

Public Document Pack



COTSWOLD
DISTRICT COUNCIL

Wednesday, 13 October 2021

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AUDIT COMMITTEE

A meeting of the Audit Committee will be held in the Council Chamber, at the Council Offices, Trinity Road, Cirencester on **Thursday, 21 October 2021 at 4.00 pm.**

Rob Weaver
Chief Executive

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

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**
To confirm the minutes of the meeting of the Committee held on 22 July 2021 (to follow)
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. **External Audit Contract (Pages 5 - 26)**
Purpose
To seek the views of the Audit Committee on the options for procuring the Council's external audit service from 2023/24.

Recommendations
 - a) That the Committee considers the options for procuring the Council's external audit service for the period from 2023/24; and
 - b) Provides its views for Cabinet and Council to consider.
8. **Treasury Mid-Term Report 2021-22 (Pages 27 - 38)**
Purpose
To receive and discuss details of the Council's Treasury Management performance for the period 1 April to 30 September 2021.

Recommendation
That the Council's Treasury Management performance for the period 1 April 2021 to 30 September 2021 is considered and recommended to Council for approval.
9. **Internal Audit Progress Report (Pages 39 - 66)**
Purpose

To present a summary of the audit work concluded since the last meeting of this Committee.

Recommendations

a) That the Committee considers the report at Annex A and comments as necessary.

b) If the Committee wishes to discuss the reports, and recommendations, contained within the exempt reports, then the Committee must enter confidential session.

10. **Counter Fraud Unit Report (Pages 67 - 74)**

Purpose

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.

The 2021/2022 work plan is presented, with progress and results for consideration and comment.

Recommendations

That the Audit Committee notes the report and the work plan at Annex A.

11. **External Audit Update Report (Pages 75 - 86)**

Purpose

To receive an update report from the Grant Thornton, the Council's external auditor.

Recommendation

To Consider the Grant Thornton Audit Progress and Sector Update report.

12. **Aged Debtor Analysis (Pages 87 - 94)**

Purpose

To receive and consider the Council's Aged Debt Analysis.

Recommendation

The Audit Committee are asked to consider the levels of aged debt held.

13. **Work Plan 2021/22 (Pages 95 - 96)**

(END)

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Agenda Item 7



COTSWOLD
DISTRICT COUNCIL

Council name	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	AUDIT COMMITTEE – 21 OCTOBER 2021
Report Number	AGENDA ITEM 07
Subject	EXTERNAL AUDIT CONTRACT
Wards affected	N/A
Accountable member	Cllr Mike Every, Cabinet Member for Finance Email: mike.every@cotswold.gov.uk
Accountable officer	Jenny Poole, Chief Finance Officer Email: jenny.poole@cotswold.gov.uk
Summary/Purpose	To seek the views of the Audit Committee on the options for procuring the Council's external audit service from 2023/24.
Annexes	Annex A – PSSA Prospectus
Recommendation(s)	<p>a) <i>That the Committee considers the options for procuring the Council's external audit service for the period from 2023/24; and</i></p> <p>b) <i>Provides its views for Cabinet and Council to consider.</i></p>
Corporate priorities	Ensure that all services delivered by the Council are delivered to the highest standard.
Key Decision	NO
Exempt	NO
Consultees/ Consultation	N/A



1. BACKGROUND

- 1.1 The process for re-tendering for External Audit in Local Authorities in England, for contracts due to start from 2023/24, is now underway and shortly the Council will need to decide whether to procure its own External Auditor or opt into the National Procurement Framework.
- 1.2 Legislation requires a resolution of Council if a Local Authority wishes to opt into the National arrangement. The deadline for this decision is the 11th March 2022. If the Council doesn't make such a decision, the legislation assumes that the Council will procure its own External Audit Service.
- 1.3 The last time that Council was required to make this choice was in 2016/17. Since then a lack of capacity in the Audit market has been exacerbated by increased requirements placed on External Auditors by the Audit Regulator. There is also a limited number of firms in the market and too few qualified Auditors employed by those firms. Nationally, this has led to a situation where many Audits have been delayed and dozens of Audit opinions remain outstanding from 2019/20 and 2020/21. Auditors have also been asking for additional fees to pay for extra work.
- 1.4 As the client in the Contract, a Council has little influence over what it is procuring. The nature and scope of the Audit is determined by Codes of Practice and Guidance and the regulation of the Audit market is undertaken by a third party, currently the Financial Reporting Council. Essentially, Councils find themselves operating in what amounts to a suppliers' market.
- 1.5 The supply side of the market needs to be expanded, which includes encouraging bids from challenger firms. Public Sector Audit Appointments Ltd (PSAA), the body nominated by the Government to run the national arrangements, has suggested various ways this could be done, but these initiatives are much more likely to be successful if a large number of Councils sign up to the national scheme.
- 1.6 A Council procuring its own Auditor or procuring through a Joint Arrangement means setting up an Audit Panel with an independent Chair to oversee the procurement and running of the Contract. The procurement process and Contract management present an administrative burden to the Council, which is currently performed by PSAA. The number of potential suppliers is limited to the small pool of registered firms with accredited Key Audit Partners (KAP).



