Audit Name	Priority	Finding	Agreed Action(s)	Due Date	Update April 2021
Payroll 43699	2	We recommend that all new starters are subject to a BPSS (or similar) check regardless of the role to which they are being recruited. This will ensure that consistent checks of right to work, employment history and basic criminal record checks are carried out on all employees.	A piece of work has been carried out to re-write the pre-employment check process. The HR and Recruitment Teams are also working towards the implementation of an Application Tracking System (ATS), subject to approval at Publica and the Councils, which would help to mitigate the risks identified. The ATS would not allow for progression in the recruitment and on-boarding process without specific criteria being fulfilled first (e.g. obtaining references, ID checks etc).	Sep 2020	Will be followed-up during the annual audit
Health and Safety – Fire Risk Assessments 43147	2	We recommend that officers should ensure all remedial actions identified in fire risk assessments are completed using a risk-based approach.	These remedial action requirements are in progress and will be completed in accordance with the noted time scale.	Sep 2020	<p>The Buildings Services Officer has supplied IA an updated version of the Cotswold District Council schedule. Actions have been updated and any outstanding/ongoing have been given a target date of April 2021. Further follow-up will be required.</p> <p>The Building Services Officer provided a schedule of works for Cotswold District Council in line with the Fire Risk Assessments. The schedule had been updated since the initial audit, but most (if not all) actions had a target date of September 2020. Covid-19 has put restrictions on the actions that can be carried out so work has focussed on actions that could be carried out safely - e.g. review and further assessment of outstanding actions and update of schedules.</p>
Procurement and Contract Management 41127	2	We recommend that assurance is sought from Publica that contracts held and managed on behalf of the Council are monitored and managed effectively.	Publica colleagues have been requested to respond to the recommendations made in the report issued. Assurance has been requested that contract management and monitoring is undertaken.	Sep 2020	Publica have included 'Get commissioning right' as one of the four priorities in their 2020-22 Business Plan, including Procurement in the supporting Action Plan (Strategic Action 8). Good progress has so far been made towards outstanding recommendations from both the Procurement and the Procurement and Contract Management audits.

Page 66

# High Priority Findings and Agreed Actions

# APPENDIX D

Audit Name	Priority	Finding	Agreed Action(s)	Due Date	Update April 2021
Accounts Receivable 43752	2	Duplicate subscriptions should be reviewed, and appropriate corrections made. Any duplicate payments should be returned to the debtor.	All subscriptions will be corrected where applicable. Will discuss with team to ensure that prior to setting up new subscriptions a search for existing subscriptions is performed. If any queries arise the AR officer will refer to the service area for clarification. Responsible Officer – AR Team Leader	Aug 2020	Will be followed-up during the annual audit
Section 106 Agreements and Funds 0365	2	To ensure the Council can be held to account in managing the delivery of S106 obligations, the progress of S106 Agreements should be regularly reported at an appropriate Committee and on the Council's website.	Once the Government has produced the data specification and collection tools, these will be used to produce reports for Members and published on the Council's website. There is currently no known date for the publication of these tools, therefore a prolonged timescale has been proposed to implement this action.	Mar 2020	This recommendation will be addressed with the implementation of Exacom (system purchased to monitor S106s and CIL) IA are part of the project team and will continue to ensure actioning of the recommendation We have made provision for an audit of S106s in the 2021/22 audit plan, this finding will be included in the scope of the audit.  Recommendation Closed.

Page 67

# High Priority Findings and Agreed Actions

# APPENDIX D

Audit Name	Priority	Finding	Agreed Action(s)	Due Date	Update April 2021
Systems Admin 41204	2	We recommend a principal Identity and Access Management process detailing requirements for 'Joiners, Movers and Leavers' is developed and documented and that complies with the requirements set out in the Information Security and Access Control Policy. The overarching process should apply to and embrace all systems that may not be included within the standard ICT team scope and should be available for all employees to view and follow. System administrators should then document or update local processes and procedures that should be in alignment with the overarching policy and process requirements. and documented on a quarterly basis as per the requirements of the Risk Management Policy	Our team ICT Administrators are now updating and documenting our Access Management system process for joiners, Movers and Leavers. A change control process will be introduced that will document significant changes to the ICT infrastructure which will also align to our ICT User Policies and guidance.	Mar 2020	Flowcharts have been produced for the starters / leavers / variation processes. The ICT Audit and Compliance Manager will refresh the ICT Policies following the completion of the Cyber Security audit report. He is aiming to have drafted policies by March 2020 for circulation / consultation at CGG and JMT.  Further follow-up has been included in the 2020/21 audit plan  Revised implementation date to 31/12/20 due to Covid-19
Procurement 41030	2	To ensure there is an audit trail to support all contract payments, the introduction of "No PO, no payment" policy should be considered to assist with the efficient monitoring of contract spend.	This will be considered	Dec 2019	We were advised that no decision has been made yet regarding the implementation of a 'no PO, no pay' policy across the Publica Councils. Proposals will need to be submitted by Publica for consideration by Cabinet at each Council. This recommendation will require further follow-up in 2020/21.
Procurement 41002	2	All Officers should be informed during Procurement Process training of the following to ensure when applicable; <ul style="list-style-type: none"> <li>• Procurement are consulted on all contracts over £5,000 so all approved contracts are entered onto the Contract Register, and waiver details can be accurately recorded when appropriate</li> </ul>	Agreed	Dec 2019	This is included in the Procurement and Commissioning User Guide and accompanying mandatory training for Publica, CDC, WODC and FoDDC staff.  Recommendation Closed.

# High Priority Findings and Agreed Actions

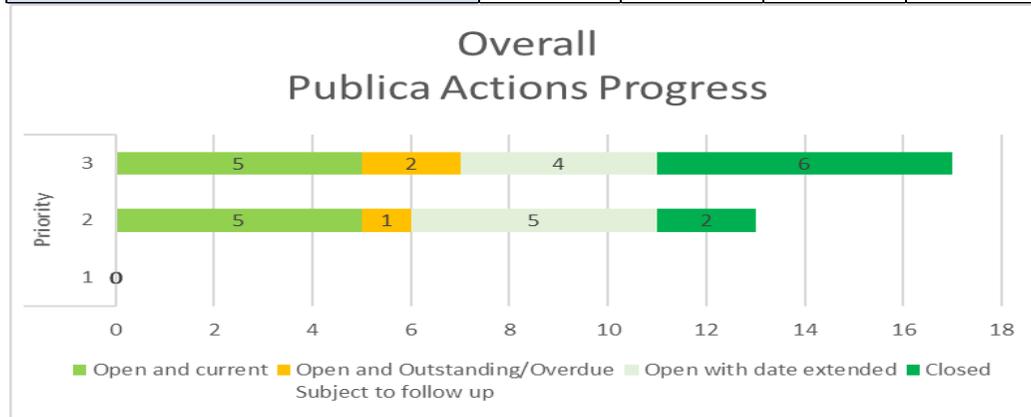
# APPENDIX D

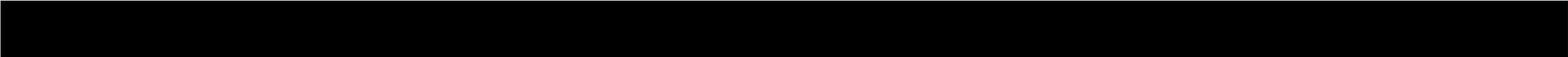
Audit Name	Priority	Finding	Agreed Action(s)	Due Date	Update April 2021
Procurement 41323	2	To ensure all transactions are raised and approved appropriately and in line with the current organisational structure, all requisitioning and approval permissions should be reviewed in BWO.	Following the recent organisation changes, the approvals permissions will be reviewed to ensure they are aligned with new roles and implemented accordingly on the ABW system.	Dec 2019	We were advised: <ul style="list-style-type: none"> <li>•A review of ABW requisitioner and approver roles is currently in progress.</li> <li>•Together with the finance team, the ABW support team aim to review all clients over the coming months.</li> <li>• Work on CDC approvers is still underway. This recommendation will require further follow-up in 2020/21.</li> </ul>
Procurement 41181	2	A copy of the approved contract must be held on In-Tend for all contracts over £5,000, as well as the quotes used during the tendering process, to demonstrate best value and ensure there is a complete central record.	Agreed, subject to a review of the contract value requirements.	Dec 2019	Any documentation that is present on In-Tend will relate to the formation of a contract, or a contract already in place. All other documentation relating to the tendering process will be kept on Google Drive.  A sample of contracts was taken from the current contracts database, and we were able to confirm that they were all on In-Tend.  Recommendation Closed.
Procurement 41029	2	Budget Holders should regularly undertake monitoring of expected contract spend to actual contract spend as part of contract monitoring, to ensure contracts are managed in accordance with strategy, and inform Procurement of any changes to contract values to ensure the values recorded on the Contract Register are correct.	Agreed	Dec 2019	No evidence has been provided of actions carried out by responsible officers to support implementation of this recommendation at the time of follow-up. As part of the 2020/21 Audit Plan, an audit of the Management and Monitoring Contracts will be carried out. The scope of this audit will include budget monitoring arrangements in relation to contract spend and will therefore inform the follow-up of this recommendation. Revised implementation date to 31/12/20 due to Covid-19

Summary of all Agreed Actions from April 2019 and Progress against them

CDC ONLY	Priority			Total
	1	2	3	
TOTAL in Audit Period (From 4/19)	0	1	6	7
Open and current	0	0	0	0
Open and Outstanding/Overdue Subject to follow up	0	0	0	0
Open with date extended	0	1	2	3
Closed	0	0	4	4

PUB ONLY	Priority			Total
	1	2	3	
TOTAL in Audit Period (From 4/19)	0	12	11	23
Open and current	0	5	5	10
Open and Outstanding/Overdue Subject to follow up	0	1	2	3
Open with date extended	0	4	2	6
Closed	0	2	2	4





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 <p><b>COTSWOLD</b> DISTRICT COUNCIL</p>	<p><b>COTSWOLD DISTRICT COUNCIL</b></p>
<p>Name and date of Committee</p>	<p><b>AUDIT COMMITTEE – 29 APRIL 2021</b></p>
<p>Report Number</p>	<p><b>AGENDA ITEM 11</b></p>
<p>Subject</p>	<p><b>INTERNAL AUDIT PLAN 2021/22 AND INTERNAL AUDIT CHARTER</b></p>
<p>Wards affected</p>	<p>N/A</p>
<p>Accountable member</p>	<p>Cllr Mike Evemy, Cabinet Member for Finance Email: <a href="mailto:mike.evemy@cotswold.gov.uk">mike.evemy@cotswold.gov.uk</a></p>
<p>Accountable officer</p>	<p>Jenny Poole, Chief Finance Officer Tel: 01285 623313 Email: <a href="mailto:jenny.poole@cotswold.gov.uk">jenny.poole@cotswold.gov.uk</a></p>
<p>Summary/Purpose</p>	<p>To present the Internal Audit Plan for consideration and approval. To present the updated Internal Audit Charter for consideration and approval.</p>
<p>Annexes</p>	<p><b>Annex A – PROPOSED INTERNAL AUDIT PLAN 2021/22</b> <b>Annex B – INTERNAL AUDIT CHARTER</b></p>
<p>Recommendation/s</p>	<p><i>That the Proposed 2021/22 Internal Audit Annual Plan and the Internal Audit Charter be approved</i></p>
<p>Corporate priorities</p>	<p>Ensure that all services delivered by the Council are delivered to the highest standard.</p>
<p>Key Decision</p>	<p>NO</p>
<p>Exempt</p>	<p>NO</p>
<p>Consultees/ Consultation</p>	<p>N/A</p>

## I. BACKGROUND

### I.1 Internal Audit Plan

The primary role of Internal Audit is to provide assurance that the Council's systems provide for a proper administration of its affairs. To this end, Internal Audit carries out a programme of audits that is agreed annually with the Council's Management Team and the Audit Committee. The Internal Audit service is provided to the Council by SWAP Internal Audit Services (SWAP).

I.2 In order to satisfy the requirements of the Public Sector Internal Audit Standards (PSIAS) and to reflect changes within the Council, SWAP needs to focus upon areas where the organisation now requires assurance. This reinforces the requirement for Internal Audit to follow a more flexible and risk-based plan.

I.3 The core financial systems delivered to the Council by Publica are covered within the Core Financials section of the Audit Plan. The scope of audits will include both Publica and client-side activities providing;

- Assurance to the client (Cotswold District Council) over the controls, and system controls, operated by Publica Officers, for each financial module
- Periodic assurance over the other services provided by Publica.
- The required support to the External Auditor.

### I.4 Internal Audit Charter

The Internal Audit Charter is a requirement of the arrangement between Cotswold District Council and SWAP. The charter ensures compliance with good practice as set out in the International Professional Practices Framework of the Institute of Internal Auditors and the Public Sector Internal Audit Standards (PSIAS).

I.5 The Charter demonstrates how the Internal Audit service will operate, and forms part of the requirements of the Public Sector Internal Audit Standards.

I.6 The Charter provides guidance on authority, accountability, customer care (quality control), independence, reporting, responsibility and audit standards.

## 2. MAIN POINTS

### 2.1 Internal Audit Plan

A summary of the Proposed Internal Audit Plan for 2021/22 is included in the Annex 'A'. This lists the risk-based assurance and consultancy work planned for the year. Counter fraud related audit work has not been included in this audit plan.