- 1.7 PSAA has now built up considerable expertise and has been working hard to address the issue that has arisen with the Contracts over the last couple of years.
- 1.8 PSAA has commissioned high quality research to understand the nature of the Audit market and has worked very closely with the Ministry for Housing Communities and Local Government (MHCLG), now the Department for Levelling Up, Homes and Communities (DLUHC) to enable the Government to consult on changes to the fee setting arrangements to deal better with variations at national and local level.

2. MAIN POINTS

- 2.1 The PSAA Prospectus is included at **Annex A** and includes a proposed timescale for the procurement which commences in February 2022 and awards Contracts in August 2022. Subject to consultations with opted-in bodies and Audit firms, the plan is to make Auditor appointments by 31 December 2022 (as required by the Regulations).
- 2.2 PSAA's preferred option for the length of the Contract is 5 years.

3. FINANCIAL IMPLICATIONS

- 3.1 Audit fees are rising in all sectors in response to increased regulatory requirements for Audit quality and changes in Audit scope and Technical Standards. PSAA will consult each year on the fee scale and will consult in 2023 on the 2023/24 fee scale.
- 3.2 Fee variations would continue to apply where the local circumstances of an audited body require additional audit work that was not expected at the time the fee scale was set. Current local Audit Regulations allow PSAA to approve fee variation requests only at individual bodies, for additional audit requirements that become apparent during the course of an audit year. MHCLG has announced the intention to amend the Regulations, following a consultation, to provide more flexibility. This would include the ability for PSAA to approve standardised fee variations to apply to all or groupings of bodies where it may be possible to determine additional fees for some new requirements nationally rather than for each opted-in body individually. Where it is possible to do this, it would have the effect of reducing the need for local fee variations.

4. LEGAL IMPLICATIONS

- 4.1 Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014. In July 2016, the Secretary of State specified PSAA as an appointing person for principal Local Government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations



2015. Acting in accordance with this role PSAA is responsible for appointing Auditors and setting scales of fees for relevant principal Authorities that have chosen to opt into its national scheme, overseeing issues of Auditor independence and monitoring compliance by the Auditor with the contracts.

5. RISK ASSESSMENT

- 5.1 The key risks relate to the market for External Audit provision which are set out in the main body of the Report at paragraphs 1.4 to 1.6. Should the Council decide to procure its External Audit services outside of the PSAA route, there are risks of failing to procure a suitable Audit partner and the costs of the Contract being higher as there is a failure to achieve economies of scale.

6. ALTERNATIVE OPTIONS

- 6.1 The Council's Chief Finance Officer is proposing that procurement is commissioned through PSAA. The alternative option is for the Council to procure its own Contract for External Audit services. This option lacks the benefits of economies of scale offered by the PSAA route and crystallises the risks in the External Audit market as set out in paragraphs 1.4 to 1.6.

7. BACKGROUND PAPERS

- 7.1 None

(END)

PROSPECTUS

The national scheme for local auditor appointments

All eligible bodies

September 2021

www.psaa.co.uk

About PSAA

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts we enter into with the audit firms.

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Introduction

PSAA has issued its formal invitation to all eligible bodies to opt into the national scheme for local auditor appointments for the second appointing period, which will provide external audit arrangements for the period commencing from the financial year 2023/24.

This prospectus is published to provide details of the national scheme and to assist eligible bodies in deciding whether or not to accept PSAA's invitation. The scheme has been shaped by [your feedback to the June 2021 consultation](#) on our draft prospectus. The key areas of our approach that have been refined in response to consultation feedback are set out later in this prospectus.

In relation to appointing auditors, eligible bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

A decision to become an opted-in authority must be taken in accordance with the Regulations, that is by the members of an authority meeting as a whole, i.e. in Full Council, except where the authority is a corporation sole, such as a police and crime commissioner, in which case this decision must be taken by the holder of that office.

An eligible body that has decided to join the scheme must inform PSAA by returning the Form of Acceptance Notice (issued with the opt-in invitation) **no later than midnight on Friday 11 March 2022**.