2.2 The Plan outlines a programme of work for 2021/22 as developed throughout January and February 2021 but due to the pace of change within Local Authorities, it is becoming increasingly difficult to accurately predict longer-term key organisational risks. Our approach to internal audit planning recognises this through a strategic 12 month rolling plan, whereby we have prepared an agile, risk assessed work plan containing key areas of coverage. This approach will ensure we are auditing the right areas, with the correct scope, at the right time.

- 2.3 We will revisit and adjust our programme of work on at least a quarterly basis to ensure alignment with the changing risk profile of the organisation's operations, systems and controls and with regard to sector risks. The regular input of Senior Management, and the Chief Financial Officer and review of the Authority's risk register will be considered in this process.
- 2.4 The audit plan contains an element of contingency in order that the plan can remain flexible and respond to new and emerging risks as and when they are identified and may include unannounced activity.
- 2.5 Internal Audit Charter  
Without an approved Charter there is a risk that SWAP will not have:
- The support of management and the Council
  - Direct access and freedom to support senior management including the Chief Executive and the Audit Committee
  - Access to any records, personnel or physical property of the Council for audit work.

### **3. FINANCIAL IMPLICATIONS**

- 3.1. The Internal Audit Service is operating within the contract sum.

### **4. LEGAL IMPLICATIONS**

- 4.1. None directly from this report. Internal Audit reviews consider compliance with legislation relevant to the service area under review.

### **5. RISK ASSESSMENT**

- 5.1. Any weaknesses in the control framework, identified by Internal Audit activity, continues to threaten organisational objectives until recommendations are implemented.

### **6. BACKGROUND PAPERS**

- 6.1. Internal Audit Reports

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# Cotswold District Council

## Proposed Internal Audit Plan 2021/22

Page 77

The internal audit plan represents a summary of the proposed audit coverage that the internal audit team will deliver throughout the 2021/22 financial year.

### Introduction and Objective of the Audit Plan

Internal audit provides an independent and objective opinion on the Authority's risk management, governance, and control environment by evaluating its effectiveness.

Prior to the start of each financial year, SWAP, in conjunction with senior management, put together a proposed plan of audit work. The objective of our planning process and subsequent plan is to put us in a position to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.

The outcomes of each of the audits in our planned programme of work, will provide senior management and Members with assurance that the current risks faced by the Authority in these areas are adequately controlled and managed.

When reviewing the proposed internal audit plan (as set out in Appendix 1), key questions to consider include:

- Are the areas selected for coverage this coming year appropriate?
- Does the internal audit plan cover the organisation's key risks as they are recognised by the Senior Management Team and Audit Committee?
- Is sufficient assurance being received within our annual plan to monitor the organisation's risk profile effectively?

## Internal Audit Planning 2021/22

The proposed 2021/22 plan presented in Appendix 1 provides coverage of the Authority's key corporate objectives and risks as well as core areas of recommended coverage.

Internal audit is only one source of assurance and should be considered as such.

### Update to Approach

Due to the pace of change within Local Authorities, it is becoming increasingly difficult to accurately predict longer-term key organisational risks. Our approach to internal audit planning recognises this through a strategic 12 month rolling plan, whereby we have prepared an agile, risk assessed work plan containing key areas of coverage. This approach will ensure we are auditing the right areas, with the correct scope, at the right time.

We will revisit and adjust our programme of work on at least a quarterly basis to ensure alignment with the changing risk profile of the organisation's operations, systems and controls and with regard to sector risks. The regular input of Senior Management and review of the Authority's risk register will be considered in this process. Our 2021/22 audit plan will contain an element of contingency in order that the plan can remain flexible and respond to new and emerging risks as and when they are identified and may include unannounced activity.

The proposed audit plan at Appendix 1 provides coverage of the Authority's key corporate objectives and risks, as well as our core areas of recommended audit activity.

Internal audit coverage can never be absolute and responsibility for risk management, governance and internal control arrangements will always remain fully with management. Internal audit cannot provide complete assurance over any area, and equally cannot provide any guarantee against material errors, loss or fraud.

# Internal Audit Planning 2021/22

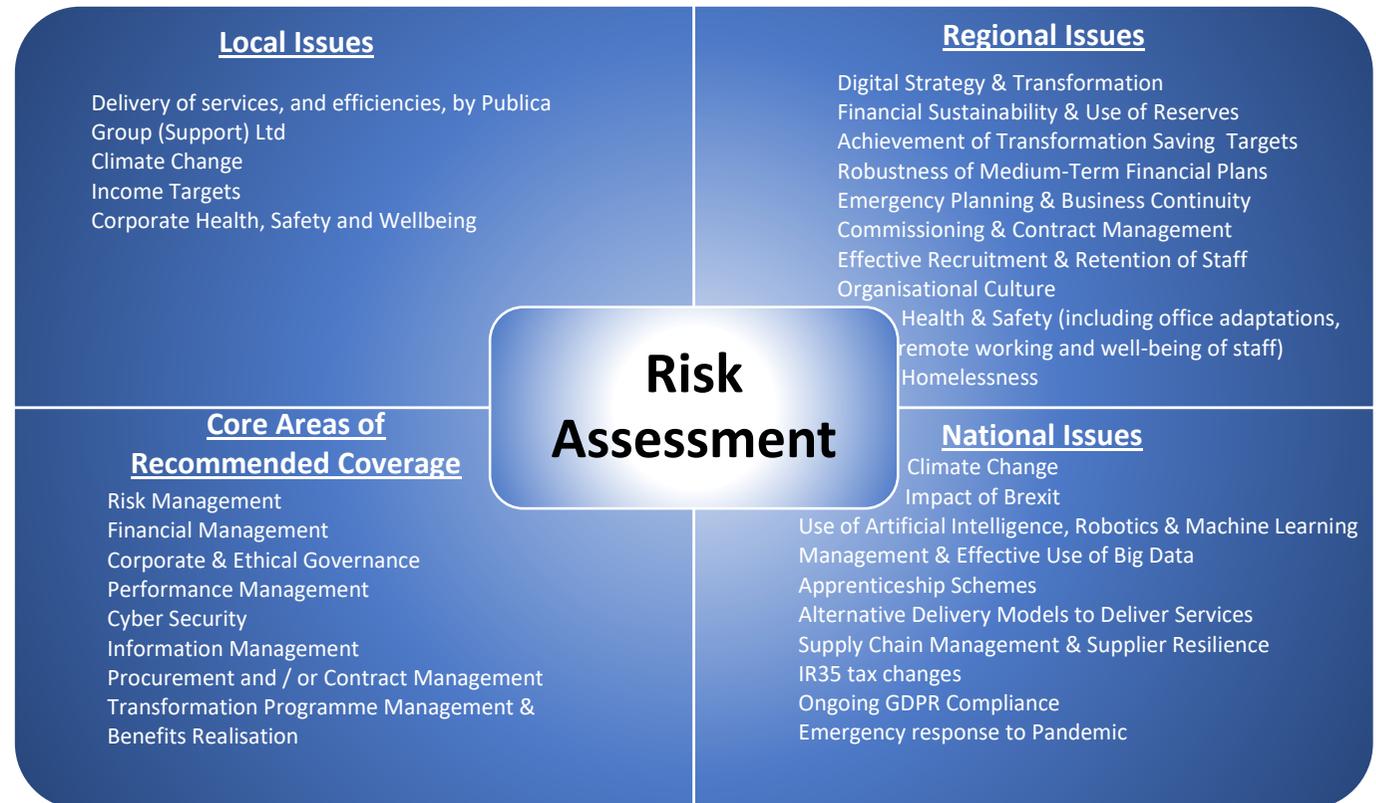
Our documented risk assessment helps to ensure that sufficient and appropriate areas are identified for consideration in our internal audit programme of work.

As above, it is the responsibility of the Authority's Senior Leadership Team, and the Audit Committee to ensure that, with consideration of our risk assessment, the overall programme of work throughout the year contains sufficient and appropriate coverage.

## Internal Audit Risk Assessment (updated)

Our 2021/22 internal audit programme of work is based on a documented risk assessment, which SWAP will revisit regularly, but at least annually. The input of senior management as well as review of the Authority's risk register has been considered in this process.

Below we have set out a summary of the outcomes of the risk assessment for Cotswold District Council



*It should be noted that the audit titles and high-level scopes included below are only indicative at this stage for planning our resources. At the start of each audit, an initial discussion will be held to agree the specific Terms of Engagement for the piece of work, which includes the objective and scope for the review.*

Areas of Coverage and Brief Scope	Responsible Officer
<b>Core Audit Areas</b>	
<p><b>Core Financials – Publica Controls and Transactional Testing</b>  <i>A review of the controls operating within Publica in respect of the Core Financial systems:</i></p> <ul style="list-style-type: none"> <li>• Payroll</li> <li>• Accounts Payable (Creditors) – to include regular check of potential duplicate payments and reporting to AP service for investigation</li> <li>• Accounts Receivable (Debtors)</li> <li>• Treasury Management and Bank Reconciliations</li> <li>• Main Accounting, Capital Accounting and Budgetary Control Depending on previous years audit assurances a high-level review may be deemed appropriate.</li> </ul>	<p><b>Group Finance Director</b></p>
<p><b>Human Resources</b>  <i>A review of an element of the Human Resources (HR) service – Suggested area to be reviewed is the Recruitment Process following changes to the system.</i></p>	<p><b>Group Manager Business Support</b></p>
<p><b>Other Publica Area</b>  <i>Review to be undertaken of either Procurement / Health and Safety / Insurance. Suggested area for review is Procurement, following update to the strategy, changes to limits / thresholds, ensuring BMs are complying with strategy.</i></p>	<p><b>Group Manager Business Support</b></p>
<p><b>Revenues and Benefits</b>  <i>A review of the controls operating in respect of:</i></p> <ul style="list-style-type: none"> <li>• Council Tax</li> <li>• National Non-Domestic Rates</li> <li>• Housing Benefit and Council Tax Support</li> </ul> <p><i>Scope to be confirmed</i></p>	<p><b>Group Manager Resident Services</b></p>

## Internal Audit Planning 2021/22

<p><b>ICT Audits</b>  <i>Proposed audits, following completion of Cyber Security review in 2020/21 include:</i></p> <ul style="list-style-type: none"> <li>• <i>Existence and Maintenance of an Inventory of Hardware Assets</i></li> <li>• <i>Inventory of Software Assets (Including Data Assets)</i></li> <li>• <i>Control of Accounts with Administrative Privileges</i></li> <li>• <i>Vulnerability Management</i></li> </ul>	<p><b>Group Manager Business Support</b></p>
<p><b>Risk Management</b>  <i>To review a specific element of the Council's Risk Management process</i>  <i>Review to follow-up 2020/21 audit</i></p>	<p><b>Group Manager Strategic Support</b></p>
<p><b>Performance Management</b>  <i>A review of an element of Performance Management</i>  <i>Scope to be confirmed</i></p>	<p><b>Group Manager Strategic Support</b></p>
<p><b>Proposed Audit Areas</b></p>	<p><b>Proposed Audit Areas</b></p>
<p><b>Leisure and Culture Facilities</b>  <i>Review to determine how the Council ensures the leisure service provider(s) are adhering to statutory Health and Safety regulations. Review to test requested confirmations for tests such as fixed wire testing, fire alarm systems and emergency lighting tests.</i></p>	
<p><b>Property Related Health and Safety</b>  <i>Review to assess the Health and Safety arrangements at the Council's properties including compliance with Fixed Wire, Emergency Lighting and PAT testing.</i></p>	
<p><b>Use of Third-Party Workers</b>  <i>Review of the recruitment and on-going personnel management of agency / contractor / temporary / third-party workers who work at / on behalf of the Council. Are HR related considerations, processes and controls robust enough within individual service areas?</i></p>	
<p><b>Climate Change</b>  <i>Review to assess what business areas are doing to support the Council's commitment to the Climate Emergency.</i></p>	
<p><b>Environmental Regulatory Services (ERS) Flooding and Drainage Team</b>  <i>Request to review the service area – full scope to be determined with the Business Manager for the service.</i></p>	
<p><b>Building Control</b>  <i>Review of the Building Control process offering suggestions for improvement where appropriate.</i></p>	
<p><b>Reporting of Statutory Planning Application Data</b>  <i>Review to assess the accuracy and timeliness of statutory data published in respect of planning applications.</i></p>	

## Internal Audit Planning 2021/22

<p><b>Section 106 Agreements and Funds (to include CIL)</b>  <i>Audit to revisit area following implementation of Exacom to ensure recommendations from previous audit have been actioned.</i></p>	
<p><b>Asset Management and Commercial Property</b>  <i>Follow-up assurance review of the audit completed in 2020/21.</i></p>	
<p><b>Mechanism for Charging Councils</b>  <i>Assessment of the revised framework for the recharging of Publica services to the Council(s) to include Support Cost Recharges and Contract Variations.</i></p>	
<p><b>Monitoring the Performance of Strategic Partnerships</b>  <i>Non-opinion review to assess how the Council monitors performance and risks of strategic partnerships.</i></p>	
<p><b>Publica Performance Information</b>  <i>Analysis of performance information presented to the Council.</i></p>	
<p><b>Recovery Investment Strategy</b>  <i>Support to the Council on the Recovery Investment Strategy.                      Scope to be confirmed.</i></p>	
<p><b>Election Expenses</b>  <i>Review to ensure election expenses are appropriately processed, including the treatment of VAT.</i></p>	
<p><b>Emergency Planning</b>  <i>Review of The Council's Emergency Planning. Audit to include procedures, co-ordination team stand-up / stand-down triggers, communication within teams etc to gain assurance that the framework is strong to support communities when any future emergency occurs.</i></p>	
<p><b>Ubico</b>  <i>Support in respect of undertaking due diligence on Ubico's Business Case for the introduction of a new shareholder.</i></p>	
<p><b>Ubico</b>  <i>Service Improvement Programme.                      Scope to be confirmed.</i></p>	
<p><b>Return to Work (following the easing of Lockdown Restrictions)</b>  <i>Assessment of the approach for ensuring the safety of officers when returning to the offices as and when restrictions are lifted.</i></p>	
<p><b>Business Grant Post Payment Assurance</b>  <i>Post payment assurance on business grants applied for, and paid, during December 2020 – March 2021.</i></p>	
<p><b>Covid-19 Related Assurance</b>  <i>Provision to allow for any assurance work required in respect of Covid-19.</i></p>	

<p><b>Further requested assurance / advisory / support work, as required which could include any Covid-19 related matters</b></p>	
<p><b>Other Audit Involvement</b></p>	
<p><b>Management</b>  <i>Preparation of IA Monitoring Reports and preparation and attendance at Audit Committee. Annual Audit Planning. Attendance at Governance and Risk Groups. High level programme monitoring. Liaison meetings with CFOs and Management Teams.</i></p> <p><b>Follow-Up Audits</b>  <i>Follow-Up of Previous Year’s recommendations.                  Follow-Up audit of all High Priority Recommendations.</i></p> <p><b>Grant Certification</b>  <i>Review (income and expenditure) and certification of Disabled Facilities Grants and Additional Funding, ensuring finding requirements have been met.</i></p> <p><b>Working with the Counter Fraud Unit</b>  <i>Provision to ensure collaborative working with the CFU and to ensure control weaknesses, identified during CFU activity, are being actioned. Regular liaison meetings.</i></p> <p><b>Contingency</b>  <i>Provision for new work based on emerging risks and Investigations.</i></p>	

# Cotswold District Council

## Internal Audit Charter 2021/22

Page 85

# The Internal Audit Charter

## Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within Cotswold District Council (CDC), and to outline the scope of internal audit work.