An eligible body that does not accept the opt-in invitation but subsequently wishes to join the scheme may apply to opt in only after the appointing period has commenced, that is on or after 1 April 2023. In accordance with the regulations, as the appointing person, PSAA must: consider a request to join its scheme; agree to the request unless it has reasonable grounds for refusing it; and notify the eligible body within four weeks of its decision with an explanation if the request is refused. Where the request is accepted, PSAA may recover its reasonable costs for making arrangements to appoint a local auditor from the opted-in body.

Audit does matter

The purpose of audit is to provide an independent opinion on the truth and fairness of the financial statements, whether they have been properly prepared and to report on certain other requirements. In relation to local audit the auditor has a number of distinctive duties including assessing the arrangements in place to deliver value for money, and dealing with electors' objections and issuing public interest reports.

Good quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

“The LGA set up PSAA to provide a way for councils to meet the legislative requirements of audit procurement without unnecessary bureaucracy and to provide leverage for councils by collaborating in a difficult market. It is now more important than ever that councils work together to ensure we get what we need from the audit market.”

James Jamieson. Chairman of the Local Government Association

Context: changes in the audit market

In 2014 when the Local Audit and Accountability Act received Royal Assent the audit market was relatively stable. In 2017 PSAA benefitted from that continuing stability. Our initial procurement on behalf of more than 480 bodies (98% of those eligible to join the national scheme) was very successful, attracting very competitive bids from firms. As a result, we were able to enter into long term contracts with five experienced and respected firms and to make auditor appointments to all bodies. However, although we did not know it at the time, this was the calm before the storm.

2018 proved to be a very significant turning point for the audit industry. A series of financial crises and failures in the private sector gave rise to questioning about the role of auditors and the focus and value of their work. In rapid succession the Government commissioned four independent reviews, all of which have subsequently reported:

- Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator;
- the Competition and Markets Authority review of the audit market;
- Sir Donald Brydon's review of the quality and effectiveness of audit; and
- Sir Tony Redmond's review of local authority financial reporting and external audit.

In total the four reviews set out more than 170 recommendations which are now at various stages of consideration by Government with the clear implication that a series of significant reforms could follow. Indeed, in some cases where new legislation is not required, significant change is already underway. A particular case in point concerns the FRC, where the Kingman Review has inspired an urgent drive to deliver rapid, measurable improvements in audit quality. This has already created a major pressure for firms and an imperative to ensure full compliance with regulatory requirements and expectations in every audit they undertake.

By the time firms were conducting 2018/19 local audits, the measures which they were putting in place were clearly visible in response to a more focused regulator that was determined to achieve change. In order to deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain higher levels of assurance. However, additional work requires more time, posing a threat to firms' ability to complete all of their audits by the target date for publication of audited accounts (then 31 July) - a threat accentuated by growing recruitment and retention challenges, the complexity of local government financial statements, and increasing levels of technical challenges as bodies explored innovative ways of developing new or enhanced income streams to help fund services for local people.

This risk to the delivery of timely audit opinions first emerged in April 2019 when one of PSAA's contracted firms flagged the possible delayed completion of approximately 20 audits. Less than four months later, all firms were reporting similar difficulties, resulting in more than 200 delayed audit opinions.

2019/20 audits have presented even greater challenges. With Covid-19 in the mix both finance and audit teams have found themselves in uncharted waters. Even with the benefit of an extended timetable targeting publication of audited accounts by 30 November, more than 260 opinions remained outstanding. The timeliness problem is extremely troubling. It creates disruption and reputational damage for affected parties. There are no easy solutions, and so it is vital that co-ordinated action is taken across the system by all involved in the accounts and audit process to address the current position and achieve sustainable improvement without compromising audit quality. PSAA is fully committed to do all it can to contribute to achieving that goal.

Delayed opinions are not the only consequence of the regulatory drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been received than in prior years and audit costs have increased.

None of these problems are unique to local government audit. Similar challenges have played out throughout other sectors where, for example, increased fees and disappointing responses to tender invitations have been experienced during the past two years.

All of this paints a picture of an audit industry under enormous pressure, and of a local audit system which is experiencing its share of the strain and instability as impacts cascade down to the frontline of individual audits. We highlight some of the initiatives which we have taken to try to manage through this troubled post-2018 audit era in this prospectus.

We look forward to the challenge of getting beyond managing serial problems within a fragile system and working with other local audit stakeholders to help design and implement a system which is more stable, more resilient, and more sustainable.

Responding to the post-2018 pressures

MHCLG's¹ Spring statement proposes changes to the current arrangements. At the time of writing, a formal consultation on the proposals in the Spring statement is underway and is due to close on 22 September 2021. The significant work to reform audit in the wake of the four independent reviews is underway. Further wide-ranging change is almost certain to occur during the next few years, and is very likely to have an impact during the appointing period that will commence in April 2023. Organisations attempting to procure audit services of an appropriate quality during this period are likely to experience markedly greater challenges than pre-2018.