## Provision of Internal Audit Services

Internal Audit is provided by SWAP Internal Audit Services (SWAP). This Charter forms part of the legal agreement between SWAP partners and should be read in conjunction with the Service Agreement and other key documents including the Data Sharing Protocol.

The budget for the provision of the internal audit service is determined by CDC, in conjunction with the SWAP Members Meeting. General financial provisions are laid down in the legal agreement, including the level of financial contribution, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment which is reviewed each year by the S151 Officer in consultation with the Chief Executive of SWAP.

## Role of Internal Audit

The Accounts and Audit (England) Regulations, state that: *“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance.”*

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Organisation’s operations. It helps CDC accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

## Responsibilities of Management, the Audit Committee and of Internal Audit

### **Management<sup>1</sup>**

Management is responsible for ensuring SWAP has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Council’s Chief Executive and the Audit Committee.

Management is responsible for establishing (including the tracking and implementation of Internal Audit recommendations) and maintaining internal controls, including proper accounting records and other management information and is also responsible for the appropriate and effective management of risk.

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<sup>1</sup> In this instance Management refers to the Senior Management Team

**Audit Committee<sup>2</sup>**

The Audit Committee is responsible for approving the scope of internal audit work, receiving communications from the SWAP Assistant Director (as Chief Audit Executive<sup>3</sup>) on the progress and outcomes of work undertaken, reviewing the independence, objectivity, performance, professionalism and effectiveness of the Internal Audit function, and obtaining reassurance from the SWAP Assistant Director as to whether there are any limitations on scope or resources.

**Internal Audit**

The SWAP Assistant Director is responsible for determining the scope, except where specified by statute, of internal audit work and for recommending action to be taken on the outcome of, or findings from, their work designed to provide assurance and add value.

Internal audit is responsible for operating under policies established by management in line with good practice. A range of SWAP policies exist to underpin staff and service development, including to seek out and implement new innovative audit techniques and increase technological solutions to ensure provision of an efficient and effective service and consolidate the role of Trusted Advisor.

Internal audit is responsible for conducting its work in accordance with the mandatory elements of the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. SWAP has been independently assessed and found to conform with the Standards.

Internal Audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. Members of SWAP who have transferred in to the department from other areas in Cotswold District Council and / or Publica Group (Support) Ltd will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

**Relationship with the External Auditors/Other Regulatory Bodies**

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

**Status of Internal Audit in the Organisation**

\*The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

The Chief Executive for SWAP and Assistant Director also report to the Section 151 Officer, and to the Audit Committee as set out below.

The Assistant Director is the first and primary contact point for the organisation on matters relating to the Audit Committee, including the provision of periodic reports, as per company policy. The Assistant Director is also responsible for design, development and delivery of audit plans, subject to agreement of CDC.

<sup>2</sup> In this instance Audit Committee relates to "The Board" referred to in the PSIAS.

<sup>3</sup> PSIAS refers to the 'chief audit executive'.

## Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of the organisation.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information used for operational and strategic decision making, and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management and communication of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls regarding the objectives of the organisation and its services;
- reviewing systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the organisation complies;
- reviewing, as appropriate, the means of safeguarding and verifying assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether they are being carried out as planned, with performance and accountabilities established;
- reviewing the operations of the organisation in support of their anti-fraud and corruption policy (and investigating where necessary), ethical expectations and corporate, social and environmental values and responsibilities; and
- at the request of management, internal audit may provide consultancy services (e.g. data analytics, benchmarking, strategic/project reviews/investigations etc) provided that:
  - independence is not compromised;
  - necessary skills exist to conduct the assignment, or which can be obtained without undue cost or delay;
  - the assignment scope is clearly defined and management can resource the work; and
  - there is clarity that the activity being undertaken is not internal audit work although the outcomes may contribute to the annual opinion.

## Planning and Reporting

SWAP will submit an internal audit plan to Management and the Audit Committee for approval, setting out the recommended scope of work and which will be developed with reference to current and emerging risks. The plan will be reviewed quarterly to ensure it remains relevant and adequately resourced.

SWAP will carry out the work as agreed, report the outcomes and findings both during and on completion of reviews, and make recommendations on action to be taken to the appropriate officers and copied to the S151 Officer. SWAP will present a regular summary of their work to Management and the Audit Committee, including assessing the organisation's implementation of previous recommendations along with any significant, persistent and outstanding issues.

Internal audit reporting will normally comprise a brief presentation to relevant officers and accompanied by an appropriately detailed written report, with the format tailored as necessary to the nature of the work.

The Assistant Director will submit an annual report to Management and the Audit Committee providing an overall opinion of the status of risk and internal control within CDC based upon, and limited to, internal audit activity conducted during the year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and Assistant Director (Chief Audit Executive) have the unreserved right to report directly to the Leader of the Council, the Chair of the Audit Committee, the Chief Executive Officer and the External Audit Manager.

***Revised, March 2021***



# Agenda Item 12

 <p><b>COTSWOLD</b> DISTRICT COUNCIL</p>	<p><b>COTSWOLD DISTRICT COUNCIL</b></p>
<p>Name and date of Committee</p>	<p><b>AUDIT COMMITTEE – 29 APRIL 2021</b></p>
<p>Report Number</p>	<p><b>AGENDA ITEM 12</b></p>
<p>Subject</p>	<p><b>DRAFT ACCOUNTING POLICIES 2020-2021</b></p>
<p>Wards affected</p>	<p>All</p>
<p>Accountable member</p>	<p>Cllr Mike Evely, Cabinet Member for Finance Email: <a href="mailto:mike.evely@cotswold.gov.uk">mike.evely@cotswold.gov.uk</a></p>
<p>Accountable officer</p>	<p>Jenny Poole, Chief Finance Officer Tel: 01285 623313 Email: <a href="mailto:jenny.poole@cotswold.gov.uk">jenny.poole@cotswold.gov.uk</a></p>
<p>Summary/Purpose</p>	<p>This report presents the accounting policies to be included in the 2020/21 Statement of Accounts. This provides Members with the opportunity to review and approve the policies in advance of the preparation of the Statement of Accounts 2020/21. Approving the accounting policies in advance of preparation of the accounts represents best practice.</p>
<p>Annexes</p>	<p>Annex A – Draft Statement of Accounting Policies</p>
<p>Recommendation/s</p>	<p>That the Audit Committee considers and approves the accounting policies for 2020/21.</p>
<p>Corporate priorities</p>	<p>Ensure that all services delivered by the Council are delivered to the highest standard.</p>
<p>Key Decision</p>	<p>No</p>
<p>Exempt</p>	<p>No</p>
<p>Consultees/ Consultation</p>	<p>None</p>

## **1. BACKGROUND**

- 1.1.** The Council's External Auditor, Grant Thornton LLP recommend that Members formally approve the draft Statement of Accounting Policies to be included in the Statement of Accounts before the closedown process is undertaken.
- 1.2.** Such approval demonstrates that those charged with governance have had the chance to consider and review the draft policies and are aware of the policies to be applied in closing the Council's accounts for 2020/21 in advance of the process.
- 1.3.** The Committee will approve the Statement of Accounts, receive the Audit Findings Report, and sign the letter of Representation as those charged with governance at a future Audit Committee meeting

## **2. MAIN POINTS**

- 2.1.** The financial year ended on 31 March 2021. Finance staff are currently working on preparation of the draft Statement of Accounts, subject to audit for 2020/21. It is considered best practice for those charged with governance to review and approve the Accounting Policies prior to the meeting at which the Statement of Accounts will be approved.
- 2.2.** The draft Accounting Policies are included at Annex A. They are prepared largely from the CIPFA guidance, adjusted as appropriate to be suitable for the Council. There may be certain matters arising during preparation of the Statement for accounts which will require the draft Accounting Policies to be updated. For example, CIPFA may issue updates to guidance. The final version of the Accounting Policies will be form part of the final audited Statement of Accounts when presented to this Committee.
- 2.3.** The Council prepares its Statement of Accounts in accordance with proper accounting practices and regulations following the CIPFA Code of Practice on Local Government Accounting (The Code) supported by International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs).
- 2.4.** The Statement of Accounting Policies outlines the relevant accounting principles, bases, conventions, rules and practices applied by the authority in preparing and presenting its financial statements. They aid understanding of the Statements and aid comparison with other organisations. Proposed additions and changes to the accounting policies in 2020/21 are highlighted in yellow in Annex A. These changes provide additional information for the user of the accounts as suggested by CIPFA guidance notes and do not represent material change to the Statement of Accounting Policies in 2020/21.

## **3. FINANCIAL IMPLICATIONS**

- 3.1.** Although there are no direct financial implications from this report, the application of the Statement of Accounting Policies can have an effect on the income and expenditure reported by the Council. Any impact arising will be detailed in the Statement of Accounts.

**4. LEGAL IMPLICATIONS**

- 4.1.** There are no direct legal implications, except to the extent that compliance with the Accounting Code of Practice under which the accounts are prepared is mandatory.

**5. RISK ASSESSMENT**

- 5.1.** If the Council's Accounting Policies are not followed, during preparation of the Statement of Accounts, external audit may decide that the Statement of Accounts is misstated. Officer training in advance of preparation of the Statement of Accounts and an associated Annual review of these policies mitigates the risk.

**6. EQUALITIES IMPACT**

- 6.1.** There is no impact

**7. CLIMATE AND ECOLOGICAL IMPLICATIONS**

- 7.1.** There is no impact

**8. ALTERNATIVE OPTPIONS**

- 8.1.** The Audit Committee may consider amendments to the Accounting Policies in addition to those set out in Annex A.

**9. BACKGROUND PAPERS**

- 9.1.** Internal Audit Reports

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## E1. Accounting Policies

### i) General Principles

The Statement of Accounts summarises the Authority's transactions for the financial year and its position at the 31st March year-end. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, those regulations which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom* supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

These accounts have been prepared on the assumption that the Council is a going concern.

### ii) Accruals of Income and Expenditure

Activity is accounted for in the year it takes place, not when physical cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption they are carried as inventories [stock] on the Balance Sheet, where the value is material.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument ("what is due") rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. For all debts outstanding at the balance sheet date the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### iii) Cash and cash equivalents

Cash and cash equivalents are represented by cash in hand and deposits with financial institutions repayable, without penalty, on notice of not more than 24 hours. This includes bank call-accounts, Money Market Funds (MMF) and any other 'overnight-type' investments.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the authority's cash management.

### iv) Exceptional items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

### **i) Charges to revenue for non-current assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the services where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance [Minimum Revenue Provision (MRP)], by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **ii) Council Tax and Non-Domestic rates – England**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

#### Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made, the asset is written down and a charge made to the taxation and non-specific grant income and expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

### **iii) Employee benefits**

#### Benefits payable during employment (updated)

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority.

Prior to 2017/18, an accrual was made for the cost of holiday entitlement (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end. The cost of leave carried-forward into the next financial year would be entered into the accounts as a creditor as the leave will be a cost (either in monetary terms of lost productive time) in the new year. In 2017/18 the Council TUPE-transferred the majority of its staff to Publica Group (Support) Limited. Due to the vastly reduced number of staff at the Council, a balance is no longer maintained for the cost of untaken annual leave, as the figures involved are not material to the accounts.

#### Termination benefits

Termination benefits are amounts payable as a result of decisions by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. Amounts are charged on an accruals basis to the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or the employee in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the pension reserve to remove the notional debits and credits for pension enhancements termination benefits and replace them with debits for cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

#### **iv) Post-employment benefits**

Employees of the Authority are permitted to join of the Local Government Pension Scheme, administered by Gloucestershire County Council. This scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

#### The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Gloucestershire County Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method. This is an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of future earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the gross redemption yield on the Iboxx Sterling Corporate Index, AA over 15 years, at the IAS19 valuation date. This is a high quality corporate bond of equivalent term and currency to the liability.
- The assets of the Gloucestershire County Council Pension Fund attributable to the Authority are included in the balance sheet at their fair value.
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value

The change in the net pension liability is analysed into the following components:

- Service cost comprising:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - past service cost- the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to

the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement

- net interest of the net defined benefit liability, i.e. net interest expense for the authority – the change during the period in the net defined benefit liability that arises from the passage of time charged to the financing and investment income and expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- Remeasurements comprising
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the pensions reserve as other comprehensive income and expenditure
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the pensions reserve as other comprehensive income and expenditure.
  - contributions paid to the Gloucestershire County Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

#### **v) Fair value measurement**

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

#### **vi) Financial instruments**

**Financial liabilities** are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

Any borrowing that the Authority may undertake would be presented in the Balance Sheet at the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid, where material. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

**Financial assets** are classified based on a principles based classification and measurement approach that reflects the business model for holding the assets (i.e. why are we holding the asset) and the characteristics of the cash flows. There are three main classifications:

- Amortised cost
- Fair value through profit or loss (FVPL), and
- Fair value through other comprehensive income (FVOCI)

#### Financial Assets at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

#### *Expected Credit Loss Model*

The Council recognises material expected credit losses on its financial assets held at amortised cost, either on a 12-month or lifetime basis except for those where the counterparty is central government or another local authority, where relevant statutory provisions prevent default. The

expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors).

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Where credit risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

#### Financial Assets at Fair Value through Profit or Loss (FVPL)

Financial assets measured at fair value through profit or loss are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

Fair value is measured in accordance with the Council's Fair Value Measurements policy (see viii above). Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Council has chosen to apply statutory provisions for mitigating the impact of fair value movements on Pooled Investment Funds as directed in the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2018 [SI 2018/1207]. This allows (where relevant criteria are met) for fair value gains and losses on Pooled Investment Funds to be reversed to an account established solely for the purpose of recognising fair value gains and losses – the Pooled Investment Funds Adjustment Account.

This statutory provision ceases on 31 March 2023.

#### Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)

Financial assets that are measured at fair value through other comprehensive income are recognised on the balance sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in other comprehensive income.

#### **vii) Government grants and contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contributions have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is only then credited to Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Most Section 106 grant contributions that the Council holds have conditions that require the contribution to be returned if the contribution remains unspent after 5 years. Although it is highly probable that the conditions will be met, it is not guaranteed. Section 106 contributions are therefore held on the balance sheet as creditors. Similarly, where grants have been received for specific projects these are treated as grants with conditions [creditors] until the project has begun or the item of equipment to which the grant relates has been purchased.

### **Community Infrastructure Levy**

The authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) with appropriate planning consent. The council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However a proportion of the charges for this authority may be used to fund revenue expenditure. A share of the charges which are due to be payable to the Town and Parish Councils will remain in creditors (receipts in advance) until due.

### **viii) Heritage assets**

Heritage assets are those assets that are held and maintained principally for their contribution to knowledge and culture.

The Council owns the Corinium Museum in Cirencester. The museum contains a large number of artefacts, with a particular specialism in the Roman heritage of Cirencester and the surrounding area. Many of the items in the Museum collection meet the classification of Heritage Assets adopted by the Code [FRS102].

Where assets have been purchased or recently obtained, information on their cost or value will be available. The Code allows that where this information is not available, or cannot be obtained at a value which is commensurate with the benefits to users of the financial statements, that the assets need not be recognised in the Balance Sheet. The majority of the Council's museum collection has not been included on the Council's Balance Sheet.

When purchased or where a value is available, heritage assets are recognised on the balance sheet at historic cost. Assets within the museum collection are deemed to have indeterminate lives; hence, the authority does not consider it appropriate to charge depreciation on those heritage assets on the Council's balance sheet. Due to the nature of the type of assets held, the Council's heritage assets are not subject to revaluation and will only be impaired if there is clear reason to suspect the assets have become impaired.

### **ix) Intangible assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the authority. Intangible assets are measured initially at cost.

The depreciable amount of an intangible asset is amortised over its useful life (usually 4 years) to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. The Council carries no internally generated intangible assets on its balance sheet.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund

balance in the Movement in Reserves Statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

#### **x) Inventories and long-term contracts**

Inventories [stocks] are included in the Balance Sheet at cost.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

#### **xi) Investment property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or if it is classified as held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are subject to a review at year-end to determine whether market conditions require properties to be revalued. Any gains or losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income and Expenditure line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account or (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

#### **xii) Leases**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and building elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

#### **The Authority as lessee**

##### Finance leases

Property, plant and equipment held under a finance lease is recognised on the Balance Sheet at the commencement of the lease at its fair value, measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the authority may be added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the asset – applied to write down the lease liability, and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Authority at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in Accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### Operating leases

Lease payments made under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased asset.

### **The Authority as lessor**

#### Finance leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Any gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement on Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

#### Operating leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the "Other Operating Expenditure" line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset (if material) and charged as an expense over the lease term on the same basis as rental income.

### **xiii) Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment (PPE).

#### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense when it is incurred.

The Council's capitalisation de minimis is £10,000, except for where the sum of a group of assets is significant, such as waste collection bins and boxes or ICT equipment.

#### Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The 'cost' of an asset acquired other than by purchase is deemed to be its fair value, unless the acquisition was for no monetary value. Where the purchase of an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Assets are carried in the Balance sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- Surplus assets – 'highest and best use'
- all other classes of asset – 'current value', determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of 'current value' because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of 'current value'.

Items of equipment, which have short useful lives or low values (or both), are held on the balance sheet at depreciated historical cost, as an approximation of 'current value'.

Assets included in the balance sheet at current value are revalued to ensure that their carrying amount is not materially different from their value at year-end. All land and buildings are revalued at least every 5-years as part of a rolling programme. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where items or property plant and equipment are revalued, and the valuers identifies an asset which has component parts that have significantly different useful lives, where one or more parts represent a significant proportion of the overall asset, then the asset may be componentised. With componentisation, one or more constituent parts may be identified, and the component parts separately valued for the accounts and depreciated over different useful lives to the main asset. Useful economic lives (and therefore depreciation calculations) will be based upon the asset lives recommended by the Council's valuers.

Upon revaluation, where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gain)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

#### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications 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.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

#### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets. Assets are written-down over the useful life of the asset. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are under construction (and not yet available for use).

Depreciation is calculated on the following bases:

- Operational buildings and surplus property – depreciated on a straight-line basis, over a 40-year period (unless the Council's Valuer deems an asset life materially different to this).
- Car Park depreciable components (surface) – 20 years
- Land is not depreciated
- Vehicles, plant, furniture and equipment – depreciated on a straight-line basis, over a 4-year period
- Investment property is not depreciated

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

#### Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and current value less costs to sell.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified as non-current assets (Property, Plant and Equipment or Investment assets) and valued at the lower of their carrying amount before they were classified as held for sale (adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale), and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any accumulated revaluation gains held for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for disposal in excess of £10,000 are categorised as capital receipts and can then only be used for new capital investment [or set aside to reduce the authority's underlying need to borrow (the capital financing requirement) Receipts are appropriated to the reserve from the General Fund balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the capital adjustment account from the General Fund balance in the Movement in Reserves Statement.

#### **xiv) Provisions, contingent liabilities and contingent assets**

##### Provisions

Provisions are made where an event has taken place that gives the Authority 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.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and certainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

##### Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Any material contingent liabilities are disclosed in the notes to the accounts.

##### Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in the notes to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

#### **xv) Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance, via the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then charged back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement & employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

#### **xvi) Revenue Expenditure Funded from Capital Under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources, or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account to reverse out the amounts charged so there is no impact on the level of council tax.

#### **xvii) Value Added Tax**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income

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 <p><b>COTSWOLD</b> DISTRICT COUNCIL</p>	<p><b>COTSWOLD DISTRICT COUNCIL</b></p>
<p>Name and date of Committee</p>	<p><b>AUDIT COMMITTEE – 29 APRIL 2021</b></p>
<p>Report Number</p>	<p><b>AGENDA ITEM 13</b></p>
<p>Subject</p>	<p><b>INFORMING THE AUDIT RISK ASSESSMENT – EXTERNAL AUDIT ASSURANCE</b></p>
<p>Wards affected</p>	<p>All</p>
<p>Accountable member</p>	<p>Cllr. Mike Every Deputy Leader and Cabinet Member for Finance</p>
<p>Accountable officer</p>	<p>Jenny Poole, Chief Finance Officer Jenny.Poole@cotswold.gov.uk 01285 623313</p>
<p>Summary/Purpose</p>	<p>For the Audit Committee to discuss its response to the Council’s external auditors (Grant Thornton LLP) regarding how the Audit Committee gains assurance on matters such as fraud, breaches of internal control, compliance with laws and regulations and accounting estimates.</p>
<p>Annexes</p>	<p>Annex A – “Informing the Audit Risk Assessment 2020/21” Annex B – “Accounting Estimates Management Summary 2020/21”</p>
<p>Recommendation/s</p>	<p>a) <i>That the Committee confirm their understanding and agreement with the responses provided by management to the auditors in Annex A.</i> b) <i>That the Committee are also asked to confirm their understanding and agreement with the approach to estimates set out in Annex B</i> c) <i>If any Committee members have, any further comments or observations in respect of any of the areas set out in either document, they should make them know to the auditors.</i></p>
<p>Corporate priorities</p>	<p>Ensure that all services delivered by the Council are delivered to the highest standard.</p>
<p>Key Decision</p>	<p>No</p>
<p>Exempt</p>	<p>No</p>
<p>Consultees/ Consultation</p>	<p>Chief Finance Office, Monitoring Officer, Chief Executive, Counter Fraud Manager, SWAP Internal Audit.</p>

## **1. BACKGROUND**

- 1.1.** Each year the Council's external auditor is required to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council. In addition, auditors need to understand how those charged with governance gain assurance that the Council complies with all relevant laws and regulations.
- 1.2.** A revision to auditing standard ISA (UK) 540 (Auditing Accounting Estimates and Related Disclosures) has resulted in significant enhancements in respect of the audit risk assessment process for accounting estimates. Auditors are required to understand and assess an entity's internal controls over accounting estimates, including ensuring that those charged with governance can satisfy itself that arrangements for accounting estimates are adequate. There are consequently a number of more detailed questions in respect of accounting estimates in **Annex B** than have been included in previous years. They relate to management's methods, assumptions and controls in respect of material accounting estimates included in the accounts.
- 1.3.** Attached at **Annex A** and **B** is the Council's proposed response to the questions posed to the Council by the external auditor, Grant Thornton LLP.

## **2. MAIN POINTS**

- 2.1.** The draft responses have been prepared by the Council's Deputy Chief Executive and her team.
- 2.2.** The Committee are asked to confirm their understanding and agreement with the responses provided by management to the auditors in both Annex A and Annex B. Should any members have any further comments or observations in respect of any areas set out in either document they are asked to make them known to the auditors.

## **3. FINANCIAL IMPLICATONS**

- 3.1.** None directly arising from this report.

## **4. RISK ASSESSMENT**

- 4.1.** None

## **5. BACKGROUND PAPERS**

- 5.1.** None

(END)

# Informing the audit risk assessment for Cotswold District Council

2020/21

Page 111

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	10
Fraud Risk Assessment	11
Laws and Regulations	23
Impact of Laws and Regulations	24
Related Parties	27
Accounting Estimates	30
Accounting Estimates - General Enquiries of Management	31

## Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Authority's external auditors and the 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), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) 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,
- Related Parties, and
- Accounting Estimates.