Local government audit will not be immune from these difficulties. However, we do believe that PSAA's national scheme will be the best option to enable local bodies to secure audit services in a very challenging market. Firms are more likely to make positive decisions to bid for larger, long term contracts, offering secure income streams, than they are to invest in bidding for a multitude of individual opportunities.

We believe that the national scheme already offers a range of benefits for its members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency and value for money;
- on-going management of any independence issues which may arise;
- access to a dedicated team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members;
- collective savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- a sector-led collaborative scheme supported by an established advisory panel of sector representatives to help inform the design and operation of the scheme;

¹ Immediately prior to the publication of this document it was announced that MHCLG has been renamed to Department for Levelling Up, Housing and Communities (DLUHC). The document refers to the department as MHCLG.

- avoiding the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- providing regular updates to Section 151 officers on a range of local audit related matters and our work, to inform and support effective auditor-audited body relationships; and
- concerted efforts to develop a more sustainable local audit market.

The national scheme from 2023/24 will build on the current scheme having listened to the feedback from scheme members, suppliers and other stakeholders and learning from the collective post-2018 experience.

Since 2018 we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties including:

- commissioning an independent review undertaken by Cardiff Business School of the design of the scheme and implementation of our appointing person role to help shape our thinking about future arrangements;
- commissioning an independent review by consultancy firm Touchstone Renard of the sustainability of the local government audit market, which identified a number of distinctive challenges in the current local audit market. We published the report to inform debate and support ongoing work to strengthen the system and help to deliver long term sustainability;
- proactively and constructively engaging with the various independent reviews, including the significant Redmond Review into Local Authority Financial Reporting and External Audit;
- working with MHCLG to identify ways to address concerns about fees by developing a new approach to fee variations which would seek wherever possible to determine additional fees at a national level where changes in audit work apply to all or most opted-in bodies;
- establishing the Local Audit Quality Forum, which has to date held five well attended events on relevant topics, to strengthen engagement with Audit Committee Chairs and Chief Finance Officers;
- using our advisory panel and attending meetings of the various Treasurers' Societies and S151 officer meetings to share updates on our work, discuss audit-related developments, and listen to feedback;
- maintaining contact with those registered audit firms that are not currently contracted with us, to build relationships and understand their thinking on working within the local audit market;
- undertaking research to enable a better understanding of the outcomes of electors' objections and statements of reasons issued since our establishment in April 2015; and
- sharing our experiences with and learning from other organisations that commission local audit services such as Audit Scotland, the NAO, and Crown Commercial Services.

As a member of the newly formed Local Audit Liaison Committee (established by MHCLG as outlined in its Spring statement), we are working closely with a range of local audit stakeholders including MHCLG, FRC, NAO, ICAEW, CIPFA and the LGA to help identify and develop further initiatives to strengthen local audit. In many cases desirable improvements are not within PSAA's sole gift and, accordingly, it is essential that this work is undertaken collaboratively with a common aim to ensure that local bodies continue to be served by an audit market which is able to meet the sector's needs and which is attractive to a range of well-equipped suppliers.

One of PSAA's most important obligations is to make an appropriate auditor appointment to each and every opted-in body. Prior to making appointments for the second appointing period, commencing on 1 April 2023, we plan to undertake a major procurement enabling suppliers to enter into new long term contracts with PSAA.

In the event that the procurement fails to attract sufficient capacity to enable auditor appointments to every opted-in body or realistic market prices, we have fallback options to extend one or more existing contracts for 2023/24 and also 2024/25.

We are very conscious of the value represented by these contract extension options, particularly given the current challenging market conditions. However, rather than simply extending existing contracts for two years (with significant uncertainty attaching to the likely success of a further procurement to take effect from 1 April 2025), we believe that it is preferable, if possible, to enter into new long term contracts with suppliers at realistic market prices to coincide with the commencement of the next appointing period.

MHCLG has recently undertaken a consultation proposing amendments to the Appointing Person Regulations. We have set the length of the next compulsory appointing period to cover the audits of the five consecutive financial years commencing 1 April 2023.

PSAA is well placed to lead the national scheme

As outlined earlier, the past few years have posed unprecedented challenges for the UK audit market. Alongside other stakeholders PSAA has learned a great deal as we have tried to address the difficulties and problems arising and mitigate risks. It has been a steep learning curve but nevertheless one which places us in a strong position to continue to lead the national scheme going forward. MHCLG's Spring statement confirmed Government's confidence in us to continue as appointing person, citing our strong technical expertise and the proactive work we have done to help to identify improvements that can be made to the process.