## Purpose

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>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p> <p>Page 116</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. Staff have been redeployed to work on Covid-19 related tasks including the processing and distribution of business grants.</p> <p>The Council has dealt with significant challenges in the year as it deals with the continuing crisis.</p> <p>Covid-19 will have a significant impact on several areas of the financial statements including reductions in the level of investment income received, the level of aged debt held by the Council will be considered for impairment and the accounting treatment of significant grant funding from central government.</p> <p>Land and property valuations are also expected to be affected by the uncertainty caused by the pandemic.</p>
<p>2. 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.</p> <p>The Government Grants and Contributions policy will be updated in the 2020/21 statement to reflect the treatment of Covid-19 business grants and an assessment of whether the Council is acting as agent or principal. Will also consider disclosure of this as a critical judgement within the statement of accounts.</p> <p>The implementation of IFRS 16 has been delayed by a further year, the policy has therefore not been updated.</p>

# General Enquiries of Management

Question	Management response
3. Is there any use of financial instruments, including derivatives?	<p>The Council's financial instruments include: investments, cash equivalents, debtors, 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 Arlingclose. Strategic investment reviews take place during the year with senior officers including consequent report and consultation with the Audit Committee.</p> <p>The Council's financial instruments do not include any derivative arrangements.</p>
4. Are you aware of any significant transaction outside the normal course of business?	<p>A pension lump sum deficit contribution of £4.9m was made to Gloucestershire Pension Fund in April 2020.</p> <p>A potential significant year end debtor or creditor with central government in respect of Covid-19 Business Grants where the Council has acted as agent.</p>

Page 1

# General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	None in 2020/21.
6. 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.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you 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?	<p>A number of external solicitors are engaged on an ad hoc basis when there is no capacity in house. However none are engaged on a contentious matters. The external solicitors are used to support the in house team on non contentious matters such as property transactions and S.106 work.</p> <p>Firms engaged include Trowers and Hamlins, Bevan Britton, FTB Chambers, Albion Chambers and Martin Evans &amp; Co</p>

# General Enquiries of Management

Question	Management response
9. 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.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Tax Advice (operational) provided by EY Arlingclose – Treasury advice Hymans Robertson – Pension Actuary Pixel Financial Management and LG Futures – Financial Advisory Service regarding government funding including Business Rates. Carter Jonas – Property consultancy advice and architectural fees

# Fraud

## Issue

### Matters in relation to fraud

ISA (UK) 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>1. Have 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 Rules, 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 Deputy Chief Executive in her role as 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 Corporate Enforcement 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 Work 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>

Page 121

# Fraud risk assessment

Question	Management response
<p>1. Cont. 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>Page 122</p> <p>How do 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. Internal investigations have taken place by the Counter Fraud Unit and appropriate action has been taken and reported where appropriate.</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 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 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>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Revenue – streams such as Council Tax, Business Rates and any rental income</p> <p>Grants / Benefits – Business Grants, Council Tax Reduction Scheme (and Housing Benefit), Track and Trace Support Payments</p> <p>Expenditure – procurement and contract management</p>

# Fraud risk assessment

Question	Management response
<p>3. 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 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Any instances of actual, suspected or alleged fraud, error or other irregularities that are identified are reported to Corporate Management and the Audit Committee.</p> <p>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. A criminal case relating to fraud and theft that is awaiting trial relates to a previous member of staff who was dismissed for gross misconduct.</p> <p>In some instances recommendations have been made in respect of control procedures and reports are issued to the appropriate Service Leads and Governance Group.</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. Performance against the Internal Audit Plan and Counter Fraud Plan and any specific issues identified are reported quarterly/half yearly to the Audit Committee. The Council's Overview and Scrutiny Committee also receives the Council's quarterly performance reports, which includes risk registers and financial performance.</p>
<p>4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Authority where fraud is more likely to occur?</p>	<p>The main areas of abuse relate to fraud associated with benefits to include the Councils Council Tax Reduction Scheme although reviews and verification processes within the department keep this to a minimum. In addition abuse relating to Council Tax and Business Rates avoidance / evasion affects a main revenue stream and due to the pandemic, abuse of Business Grants is a significant fraud risk area.</p>

# Fraud risk assessment

Question	Management response
<p>4. Cont. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Authority where fraud is more likely to occur?</p> <p>Page 124</p>	<p>Both Internal Audit and the Counter Fraud team have been engaged with: establishing the processes for determining and paying Business Grants as well as the pre and post payment assurance work.</p> <p>Some high risk areas are no longer within the domain of the Council - depot services are managed by Ubico, leisure matters are contracted out and the Council does not retain housing stock therefore Tenancy Fraud is not a concern although Housing Application abuse remains an area that requires monitoring.</p> <p>There are low risk internal areas such as mileage expense abuse but this is not significant due to the pandemic. Recruitment and payroll are also areas which are open to abuse.</p> <p>Procurement fraud, specifically within departments such as Property Services, remains an area susceptible to abuse because of the significantly high levels of expenditure.</p> <p>Regarding external fraud, both Internal Audit and the Counter Fraud Unit have undertaken work around serious and organised crime but this is not recognised as a significant issue affecting Cotswold District Council.</p> <p>Cyber related crime remains a significant risk for the Council and this is managed and reported on by the ICT Team.</p> <p>It cannot be stated that fraud will not occur, but I would not consider one area being significantly at risk. I would add that there is a current increased risk of fraud across the Council due to the pandemic, especially with the payment of NNDR and Community Grant payments.</p>

# Fraud risk assessment

Question	Management response
5. What processes do the Authority have in place to identify and respond to risks of fraud?	<p>The existence of the Counter Fraud Unit as a permanent dedicated service significantly mitigates fraud risk generally. 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 and referring to recommendations by the Home Office and other professional bodies. The team undertakes reactive investigation work where a referral is received and where necessary, proactive fraud drives in high risk areas.</p> <p>The Counter Fraud Unit have promoted and introduced processes for internal and external reporting for both staff and by members of the public. Whistleblowing is becoming more effective as a result.</p> <p>There are many financial controls around the validity and payment of invoices and we are working with HR re recruitment controls in place to ensure all new employees are vetted properly and that staff recognise fraudulent qualifications</p> <p>Work is developing in relation to gifts and hospitality procedures and conflicts / declarations of interest by staff.</p> <p>The CFU assist with NFI data matching and undertake our own data matching exercises where risk has been identified.</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 Council also receives updates on national fraud activity from its Internal Audit provider. These updates are circulated to relevant Officers to raise awareness, to enable fraud attempts to be identified and addressed accordingly and to ensure that internal controls are updated.</p>

# Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for the Authority, including:</p> <ul style="list-style-type: none"><li>• the existence of internal controls, including segregation of duties; and</li><li>• the process for reviewing the effectiveness the system of internal control?</li></ul>	<p>The Council’s internal audit service is provided by SWAP Internal Audit Services (SWAP). SWAP provide the Council with an annual audit opinion 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>

Page 126

# Fraud risk assessment

Question	Management response
<p>6. Cont. How do you assess the overall control environment for the Authority, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</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>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> <p>N/A</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>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>7. 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 Deputy Chief Executive in her role as 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>

# Fraud risk assessment

Question	Management response
<p>8. How do the Authority communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <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 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. The Procurement Team have included statements on all tender / quote documentation detailing the Councils approach to modern slavery, ethical procurement and supporting local businesses</p> <p>The Counter Fraud Team remit includes staff and Member awareness sessions and alerts where necessary to encourage reporting which is further complemented 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>

Page 128

# Fraud risk assessment

Question	Management response
<p>8. Cont. How do the Authority communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <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>No significant issues have been reported in 2020/21. Staff are expected to report any concerns they have about fraud or the misuse of public funds. 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 will be made in respect of control processes.</p>
<p>9. 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>Contract procurement posts, high level budget controllers/approvers, ICT staff with high level system access. 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> <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. These checks are designed to prevent inappropriate individuals from entering the workplace – prevention is always the best control.</p> <p>Many Local Government staff are susceptible to duress and corruption due to the nature of their duties - housing teams, Council Tax officers, Planning staff, however there must be a level of trust within the organisation to promote a healthy working environment. Staff are required to declare any conflict of interests and to complete returns on gifts and hospitality.</p>

Page 129

# Fraud risk assessment

Question	Management response
<p>10. 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>Service providing organisations such as Ubico and Publica all give rise to fraud risk which may affect the Council.</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 from the meeting. Members and Officers are also required to 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. Transparency, audit and scrutiny practices across these partnerships and more generally Local Government.</p>

Page 130

# Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</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 biannually to Committee.</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. Whistle Blowing 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> <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 Committee and Overview and Scrutiny Committee.</p>

Page 131

# Fraud risk assessment

Question	Management response
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	<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 no whistle blowing reports of fraud during the year. Where there are reports, appropriate action would be taken, and if warranted a report would be made to the Audit Committee and recommendations for improvements to internal controls issued to Corporate Management to be followed up by internal audit.</p>
13. Have any reports been made under the Bribery Act?	None.

Page 132

# Law and regulations

## Issue

### Matters in relation to laws and regulations

ISA (UK) 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>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations? 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>Internal Audit reviews are designed to ensure that 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>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 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 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. 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 Deputy Chief Executive in her role as Chief Finance Officer is responsible for preparing the Statement of Accounts in accordance with the relevant legal and regulatory requirements.</p> <p>The Government's response to the Covid-19 pandemic has changed various regulations especially in relation to Environmental and Regulatory Services, changes to Council decision making meetings (virtual meetings rather than physical presence), Business Rate Relief and Business Grants. The Council has received grants from Government, and the County Council to enable it to respond to these new Regulations which will be accounted for in 2020/21.</p>

# Impact of laws and regulations

Question	Management response
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p> <p>Page 135</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 an 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. In addition, training sessions are used to explain new legislation. 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 report is 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>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>Only issues identified as part of Internal Audit reviews which have been reported to Management and the Audit Committee.</p> <p>Management have agreed actions to ensure compliance.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Businesses can appeal the Rateable Value for business premises through the Valuation Office Check, Challenge and Appeal process. The Council recognised this and makes a financial provision for potential NNDR appeals claims.</p>

# Impact of laws and regulations

Question	Management response
<p>5. What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?</p>	<p>Legal services team works with management when potential claims or litigation identified. Legal Services team provide details of litigation and claims for inclusion in the financial statements.</p> <p>The Council has a customer complaints process which aims to resolve issues before they escalate.</p> <p>The Council has robust risk management arrangements which include recording 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 so issues can be raised and managed and any issues can be raised and managed with the aim of minimising litigation or claims. In 2020/21, the Council has engaged with its leisure services provider, SLM, and its Environmental Services provider, Ubico, in exactly this way. Contract performance is monitored by the use of management information including key performance indicators.</p>
<p>6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?</p>	<p>No significant findings</p>

Page 136

# Related Parties

## Issue

### Matters in relation to Related Parties

Local Authorities are required to 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 [type of body]'s perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK) 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.

# Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties disclosed in the Authority's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and the Authority</li> <li>Whether the Authority has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>No, subject to the receipt of management and member declarations for 2020/21.</p> <p>I THINK THE QUESTION SHOULD SAY 2020/21 – MICHELLE CAN YOU CONFIRM AND AMEND?</p>
<p>2. What controls does the Authority have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>All elected Members are required to complete a questionnaire detailing any areas where potential conflicts of interest may occur between their private interests and their position as the elected representatives of the Council. Details are recorded in the register of members' interest.</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>By virtue of the Officer Code of Conduct, employees of the Council are required to declare any relationship with individuals, organisations or companies that might prejudice, or could be viewed as influencing, their professional judgement. On an annual basis, senior Officers and Officers within positions of influence within the Council are required to complete a related party declaration to highlight any potential conflicts of interest.</p>

Page 138

## Related Parties

Question	Management response
	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
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	<p>Members are required to withdraw from the decision making process where they have declared a related party interest.</p> <p>With the establishment of Publica, the Council reviewed the appointment of Statutory Officers to ensure that they are employed by the Council rather than Publica and to minimise any risk of conflict of interest.</p> <p>Historically there have been no other related party transactions in relation to officers.</p>
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	Transactions outside of the normal course of business would be subject to approval of the Council Officer Leadership Team including the S.151 Officer and be reported to the appropriate Council, Cabinet or Committee meeting.

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

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

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>Significant estimates expected to be included in the 2020/21 statement of accounts include:</p> <ul style="list-style-type: none"> <li>• Valuation of PPE</li> <li>• Useful economic life of PPE</li> <li>• Valuation of Investment Properties</li> <li>• Depreciation</li> <li>• Financial Instruments Fair Value</li> <li>• NNDR appeals provision</li> <li>• Expected Credit Loss provision</li> <li>• Accruals</li> <li>• Pension Liability</li> </ul>
<p>2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?</p>	<p>The year end risk registers contain information to identify possible contingent assets, contingent liabilities and any requirement to include provisions. The data in the register is used to identify costs or resource pressures or income streams. The information can be used to inform the financial planning process.</p> <p>The Council's Risk Register contains significant risks from the Publica and the Transformation Programme risk registers. A separate Covid-19 risk register has also been in place from April 2020.</p>
<p>3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>See annex B for further details.</p>

# Accounting Estimates - General Enquiries of Management

Question	Management response
4. How do management review the outcomes of previous accounting estimates?	The outcome of previous accounting estimates is reviewed as part of the estimation process in the following year. Where there is a material difference to the accounts, estimates will be updated up to the date that the accounts are authorised for issue following review by external audit.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	<p>The 2020/21 accounts have not yet been prepared but we will undertake further challenge and scrutiny of the reports received from the internal valuers than was undertaken in prior years.</p> <p>We engaged with the internal valuation team in December 2020 and have been in regular communication with the internal valuer to provide instructions on the assets that require valuation in 2020/21 and the need to provide assurance that assets not valued as part of the rolling programme in 2020/21 are not materially misstated.</p>

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>See further detail in Annex B, experts with specialist skills are used for the following areas of estimation in the financial statements:</p> <ul style="list-style-type: none"> <li>• Valuation of PPE (Internal Valuers – Valuer and Estates Surveyor (RICS))</li> <li>• Depreciation – Useful Economic Lives (Internal Valuers- Valuer and Estates Surveyor (RICS))</li> <li>• Valuation of Investment Properties (Internal Valuers)</li> <li>• Fair value valuation of Financial Instruments (Arlingclose – Treasury Management Consultants)</li> <li>• Pension Liability (Hymans Robertson – Actuary)</li> </ul>
<p>7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>See further detail in Annex B, assurances are sought from the Council's internal valuers in relation to their independence, objectivity and professional qualifications. Regular communication between the finance team and Property team ensures that the valuers have access to the information they require to undertake detailed valuations in accordance with RICS guidance.</p> <p>Arlingclose are appointed as the Treasury management consultants and are sufficiently qualified to undertake the fair value valuations of the Council's financial instruments.</p> <p>Hymans Robertson (Actuary) provide the Council with details of their experience, qualifications and independence through correspondence with Gloucestershire Pension Fund</p> <p>External audit also obtain assurance that the experts are sufficiently qualified and independent.</p>

2021 143

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Management ensure that experts appointed are independent, professional, suitably experienced and qualified.</p> <p>For areas of estimation where experts are not used, including accruals and the NNDR appeals provision, these are subject to review by the S.151 Officer. Control arrangements are reviewed by internal audit and external audit and any findings reported to the Audit Committee.</p> <p>See further detail in Annex B.</p>
<p>What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<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 reviewed by the S.151 Officer and disclosed in the notes to the Accounts for transparency.</p> <p>Methods and assumptions are reported within this paper and Annex B to the Audit Committee as those charged with governance.</p> <p>See further detail in Annex B.</p>

# Accounting Estimates - General Enquiries of Management

Question	Management response
10. 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)?	All significant accounting estimates that require significant judgement are disclosed in Annex B.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	<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> <p>The Audit Committee is provided with further assurance through the review of this paper and Annex B.</p>

Page 149



## Annex B

### Property, plant, and equipment valuation estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	<p>Impact of Covid-19 on the property market deemed to be a risk potentially resulting in uncertain or reduced valuations.</p> <p>Risk mitigated by independent, objective, suitably qualified in house valuation team.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>Valuations are made by a qualified valuer (RICS) Member in line with RICS guidance based on 5 year valuations with interim reviews.</p> <p>We are currently awaiting the results of the 2020/21 valuation exercise from the Council's internal valuation team. No changes in method or models in 2020/21.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>Rolling programme of valuations, 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> <p>No changes in assumptions identified in 2020/21.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>Source data in respect of floor areas, usage and condition is held internally by the Property Services team and is provided to the valuer as part of the valuation exercise.</p> <p>Market trends are considered by the valuer as part of the valuation process.</p> <p>No changes to the source data.</p>
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Yes, Publica internal valuer (Valuer and Estates Surveyor (RICS))
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	<p>All valuations provided to management will be subject to robust review and challenge if appropriate. This will ensure any significant movements or assumptions are understood and consistent with the knowledge and experience of the team.</p> <p>Management ensure that valuers appointed are independent, professional, suitably experienced and qualified.</p>

<p>7. In management's opinion, are there adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?</p>	<p>We will undertake more robust challenge and scrutiny of the reports received from the internal valuers than was undertaken in prior years as is appropriate in the current Covid-19 context.</p> <p>We engaged with the internal valuation team in December 2020 and have been in regular communication with the internal valuer to provide instructions on the assets that require valuation in 2020/21 and the need to provide assurance that assets not valued as part of the rolling programme in 2020/21 are not materially misstated.</p> <p>Controls are subject to review from both internal and external audit.</p>
<p>8. Were any changes made to the key control activities this year? If so please provide details.</p>	<p>No changes made to the key control activities.</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Valuations are made in line with RICS guidance. A degree of uncertainty is inherent with any revaluation. We employ professional, qualified valuers and rely on expert opinion.</p> <p>We have not yet received the results of the 2020/21 valuation exercise but, unlike in 2019/20, we are not anticipating that the Covid-19 pandemic and impact on the global economy will mean that valuations provided will be on the basis of material uncertainty.</p> <p>Assets are reviewed on a rolling 5-year programme and all assets are reviewed annually to ensure values reflect current circumstances.</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>Valuations are made in line with RICS guidance. A degree of uncertainty is inherent with any revaluation. We employ professional valuers and rely on expert opinion.</p> <p>Any valuation uncertainty reported by our internal valuers as a result of Covid-19 will be adequately disclosed as such in the financial statements.</p> <p>A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and/ or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. If the value of the Council's operational properties were to reduce by 10%, this would be unlikely to result in a significant charge to the Comprehensive Income and Expenditure Statement due to the level of revaluation reserve balance held of approximately £44.3m based on 2019/20 statement of accounts)</p> <p>An increase in estimated valuations would result in increases to the Revaluation Reserve and/ or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and/or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.</p>

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No risks identified.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?  Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	<p>The following asset categories have general asset lives:</p> <ul style="list-style-type: none"> <li>- Buildings – 30 to 60 years</li> <li>- Car Parks – 20 years</li> <li>- Vehicles, Plant and Machinery – 4-7 years.</li> </ul> <p>Estimated useful remaining lives of PPE is recorded in accordance with the qualified RICS internal valuer and can vary dependent upon specific examples.</p> <p>Where items or property plant and equipment are revalued, and the valuer identifies an asset which has component parts that have significantly different useful lives, where one or more parts represent a significant proportion of the overall asset, then the asset may be componentised. With componentisation, one or more constituent parts may be identified, and the component parts separately valued for the accounts and depreciated over different useful lives to the main asset. Useful economic lives (and therefore depreciation calculations) will be based upon the asset lives recommended by the Council's valuers.</p> <p>No changes in methods or models proposed for 2020/21.</p>
3. How do management select the assumptions used in respect of this accounting estimate?  Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	<p>Assumptions are based on general asset lives and assessment undertaken by the valuer.</p> <p>No changes to the assumptions in 2020/21.</p>
4. How do management select the source data used in respect of this accounting estimate?  Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	<p>Estimated useful life is based on category of asset and condition of asset, which for property is based upon assessment by the RICS qualified valuer.</p> <p>No changes to the source data in 2020/21.</p>
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Yes, Publica internal valuer (Valuer and Estates Surveyor (RICS)).
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	Standard asset lives are included in the asset register and are updated on receipt of the valuation report received from the RICS internal valuer.
7. In management's opinion, are there adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	<p>Adequate controls are in place over the calculation of this accounting estimate. General asset lives are used and are varied where the valuer assesses that a different life is more appropriate.</p> <p>Assurances are sought and provided on the qualifications, independence and experience of the valuers as management's experts.</p> <p>Controls are subject to review from both internal and external audit.</p>

8. Were any changes made to the key control activities this year? If so please provide details.	We will undertake more robust challenge and scrutiny of the reports received from the internal valuers than was undertaken in prior years as is appropriate in the current Covid-19 context.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	<p>Assets are depreciated over useful lives that are dependent upon assumptions about usage, obsolescence and the level of repairs and maintenance that will be incurred in relation to individual assets. The assumptions applied in determining the useful life will be considered to determine whether there has been any general or specific change that might have had the effect of changing useful lives materially.</p> <p>All valuations provided to management, which include assessment of useful lives are subject to robust review and challenge if appropriate. This will ensure any significant movements or assumptions are understood and consistent with the knowledge and experience of the team.</p> <p>Management ensure that experts appointed are independent, professional, suitably experienced and qualified.</p>
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	Management reviews any changes in estimated useful life proposed and would undertake a sensitivity analysis of the impact. Changes in useful lives applied would be disclosed in the financial statements.

### Investment Property Valuations

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	<p>Impact of Covid-19 on the property market deemed to be a risk potentially resulting in uncertain or reduced valuations.</p> <p>Risk mitigated by independent, objective, suitably qualified in house valuation team.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>Valuations undertaken by a qualified valuer (RICS member) in line with RICS guidance on an annual basis.</p> <p>We are currently awaiting the results of the 2020/21 valuation exercise from the Council's internal valuation team. No changes in method or models in 2020/21 although Publica's internal valuers are undertaking the valuations of Investment Properties this year.</p> <p>The finance team issue terms of engagement to the internal valuer.</p>

<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>Valuations are made in line with RICS guidance.</p> <p>Values will be based on assumptions of rental income expected in 2021/22 adjusted to account for Covid-19 considerations and potential void periods.</p> <p>No changes to these assumptions in 2020/21</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>The valuers have access to source data such as rental income received and void periods held by the Property team at Publica.</p> <p>No changes to source data in 2020/21.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>Yes, Publica internal valuer (Valuer and Estates Surveyor (RICS)).</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>All valuations provided to management will be subject to robust review and challenge if appropriate. This will ensure any significant movements or assumptions are understood and consistent with the knowledge and experience of the team.</p> <p>Management ensure that valuers appointed are independent, professional, suitably experienced and qualified.</p>
<p>7. In management's opinion, are there adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?</p>	<p>Adequate controls are in place, assurances are sought and provided on the qualifications, independence and experience of the valuers as management experts.</p> <p>Controls are subject to review from both internal and external audit.</p>
<p>8. Were any changes made to the key control activities this year? If so please provide details.</p>	<p>We will undertake more robust challenge and scrutiny of the reports received from the internal valuers than was undertaken in prior years as is appropriate in the current Covid-19 context.</p> <p>We engaged with the internal valuation team in December 2020 and have been in regular communication with the internal valuer to provide instructions on the assets that require valuation in 2020/21 and the need to provide assurance that assets not valued as part of the rolling programme in 2020/21 are not materially misstated.</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Valuations are made in line with RICS guidance. A degree of uncertainty is inherent with any revaluation. We employ professional valuers and rely on expert opinion.</p> <p>We have not yet received the results of the 2020/21 valuation exercise but we are not anticipating that the covid-19 pandemic and impact on the global economy will mean that valuations provided will be on the basis of material uncertainty.</p> <p>All investment properties will be valued in 2020/21 to minimise the inherent uncertainty.</p>

<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>The Council's internal valuers use valuation techniques to determine the fair value of investment property. This involves developing estimates and assumptions consistent with how market participants would price the property. The valuers base their assumptions on observable data as far as possible, but this is not always available. In that case, the valuers use the best data available.</p> <p>Valuations are made in line with RICS guidance. A degree of uncertainty is inherent with any revaluation. We employ professional, qualified valuers and rely on expert opinion.</p> <p>Any valuation uncertainty reported by our internal valuers as a result of Covid-19 will be adequately disclosed as such in the financial statements.</p> <p>Estimated fair values may differ from actual prices that could be achieved in an arm's length transaction at the reporting date.</p>
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### Depreciation and Amortisation

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>No risks identified.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>Depreciation is provided for all Property, Plant and Equipment with a finite useful life (except investment properties) on a straight-line basis by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.</p> <p>There were no changes made to the method or models in 2020/21.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>Depreciation is calculated based on useful economic lives.</p> <p>Assets are not depreciated until they are available for use and each significant part of property, plant and equipment is depreciated separately. Asset lives are determined at acquisition/revaluation as recommended by the Council's valuers.</p> <p>Asset lives are based upon assumed repair and maintenance being carried out to maintain an asset.</p> <p>No changes were made to this assumption in 2020/21.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>Depreciation is calculated based on general asset lives for different categories of assets and assessment undertaken by valuer.</p> <p>We are awaiting the results of the 2020/21 valuation exercise from our internal valuers, which could identify changes in asset lives.</p>

5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Yes, Publica internal valuer (Valuer and Estates Surveyor (RICS))
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	Standard asset lives are included in the asset register and are updated on receipt of the valuation report received from the RICS internal valuer.
7. In management's opinion, are there adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	<p>Adequate controls are in place, assurances are sought and provided on the qualifications, independence and experience of the valuers as management experts.</p> <p>Controls are subject to review from both internal and external audit.</p>
8. Were any changes made to the key control activities this year? If so please provide details.	We will undertake more robust challenge and scrutiny of the reports received from the internal valuers than was undertaken in prior years as is appropriate in the current Covid-19 context.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	<p>Assets are depreciated over useful lives that are dependent upon assumptions about usage, obsolescence and the level of repairs and maintenance that will be incurred in relation to individual assets. The assumptions applied in determining the useful life will be considered to determine whether there has been any general or specific change that might have had the effect of changing useful lives materially.</p> <p>All valuations provided to management, which include assessment of useful lives are subject to robust review and challenge if appropriate. This will ensure any significant movements or assumptions are understood and consistent with the knowledge and experience of the team.</p> <p>Management ensure that experts appointed are independent, professional, suitably experienced and qualified.</p>
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	<p>Management reviews any changes in estimated useful life proposed and would undertake a sensitivity analysis of the impact. Changes in useful lives applied would be disclosed in the financial statements.</p> <p>If the useful economic life of an asset is reduced, depreciation increases and the carrying value of an asset will fall. Depreciation charges for operational buildings will change in direct relation to changes in estimated current value. The net book value of non-current assets subject to potential revaluation is over £68m.</p>

## Impairments

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No risks identified.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?  Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired due to obsolescence, damage or an adverse change in the statutory environment. Where indications 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.  No changes in 2020/21.
3. How do management select the assumptions used in respect of this accounting estimate?  Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	This assessment is made by the internal valuer and capital accountant (and other relevant officers for the asset type) for other assets.  No changes in assumptions identified in 2020/21.
4. How do management select the source data used in respect of this accounting estimate?  Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	Assessment based on knowledge of finance team and internal valuer, no specific source data used.  No changes in 2020/21.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Yes, Publica internal valuer (Valuer and Estates Surveyor (RICS))
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	All valuations provided to management will be subject to robust review and challenge if appropriate. This will ensure any significant movements or assumptions are understood and consistent with the knowledge and experience of the team.  Management ensure that valuers appointed are independent, professional, suitably experienced and qualified.
7. In management's opinion, are there adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Adequate controls are in place, assurances are sought and provided on the qualifications, independence and experience of the valuers as management experts.  Controls are subject to review from both internal and external audit.
8. Were any changes made to the key control activities this year? If so please provide details.	We will undertake more robust challenge and scrutiny of the reports received from the internal valuers than was undertaken in prior years as is appropriate in the current Covid context.

9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	Valuations are made in line with RICS guidance. A degree of uncertainty is inherent with any revaluation. We employ professional, qualified valuers and rely on expert opinion.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	Valuations are made in line with RICS guidance. A degree of uncertainty is inherent with any revaluation. We employ professional, qualified valuers and rely on expert opinion.