The company is staffed by a team with significant experience of working within the context of the regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees. All of these roles are undertaken with a detailed, ongoing, and up-to-date understanding of the distinctive context and challenges facing

both the sector and a highly regulated service and profession which is subject to dynamic pressures for change. Where appropriate we have worked with MHCLG to change our regulations where they are preventing efficiency.

We believe that the national collective, sector-led scheme stands out as the best option for all eligible bodies - especially in the current challenging market conditions. It offers excellent value for money and assures the independence of the auditor appointment.

Membership of the scheme will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. Assuming a high level of participation, the scheme can make a significant contribution to supporting market sustainability and encouraging realistic prices in a challenging market.

The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the NAO²), the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements.

The scope of public audit is wider than for private sector organisations. For example, for 2020/21 onwards it involves providing a new commentary on the body's arrangements for securing value for money, as well as dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports.

Auditors must be independent of the bodies they audit to enable them to carry out their work with objectivity and credibility, and to do so in a way that commands public confidence. We will continue to make every effort to ensure that auditors meet the relevant independence criteria at the point at which they are appointed, and to address any identified threats to independence which arise from time to time. We will also monitor any significant proposals for auditors to carry out consultancy or other non-audit work with the aim of ensuring that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditor to bodies involved in formal collaboration/joint working initiatives, if the parties consider that a common auditor will enhance efficiency and value for money.

² MHCLG's Spring statement proposes that overarching responsibility for the Code will in due course transfer to the system leader, namely ARGA, the new regulator being established to replace the FRC.

PSAA's commitments

PSAA will contract with appropriately qualified suppliers

In accordance with the 2014 Act, audit firms must be registered with one of the chartered accountancy institutes - currently the Institute of Chartered Accountants in England and Wales (ICAEW) - acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will then be subject to inspection by either or potentially both the RSB and the FRC. Currently there are fewer than ten firms registered to carry out local audit work.

We will take a close interest in the results of RSB and FRC inspections and the subsequent plans that firms develop to address any areas in which inspectors highlight the need for improvement. We will also focus on the rigour and effectiveness of firms' own internal quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. To help inform our scrutiny of both external inspections and internal quality assurance processes, we will invite regular feedback from both audit committee chairs and chief finance officers of audited bodies.

PSAA will support market sustainability

We are very conscious that our next procurement will take place at a very difficult time given all of the fragility and uncertainties within the external audit market.

Throughout our work we will be alert to new and relevant developments that may emerge from the Government's response to the Kingman, CMA and Brydon Reviews, as well as its response to the issues relating specifically to local audit highlighted by the Redmond Review. We will adjust or tailor our approach as necessary to maximise the achievement of our procurement objectives.

A top priority must be to encourage market sustainability. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work which suppliers must undertake, firms will be informed as to which developments should be priced into their bids. Other regulatory changes will be addressed through the fee variation process, where appropriate in the form of national variations.

PSAA will offer value for money

Audit fees must ultimately be met by individual audited bodies. The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies.

We believe that the most likely way to secure competitive arrangements in a suppliers' market is to work collectively together as a sector.

We will seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies. We will also continue to seek to minimise our own costs (which represent approximately 4% of overall scheme costs). We are a not-for-profit company and any surplus funds will be returned to scheme members. For example, in 2019 we returned a total £3.5million to relevant bodies and, more recently, we announced a further distribution of £5.6m in August 2021.

We will continue to pool scheme costs and charge fees to opted-in bodies in accordance with our published fee scale as amended from time to time following consultations with scheme members and other interested parties. Pooling is a key tenet of the national collective scheme.

Additional fees (fee variations) are part of the statutory framework. They only occur if auditors are required to do substantially more work than anticipated, for example, if local circumstances or the Code of Audit Practice change or the regulator (the FRC) increases its requirement on auditors.

Audit developments since 2018 have focused considerable attention on audit fees. The drive to improve audit quality has created significant fee pressures as auditors have needed to extend their work to ensure compliance with increased regulatory requirements. Changes in audit scope and technical standards, such as the requirement in the new Code of Audit Practice 2020 for the auditor to provide a VFM arrangements commentary, have also had an impact. Fees are rising in response to the volume of additional audit work now required.

The outcome is awaited of MHCLG's recent consultation on changes to the regulations, designed to provide the appointing person with greater flexibility to allow a fee scale to be set during the audit year (rather than before it starts). If implemented, these changes will enable approved recurring fee variations to be baked into the scale fee at an earlier date so the scale fees are more accurate and the volume of fee variations is reduced.

It is important to emphasise that by opting into the national scheme you have the reassurance that we review and robustly assess each fee variation proposal in line with statutory requirements. We draw on our technical knowledge and extensive experience in order to assess each submission, comparing with similar submissions in respect of other bodies/auditors before reaching a decision.

Procurement Strategy

Our [procurement strategy](#) sets out the detail and scope of the procurement to deliver contracts from which the auditor appointments will be made for eligible bodies that decide to accept the invitation to opt into PSAA's scheme.

Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

We expect to initiate a new procurement for audit services in February 2022 and, subject to a satisfactory outcome, to award contracts in August 2022. Subject to consultations with opted-in bodies and audit firms, we plan to make auditor appointments by 31 December 2022 (as required by the regulations).

Response to consultation feedback

PSAA consulted with eligible bodies and other stakeholders on our draft prospectus for the national scheme for local auditor arrangements from April 2023, and with the audit services market on important features of its procurement strategy. The insight provided from both these important consultations has helped to shape the arrangements that PSAA will implement from 2023/24. Key areas are highlighted below.

Evolution of the Local Audit Framework

The consultation responses highlight the need for system-wide change. In many areas it is not within PSAA's remit to effect the significant change required.

The newly formed Local Audit Liaison Committee (as outlined in MHCLG's Spring statement), has enabled PSAA to highlight the need for a range of actions to tackle the identified issues that are essential to support a more stable, more resilient, and more sustainable local audit system. Sometimes the actions can be taken by individual organisations, but more frequently responsibility lies collectively across the system. The Liaison Committee and its members are now taking actions forward, including:

- All stakeholders to communicate the importance of audit timeliness as a consistent message to audit firms;
- PSAA to work with the FRC to develop the approach to quality evaluation of tenders;
- MHCLG and other stakeholders to understand the extent of potential increased audit costs for all eligible bodies and to consider how these might be met;
- All stakeholders to consider ways in which to attract new entrants (firms and Key Audit Partners) into the market;
- Central government departments to provide clarity on the direction of local audit policy to inform firms' consideration ahead of next procurement;
- The NAO and FRC to work together to consider how they can provide clarity about the future direction of the Code of Audit Practice to firms ahead of the next procurement; and
- MHCLG, CIPFA and the LGA to consider how to support finance departments with accounting and audit requirements.

In the vast majority of the areas consulted on which were within PSAA's remit, responses were supportive of our proposals for the national scheme from 2023/24 which is very encouraging. Areas where we have revisited and evolved our approach are highlighted below.

Minimum Audit Fees

Audit fees are rising in all sectors in response to increased regulatory requirements for audit quality and changes in audit scope and technical standards. Striving to ensure realistic fee levels is a vital prerequisite to achieving a more sustainable and stable local audit market.

Where individual audits currently attract scale fees that do not cover the basic costs of the audit work needed for a Code-compliant audit, we propose to implement a minimum fee level at the start of the next appointing period, for the audit of the 2023/24 accounts. Our independent research indicates a minimum fee level of £31,000 should apply, based on the 2020/21 scope of audit work, to any opted-in body (a police and crime commissioner and a chief constable constitute one body for this purpose).

We cannot anticipate scale fees for the next appointing period at this stage, because they will depend on the prices achieved in the procurement and any changes in audit requirements. Where any price increase means that the scale fee for a body does not reach the floor set by the minimum fee, the fee for that body would increase to reach the minimum level. It is likely, given current expectations, that the introduction of a minimum fee specifically would lead to an increase in fees for a relatively small number of local bodies. PSAA consults each year on the fee scale and will consult in 2023 on the 2023/24 fee scale.

Introducing a minimum fee is a one-off exercise designed to improve the accuracy of the fee scale for the next appointing period. Fee variations would continue to apply where the local circumstances of an audited body require additional audit work that was not expected at the time the fee scale was set.

Standardised fee variations

Current local audit regulations allow PSAA to approve fee variation requests only at individual bodies, for additional audit requirements that become apparent during the course of an audit year. MHCLG has announced the intention to amend the regulations, following a consultation, to provide more flexibility. This would include the ability for PSAA to approve standardised fee variations to apply to all or groupings of bodies where it may be possible to determine additional fees for some new requirements nationally rather than for each opted-in body individually. Where it is possible to do this, it would have the effect of reducing the need for local fee variations.

Approach to social value in the evaluation of tenders

We plan to retain our original proposal of a 5% weighting but to broaden the criteria by asking bidders to describe the additional social value they will deliver from the contract, which could include the creation of audit apprenticeships and meaningful training opportunities. Bidders will also be asked to describe how their delivery of social value will be measured and evidenced.