### Provision for Liabilities (NNDR appeals provision)

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No specific risk identified other than inherent estimation uncertainty. Government has prohibited changes under Material Change of Circumstances.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?  Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	The NNDR provision has been set aside for the potential cost to the Council for outstanding appeals against property valuations.  The non- domestic (NDR) appeals provision for the 2010 valuation list is estimated based on past experience of successful appeals and other RV reductions.  Following the introduction of the Check, Challenge and Appeal process a lower level of appeals have been received. The process has reduced the number of vexatious claims. The provision is based on the percentage of successful appeals over the past three years and the basis of calculation has not changed since last year.
3. How do management select the assumptions used in respect of this accounting estimate?  Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	The provision is calculated based on outstanding appeals losses and past experience of successful appeals.  The assumptions will be revisited as part of the 2020/21 accounts process to ensure that they remain prudent and soundly based.
4. How do management select the source data used in respect of this accounting estimate?  Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	The Valuation Office provides data on outstanding appeals. Source data is updated in-year to include appeals settled during the financial year.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	No specialised skills or knowledge required but a review of the process and level of provision was undertaken by the S151 officer in conjunction with the Business Partner Accountant who has many years of experience in this area.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	The provision is calculated by the Business Partner Accountant, the calculation and assumptions applied are reviewed by the S151 Officer.

7. In management's opinion, are there adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Adequate controls are in place in respect of the calculation of the estimate. The S151 officer reviews the work of the Business Partner Accountant and reasonableness of assumptions applied.
8. Were any changes made to the key control activities this year? If so please provide details.	No changes in key control activities planned.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	<p>There is a significant level of estimation uncertainty in relation to business rate appeals due to the volume of outstanding appeals, which are processed by the Valuation Office.</p> <p>The value of provision is assessed using information on outstanding appeals rates.</p>
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	<p>Where appeals are successful, refunds of business rates are generally repayable back to the latest valuation date which reduces the business rate yield in the year in which the refund is made. Management disclose there is significant estimation uncertainty surrounding this estimate in the statement of accounts.</p> <p>An increase in the appeals provision reduces the Council's share of income. A decrease in the size of the provision would increase the income distributed to the Council.</p>

### Expected Credit Losses

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	<p>Uncertainty risk that expected credit losses recognised in respect of Trade Debtors (specifically commercial rental income) will be insufficient.</p> <p>Review of methodology used for calculation of expected credit losses in respect of these debtors.</p>
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?  Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	<p>Collective lifetime expected credit losses are calculated based on the credit risk, the credit status of the instrument and whether there has been any change in the credit risk since initial recognition.</p> <p>There have been no changes to these methods but specific factors in the calculation will be reviewed in light of the risks identified.</p>
3. How do management select the assumptions used in respect of this accounting estimate?  Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	<p>Assumptions are based on the reasonable and supportable credit risk information available e.g. the nature of the debt, the age of the debt and the likelihood of recovery.</p> <p>The assumptions will be revisited as part of the 2020/21 accounts process to ensure that they remain prudent and soundly based.</p>

4. How do management select the source data used in respect of this accounting estimate?  Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	Source data available from Accounts Receivable combined with intelligence from service managers.  No changes.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	No.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	Debt is being monitored as part of the quarterly revenue budget monitoring; Monthly reports on outstanding debt at cost centre level are provided to budget holders, regular write off of bad debts approved by the Section 151 Officer.
7. In management's opinion, are there adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes – management has oversight of the source data and assumptions.
8. Were any changes made to the key control activities this year? If so please provide details.	No.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	Management consider the potential materiality and risk as part of their review process.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	We will undertake a sensitivity analysis to assess the impact of changes in assumption and other factors in the calculation of the expected losses.

### Accruals

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No risks identified.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?  Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	We use standard accruals accounting. Accruals are based on expenditure incurred that has not yet been paid or income due that has not yet been received. Activity is accounted for in the year it takes place, not when money is paid or received.  Quarterly budget monitoring provides analysis so that accruals are identified.  Accruals for income and expenditure are principally based on known values. Where accruals are estimated they are based on the latest information available.  No change in 2020/21.

<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>Procedures for identifying accruals are included in the closedown instructions distributed to budget holders.</p> <p>No changes in assumptions.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>Various sources of data are used in calculating accruals including previous outturn and estimated usage.</p> <p>No changes identified.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>No specialised skills or knowledge used. Accruals identified by finance team and through discussion and return of accruals forms from officers.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>Significant accruals are reviewed by the Chief Accountant as part of the accounts preparation process.</p> <p>Supporting documentation is maintained to support accruals and any assumptions made in the estimation process.</p>
<p>7. In management's opinion, are there adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?</p>	<p>Adequate controls are in place</p> <p>Controls are subject to review from both internal and external audit.</p>
<p>8. Were any changes made to the key control activities this year? If so please provide details.</p>	<p>No changes to the key control activities.</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Accruals are largely based on known values, where estimates are used the level of uncertainty is not deemed to be material.</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>See above, the level of uncertainty in respect of estimates made is not deemed to be material.</p>

#### Non-Adjusting Events- events after the balance sheet date

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>No risks identified.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>Non adjusting events (both favourable and unfavourable) which occur between the Balance Sheet date and the date on which the Accounts are signed by the S151 Officer are included in the accounts if deemed by management to be of such materiality that their disclosure is required for the fair presentation of the Statement of Accounts.</p>

	<p>The Section 151 Officer makes an assessment as part of the year end process</p> <p>The Section 151 Officer is aware of any potential events as part of the senior leadership team.</p> <p>No changes in 2020/21.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>Assumptions used will depend upon the post balance sheet event identified; no such potential events have yet been identified.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>Any source data used will depend upon the post balance sheet identified; no events have yet been identified.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>This would be considered on individual circumstances.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>The identification of such events forms part of the closedown process. The Section 151 Officer will make an assessment based upon discussion with officers across the Council and Publica.</p>
<p>7. In management's opinion, are there adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?</p>	<p>Adequate controls are in place. The Section 151 Officer makes an assessment as part of the year end process</p> <p>The Section 151 Officer is aware of any potential events through discussions with the senior leadership team.</p>
<p>8. Were any changes made to the key control activities this year? If so please provide details.</p>	<p>None expected.</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Estimation uncertainty to be considered and disclosed in the financial statements dependent upon events identified.</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>The sensitivity of the estimate to the methods and assumptions used will be considered and disclosed in the financial statements dependent upon events identified.</p>

### Pension Fund Actuarial Gains/Losses

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>The pension fund liability and any in-year actuarial gain/loss is inherently risky due to its material nature and sensitivity to small changes in assumptions.</p> <p>The risk is addressed by placing reliance on the actuarial expert, Hymans Robertson and ensuring the data and assumptions used by the actuary are reasonable.</p>

<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>The Council is an admitted body to the Gloucestershire County Local Government Pension Scheme. The administering body (the County Council) engage Hymans Robertson (the actuary) who provide the estimate of the pension liability.</p> <p>Payroll data is provided to the actuary. Management reconcile this estimate of contributions to the actuals paid out in the year.</p> <p>No changes in methods/model used for 2020/21</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>The assumptions used for estimating actuarial gains and losses are calculated by Hymans Robertson as the actuarial expert.</p> <p>Assumptions include discount rate used, rate of salary increases, changes in retirement age, mortality rates and expected return on Pension Fund Investments. Assumptions are updated on an annual basis and are shared with the Council.</p> <p>The Council has not made any changes to the assumptions used by Hymans Robertson.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>The source data is held by Gloucestershire Pension Fund, payroll data is submitted on a monthly basis from the Publica payroll team to Gloucestershire Pension Fund.</p> <p>A questionnaire is completed by the finance team and returned directly to the Actuary confirming any major changes in membership of the pensions scheme and updating details of any unfunded pensions and premature non ill-health retirements.</p> <p>The Council finance team are also required to confirm to Gloucestershire Pension Fund that the payroll and deficit payment data held is accurate as part of the year-end process.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>The administering body (the County Council) engage Hymans Robertson (the actuary) who provide the estimate of the pension liability.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>Reliance is placed on the work of the Actuary as an expert. Terms of engagement have been provided by the actuary to the Council in respect of the basis of appointment, scope and methodology of the work undertaken.</p> <p>The finance team reviews data disclosed in the IAS 19 report provided by the Actuary to the Council for reasonableness and any unexplained variances. Any differences would be queried with the actuary and Gloucestershire Pension Fund</p> <p>Assurances are provided to both the Council and External audit in respect of the qualifications, independence, professionalism and experience of Hymans Robertson.</p>

7. In management's opinion, are there adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	<p>Adequate controls are in place.</p> <p>The Council challenges any unusual movements or assumptions with the actuary and responds to any queries raised by the administering body.</p>
8. Were any changes made to the key control activities this year? If so please provide details.	No changes made to key control activities in year.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	<p>Management recognise that there is a large degree of estimation uncertainty in relation to the pension liability. The estimate is based upon a number of factors and judgements applied by the scheme's actuary including discount rate used, rate of salary increases, changes in retirement age, mortality rates and expected return on Pension Fund Investments. Estimates are made upon judgements and conditions, as seen by the actuary, at a point in time.</p> <p>The Council engage Hymans Robertson as its consulting actuary to provide expert advice about the assumptions to apply.</p> <p>The statement of accounts will disclose estimates in respect of the pension liability as a major source of estimation uncertainty in the statement of accounts.</p> <p>The Council have requested that a report is provided by the actuary in April 2021 which will include the estimated liability based upon projected contributions for February and March 2021 and estimated investment returns. A further request was made to receive an updated report in May 2021 based on final outturn investment returns at 31 March 2021 and actual contributions for February and March 2021. This will provide the finance team with further assurance that the estimates disclosed in the account are materially correct and are not understated or overstated as a result of major market fluctuations in the last three months of the financial year.</p>
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	<p>The effect of changing assumptions will result in changes in the valuation of the pension fund's assets and liabilities.</p> <p>Further details of the impact of variations in key assumptions will be disclosed in note E1 to the financial statements. The sensitivities regarding the principal assumptions used to measure the scheme liabilities as at 31/3/20 were as follows:</p> <ul style="list-style-type: none"> <li>- 0.5% increase in the real discount rate could result in approximate 9% increase in employer liability (approximately £9.5m)</li> <li>- 0.5% increase in the salary increased rate could result in approximate 1% increase in employer liability (approximately £0.9m)</li> <li>- 0.5% increase in pension increase rate could result in approximate 8% increase in pension liability (approximately £8.5).</li> </ul>

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 <p><b>COTSWOLD</b> DISTRICT COUNCIL</p>	<b>COTSWOLD DISTRICT COUNCIL</b>
Name and date of Committee	<b>AUDIT COMMITTEE – 29 APRIL 2021</b>
Report Number	<b>AGENDA ITEM 14</b>
Subject	<b>EXTERNAL AUDIT PLAN – 2020/2021</b>
Wards affected	All
Accountable member	Cllr. Mike Evemy Deputy Leader and Cabinet Member for Finance
Accountable officer	Jenny Poole, Deputy Chief Executive Jenny.Poole@cotswold.gov.uk 01285 623313
Summary/Purpose	To receive a report from Grant Thornton, the Council’s external auditors regarding the audit plan for 2020/21.
Annexes	Annex A – “Cotswold District Council Audit Plan – 2020/21”
Recommendation/s	<i>That the Audit Committee considers the Grant Thornton Audit Plan for 2020/21.</i>
Corporate priorities	Ensure that all services delivered by the Council are delivered to the highest standard.
Key Decision	No
Exempt	No
Consultees/ Consultation	Deputy Chief Executive, Interim Monitoring Officer, Chief Executive.

## **1. BACKGROUND**

- 1.1. Attached at Annex A is the Council's external auditor (Grant Thornton UK LLP) plan for the Council's audit 2020/21.

## **2. MAIN POINTS**

- 2.1. The Council's 2020/21 audit scale fee approved by PSAA Ltd is £34,557, no change from 2018/19 and 2019/20. Grant Thornton is proposing a fee of £57,307, which includes additional work now required due to changes in expectations of the regulator and additional work required on the VFM conclusion because of the new Code issued by the National Audit Office. This fee is subject to approval by PSAA. These additional fees will be subject to challenge from PSAA to justify the need for these areas of additional work. Grant Thornton is not able to invoice for additional fees until PSAA has approved the additional fees.
- 2.2. The final proposed external audit fee for 2019/20 is £52,677. This fee was reported to the Audit Committee in the External Auditor's Annual Audit Letter and included additional charges of £18,120 to reflect additional work undertaken because of changes in the expectations of the regulator and the impact of Covid-19. This fee is still subject to final approval with PSAA.
- 2.3. Representatives from Grant Thornton will attend the meeting to answer any questions from the Committee.

## **3. FINANCIAL IMPLICATONS**

- 3.1. The proposed audit fee of £57,307 for 2020/21 and proposed additional fee for 2019/20 exceeds the budgetary provision for 2020/21 by £12,324. While preparation of the financial outturn figures are currently in progress, it is expected that, the additional fees can be absorbed within the overall Council budget for 2020/21. The 2021/22 budget has increased to provide for an increase in external audit fees.

## **4. LEGAL IMPLICATONS**

- 4.1. None directly from this report.

## **5. RISK ASSESSMENT**

- 5.1. The audit plan states that the audit fee is "subject to the Council delivering a good set of financial statements and working papers". The Deputy Chief Executive has requested that Grant Thornton provide advanced notice of any work, which is likely to incur additional audit fees.