Contract Management

The quality of the audit services received by opted-in bodies is very important to both the bodies themselves and to PSAA. Our intention is therefore to focus a significant majority of the quality assessment of tender submissions on resourcing, capacity and capability (including sector knowledge) and on client relationship management and communication. Correspondingly, we intend to apply a lesser weighting to those criteria that are regularly assessed by the regulator. We will seek the views of the regulator in developing the detail of our approach.

We will also review the contract terms used in 2017 ahead of the next procurement of audit services. In particular we will consider the potential to introduce enhanced performance management arrangements aligned to the greater emphasis on quality within the tender evaluation process. Any such revision must ensure continued compliance with the FRC's Ethical Standard which prevents audit fees from being "*calculated on a predetermined basis relating to the outcome or result of a transaction, or other event, or the result of the work performed*".

Information and Communication

Following the success of the webinars held to support the recent consultation, PSAA will be running a series of webinars starting in October 2021. The webinars will provide eligible bodies with the opportunity to hear and ask questions about specific areas of scheme arrangements and PSAA's work, and our progress to prepare for the second appointing period. Details of the [webinar series](#) can be found on our website.

Eligible Principal Bodies in England

The following bodies are eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils
- metropolitan borough councils
- London borough councils
- unitary councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area
- chief constables for an area
- national park authorities for a national park
- conservation boards
- fire and rescue authorities
- waste authorities
- the Greater London Authority and its functional bodies
- any smaller bodies whose expenditure in any year exceeds £6.5m (e.g. Internal Drainage Boards) or who have chosen to be a full audit authority (Regulation 8 of Local Audit (Smaller Authorities) Regulations 2015).

Board Members

Steve Freer (Chairman)

Keith House

Caroline Gardner CBE

Marta Phillips OBE

Stephen Sellers

PSAA Board members bring a wealth of executive and non-executive experience to the company. Areas of particularly relevant expertise include public governance, management and leadership; local government and contract law; and public audit and financial management.

Further information about PSAA's Board can be found at <https://www.psaa.co.uk/about-us/who-we-are/board-members/>

Senior Executive Team

Tony Crawley, Chief Executive

Sandy Parbhoo, Chief Finance Officer

Andrew Chappell, Senior Quality Manager

Julie Schofield, Senior Manager Business & Procurement

Within the PSAA senior executive team there is extensive and detailed knowledge and experience of public audit, developed through long standing careers either as auditors or in senior finance and business management roles in relevant organisations.

Further information about PSAA's senior team can be found at <https://www.psaa.co.uk/about-us/who-we-are/executive-team/>

Annex - Procurement Options

Our Preferred Option

A 5 year contract with the fallback of the right to extend one or more of the current contracts if there are insufficient or unaffordable bids.

Other Options Considered and Rejected

Option 1

Extending the existing contracts for 2 years and deferring the procurement. We want to secure 5 year contracts if we can because we believe this option is more attractive to the market.

Option 2

A 5 year contract with a commitment not to extend the existing contracts. We need the back stop of the right to extend the existing contracts if there are insufficient bids to allow us to make auditor appointments to all opted in bodies or if any of the bids received propose unacceptable prices.

Option 3

A 5 year contract with pre-determined prices for years 1 and 2 thereby avoiding the need for firms to price in the value of the right to extend the existing contracts. We believe such an arrangement will be unattractive to the market. Firms should be able to offer their own prices for years 1 and 2.

Agenda Item 8



COTSWOLD
DISTRICT COUNCIL

Council name	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	AUDIT COMMITTEE – 21 OCTOBER 2021
Report Number	AGENDA ITEM 08
Subject	TREASURY MID-TERM REPORT 2021-22
Wards affected	N/A
Accountable member	Cllr Mike Every, Cabinet Member for Finance Email: mike.every@cotswold.gov.uk
Accountable officer	Jenny Poole, Chief Finance Officer Email: jenny.poole@cotswold.gov.uk
Summary/Purpose	To receive and discuss details of the Council's Treasury Management performance for the period 1 April to 30 September 2021.
Annexes	None
Recommendation	<i>That the Council's Treasury Management performance for the period 1 April 2021 to 30 September 2021 is considered and recommended to Council for approval.</i>
Corporate priorities	The Council's Treasury Management Strategy underpins all of the Council Priorities and is relevant to the Council principle of "Value for money – we will use the council's resources wisely, but will invest in the fabric and future of the district".
Key Decision	NO
Exempt	NO
Consultees/ Consultation	N/A



1. BACKGROUND

- 1.1** In February 2011 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code). The CIPFA Code requires the Council to approve reports on treasury management activities at the end of the first half of the financial year and at the end of the financial year.
- 1.2** This report covers the treasury management activity and performance of Cotswold District Council for the period 1 April to 30 September 2021.
- 1.3** The Council's Treasury Management Strategy for 2021/22 was approved at the Council meeting on 24 February 2021. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy.