## **6. BACKGROUND PAPERS**

- 6.1. None

(END)

# Cotswold District Council Audit Plan

Year ending 31 March 2021

21 April 2021

Page 165



# Contents



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Section	Page
Key matters	3
Introduction and headlines	4
Significant risks identified	5
Accounting estimates and related disclosures	8
Other matters	11
Progress against prior year recommendations	12
Materiality	13
Value for Money Arrangements	14
Risks of significant VFM weaknesses	15
Audit logistics and team	16
Audit fees	17
Independence and non-audit services	19
Appendix 1: Revised Auditor Standards and application guidance	20

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Key matters

## Factors

### Council developments

The Council continues to operate in an uncertain and challenging environment due to changes to Government funding and the global pandemic. The Council continues to balance service delivery with the need to drive efficiencies. Financially the Council is forecasting a small underspend for 2020/21 and has set a balanced budget for 2021/22.

Whilst the Council's Medium Term Financial Strategy sets out a significant challenge, the Council is transparently reporting both the revenue and capital funding challenge to enable informed decision making.

At a national level, the UK left the European Union (EU) on 1 January 2021 although uncertainty remains over the country's trading relationship with the EU which could have implications for the supply chain and on EU nationals employed directly or indirectly by the Council. The Council will need to ensure that it is prepared for all outcomes, including in terms of any impact on the supply of any imported goods and equipment and overseas staff.

### Impact of Covid 19 pandemic

The current lockdown restrictions mean that we will have to continue to work completely remotely for a longer period and potentially through much of the audit for 2020-21. Working in cooperation with the Council, we managed this effectively for the 2019-20 audit and we will be in regular contact with your finance team in respect of the logistics of these arrangements for our 2020-21 programme of audit work. We aim to build on our experience from last year. As restrictions ease will consider the implications for how this impacts on how we complete the audit.

### Financial Reporting and Audit – raising the bars

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing. Our work in 2019/20 has highlighted areas where Local Government financial reporting, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of financial transactions in the Local Government sector which require greater audit scrutiny.

## Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in this Audit Plan, has been agreed with the Section 151 Officer.
- As previously reported the Code has changed in relation to VFM. We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work – please see more detail on pages 14 and 15.
- The Council's valuer reported a material uncertainty in regards to the valuation of land and buildings and investment properties in 2019/20 due to the Covid 19 pandemic. Early indications are that we do not expect a similar uncertainty to be reported in 2020/21. We do, however, continue to identify a significant risk in regards to the valuation of these assets – refer to page 6 – this is due to the inherent high degree of estimation uncertainty.
- An uncertainty was also disclosed in 2019/20 in respect of the potential impact of Covid 19 on property investments funds held within the pension funds assets. As set out above we do not expect a similar uncertainty to be reported in 2020/21. We do however continue to identified a significant risk in regards to the valuation of the pension fund liability – refer to page 7 – this is due to the inherent high degree of estimation uncertainty.
- We will continue to provide you with sector updates via our Audit Committee updates.

# Introduction and headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Cotswold District Council ('the Council') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Cotswold District Council. We draw your attention to both of these documents.

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Revenue and expenditure recognition (rebutted);
- Management override of controls;
- Valuation of land and buildings;
- Valuation of investment properties; and
- Valuation of net pension fund liability.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined planning materiality to be £0.780m (PY £0.790m) for the Council, which equates to approximately 1.9% of your prior year gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.040m (PY £0.040m).

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- Financial Sustainability - Whilst the Council is forecasting delivery of a small surplus for 2020/21, there remains a financial challenge over the medium term in relation to revenue funding. Due to the inherent uncertainty, we have concluded that there is a significant risk of weakness in arrangements for delivering financial sustainability.

## Audit logistics

Our interim visit will take place in March/April 2021 and our final visit will take place during July to September 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed audit fee for the audit has been set at £57,307. The scale fee, set by PSAA, is £34,557, however this does not reflect the additional work now required due to the changes in expectations of the regulator or the additional work required on the VFM conclusion as a result of the new Code issued by the NAO. The fee for 2019-20 was £52,677 for the Council. The fee for the current year, as in previous years, is subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	<p>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.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Cotswold District Council mean that all forms of fraud are seen as unacceptable.</li> </ul>	No specific work is planned as the presumed risk has been rebutted.
The expenditure cycle includes fraudulent transactions (rebutted)	<p>Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:</p> <p>"As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.</p> <p>We have rebutted this presumed risk for Cotswold District Council because:</p> <ul style="list-style-type: none"> <li>• expenditure is well controlled and the Council has a strong control environment; and</li> <li>• the Council has clear and transparent reporting of its financial plans and financial position to the Council.</li> </ul> <p>We therefore do not consider this to be a significant risk for Cotswold District Council.</p>	No specific work is planned as the presumed risk has been rebutted.

# Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>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.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals;</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals;</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>
Valuation of land and buildings	<p>The Council 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 (£68 million in 2019/20) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert;</li> <li>• write to the valuer to confirm the basis on which the valuation was carried out;</li> <li>• challenge 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;</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register; and</li> <li>• evaluate the assumptions made by the valuer for those assets revalued at 31 March 2021. For the assets not formally revalued in year we will assess how management has satisfied themselves that these assets are not materially different to the current value at the year end.</li> </ul>

# Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of investment properties	<p>The Council revalues its investment properties annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£7 million in 2019/20) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert;</li> <li>• write to the valuer to confirm the basis on which the valuation was carried out;</li> <li>• challenge 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;</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register; and</li> <li>• evaluate the assumptions made by the valuer for those assets revalued at 31 March 2021.</li> </ul>
Valuation of the pension fund net liability	<p>The Council'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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£40 million in 2019/20) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update 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 evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• test 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;</li> <li>• undertake 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; and</li> <li>• obtain assurances from the auditor of the 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.</li> </ul>

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Page 172

## Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



# Accounting estimates and related disclosures

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, and investment properties,
- Depreciation,
- Year end provisions and accruals,
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities, and
- Fair value estimates

## The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



### Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

Page 174

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

### Planning enquiries

As part of our planning risk assessment procedures we have made enquiries of management and the responses will be shared with Those Charged with Governance alongside this Audit Plan.

### Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.

We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

We consider our other duties under legislation and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
- issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
- issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report.

# Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the Council's financial statements, which resulted in the recommendations below. In the following table we set out progress against each of our prior year recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>It was clear that the Council responded positively to the challenge presented by Covid-19 and were adequately monitoring and assessing the current and future impacts on the Council's finance, albeit it with an increased level of uncertainty. 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.</p> <p>We recommended that officers and Members take action in 2020 to reduce the current budget gaps over the medium term. We further recommended that the Council continue to refresh the medium-term financial plan to reflect the impact of Covid-19 as things develop and to ensure the financial challenge is fully known.</p>	<p>The Council has taken action against this recommendation, however, financial sustainability remains a key challenge. Our VFM section of this report sets out that we plan to do more risk based work in this area in 2020/21.</p>
Not yet assessed	<p>Our work identified a number of issues in relation to the valuation reports provided to the Council by the Internal Valuer.</p> <p>We recommended that the council should ensure that they read reports in full prior to inputting data to the financial statements and challenge the valuer where appropriate.</p>	<p>We will assess progress against this recommendation as part of our year end audit.</p>

# Materiality

## The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £0.780m (PY £0.790m) for the Council, which equates to approximately 1.9% of your prior year gross expenditure. We recognise the public interest in senior officer remuneration disclosures. For our work in this area we will be auditing to the detailed disclosure requirements and where we identify differences that change the amount, or bandings we will request that these are amended. In addition we have set a separate specific materiality of £0.005m (PY £0.004m).

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

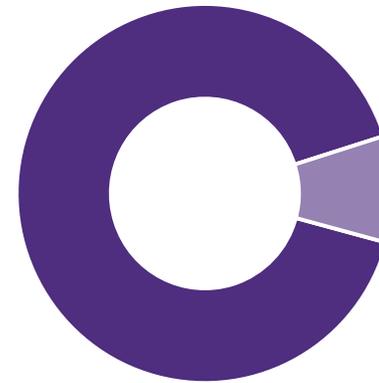
## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.040m (PY £0.040m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

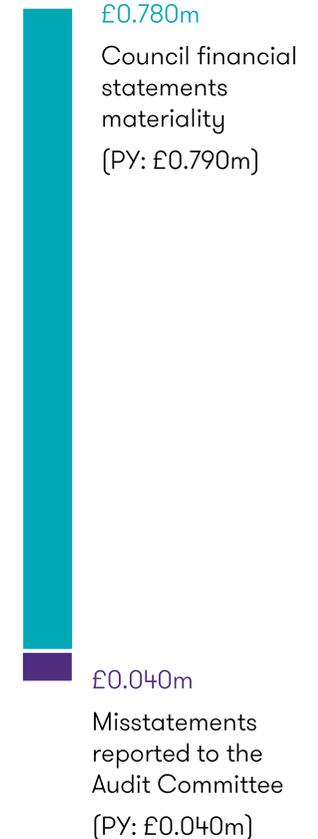
## Prior year gross operating costs

£41.231m Council  
(PY: £42.019m)



- Prior year gross operating costs
- Materiality

## Materiality



# Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



# Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

## Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.



### Financial Sustainability

The Council is forecasting an underspend of £0.520m for 2020/21. Whilst the Council has a healthy level of reserves and a strong history of delivering financial targets and savings, the financial challenge and uncertainty continue to increase. In setting the 2021/22 budget and Medium Financial Strategy for the next 4 years, the Council has identified the need to make further in savings/additional income from 2021/22 to 2024/25. Due to the inherent uncertainty we have concluded that there is a significant risk of weakness in arrangements for delivering financial sustainability.

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

# Audit logistics and team



Page 180



## Peter Barber, Key Audit Partner

Peter is responsible for the overall delivery of the audit. He will meet regularly with senior management of the Council and will attend Audit Committee meetings.



## Siobhan Barnard, Audit Manager

Siobhan oversees day to day planning and manages the work of the Audit Incharge and associates to ensure that the audit work is focussed on the key areas of the financial statements risks and compliance with relevant accounting standards and guidance.



## Francesca Hitchman, Audit Incharge

Francesca is responsible for the on-site delivery of the audit work. He assigns activities across the team and ensures it is completed satisfactorily.

## Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

# Audit fees

As referred to on page 14, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current ‘reporting by exception’ approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. This will result in an increased fee however the scale of that increase has yet to be finally determined.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA’s issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21 to date, as set out below, is detailed overleaf.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Council Audit	£45,807	£52,677*	£57,307
Total audit fees (excluding VAT)	£45,807	£52,677*	£57,307

\*The additional fee element of the actual fee for 2019/20 is subject to final approval by PSAA.

## Assumptions

In setting the fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC’s [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Audit fees – detailed analysis

Scale fee published by PSAA	£34,557
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£2,500
Enhanced audit procedures for Property, Plant and Equipment	£1,750
Enhanced audit procedures for Pension Liabilities (IAS19)	£1,750
Other complex issues or expert advice	£1,250
<b>Brought forward ongoing fee from 2019/20</b>	<b>£41,807</b>
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised auditing standards (see appendix 1)	£6,500
Specific local risks: capital portfolio valuation/ new valuer (absorbed into the fee)	£0
<b>Total proposed audit fees 2020/21 (excluding VAT)</b>	<b>£57,307</b>

All variations to the scale fee will need to be approved by PSAA. These additional fees will be subject to challenge from PSAA to justify the need for these areas of additional work. No additional fees will be billed until PSAA approval has been obtained.

# Independence and non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

In this context, we disclose to you that during the early part of the 2019/20 financial year, the previous audit manager, applied for a job with Publica. Following the application process, she was successful and has now take up her new role. The role involves completion of accounting transactions and the preparation of the financial statements for Cotswold District Council. As a result this has required us to put certain safeguards in place to ensure that we can continue with the audit appointment and comply with the ethical standards as a firm.

The safeguard has been agreed by our ethics function and is such that the audit with effect from 2020/21 has been conducted with a new engagement lead from the South West Office, but then with the remainder of the audit team being sourced from our Midlands Public Sector Team.

We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

## Other services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. We have not identified any other services.

# Appendix 1: Revised Auditor Standards and application guidance

## FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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## DRAFT WORK PLAN 2021/22

COMMITTEE DATE	ITEMS
<b>22 July 2021</b>	Internal Audit Opinion Report
	Grant Thornton Reports
	Corporate Risk Register Updates
	Annual Treasury Management Review 2020/21
	Draft Annual Governance Statement 2020/21
	Work Programme 2021/22
Provisional date of Tuesday 28 September 2021 (to be discussed)	Statement of Accounts 2020/21 and Grant Thornton Audit Findings Report
<b>21 October 2021</b>	Grant Thornton Reports
	Treasury Management Mid-Year Performance Report 2021/22
	Internal Audit Plan Progress Report 2021/22
	Counter Fraud Unit Report
	Corporate Risk Register Updates
	Work Plan 2021/22
<b>27 January 2022</b>	Internal Audit Monitoring Report
	KPMG LLP Reports – Housing Benefit Subsidy Certification
	Capital, Investment and Treasury Management Strategies Report for 2022/23
	Grant Thornton Reports
	Corporate Risk Register Update
	Cyber Security Update
	Ubico – Governance Overview and Business Plan - Update
	Work Plan 2021/22
<b>28 April 2022</b>	Grant Thornton Reports
	Grant Thornton Assurance
	Corporate Risk Register Updates
	Counter Fraud Unit Report and Annual RIPA/IPA Update
	Internal Audit Monitoring Report
	Proposed 2022/23 Internal Audit Plan and Internal Audit Charter
	Work Plan 2022/23

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