2. ECONOMIC BACKGROUND

- 2.1** The economic recovery from the coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period, over 48 million people in the UK had received their first dose of a Covid-19 vaccine and almost 45 million their second dose.
- 2.2** The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent. Within the announcement, Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of Consumer Price Inflation (CPI) is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation. While the Monetary Policy Committee (MPC) meeting ended with policy rates unchanged, the tone was more hawkish.
- 2.3** Government initiatives continued to support the economy over the quarter but came to an end on 30 September 2021, with businesses required to either take back the 1.6 million plus workers on the furlough scheme or make them redundant. The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses)



and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of the robust growth figures is due to bases effect from a decline in average pay in the spring of last year associated with the furlough scheme.

- 2.4 The US economy grew by 6.3% in Q1 2021 (Jan-Mar) and then by an even stronger 6.6% in Q2 as the recovery continued. The Federal Reserve maintained its main interest rate at between 0% and 0.25% over the period but in its most recent meeting made suggestion that monetary policy may start to be tightened soon.
- 2.5 The European Central Bank maintained its base rate at 0%, deposit rate at -0.5%, and asset purchase scheme at €1.85 trillion.

3. FINANCIAL MARKETS

- 3.1 Monetary and fiscal stimulus together with rising economic growth and the ongoing vaccine rollout programmes continued to support equity markets over most of the period, albeit with a bumpy ride towards the end. The Dow Jones hit another record high while the UK-focused FTSE 250 index continued making gains over pre-pandemic levels. The more internationally focused FTSE 100 saw more modest gains over the period and remains below its pre-crisis peak.
- 3.2 Inflation worries continued during the period. Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more temporary, that was previously thought. However, an increase in gas prices in the UK and EU, supply shortages and a lack of HGV and lorry drivers with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instance, leading to higher prices.
- 3.3 Credit default swap spreads were constantly flat over the most of period and are broadly in line with their pre-pandemic levels. In late September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but are now falling back.
- 3.4 Over the period Fitch and Moody's upwardly revised to stable the outlook on a number of UK banks and building societies on the Council's counterparty list, recognising their improved capital positions compared to last year and better economic growth prospects in the UK.
- 3.5 The successful vaccine rollout programme is credit positive for the financial services sector in general and the improved economic outlook has meant some institutions have been able to reduce provisions for bad loans. While there is still uncertainty around the full extent of the losses banks and building societies will suffer due to the pandemic-related economic



slowdown, the sector is in a generally better position now compared to earlier this year and 2020.

- 3.6 At the end of the period Arlingclose had completed its full review of its credit advice on unsecured deposits. The outcome of this review included the addition of NatWest Markets plc to the Council's counterparty list together with the removal of the suspension of Handelsbanken plc. In addition, the maximum duration for all recommended counterparties was extended from 36 days to 100 days.

4. TREASURY MANAGEMENT- SUMMARY POSITION - 1 APRIL 2021 to 30 SEPTEMBER 2021

- 4.1 On 31 March 2021, the Council had net investments of £23.577m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while useable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below:

Table 1: Balance Sheet Summary

	31/3/21 Actual £m
General Fund CFR	0
Less: External borrowing	0
Less: Usable reserves	(25.903)
Less: Working capital	2.326
Net Investments	(23.577)

- 4.2 The Council's current strategy is to maintain investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk. Lower official interest rates have reduced the cost of short term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. If interest rates were to rise by 1%, then investment income would average 1.07%, whilst borrowing costs (based on 20 year PVLB Loan) would be 2.03%. For every £1m borrowed the cost of carry would cost an additional £9,600 per annum.
- 4.3 The Council's strategy has been to diversify investments into pooled funds in order to reduce risk and increase returns. The treasury management position as at 31 March 2021 and the mid-year change is shown in Table 2 below. The value of investments held has increased significantly as a result of government funding provided in advance of need to

support small and medium businesses during the coronavirus pandemic, through grant schemes.



Table 2: Treasury Management Summary

	31/3/2021	2021/22	30/9/2021	30/9/2021
	Actual	Movement	Balance	Rate
	£m	£m	£m	%
Short-term borrowing	0	0	0	-
Total borrowing	0	0	0	-
Long-term investments	12.134	0.366	12.500	3.95
Short-term investments	0.075	5.925	6.000	0.05
Cash and cash equivalents	11.368	3.172	14.540	0.04
Total investments	23.577	9.463	33.040	1.22

5. BORROWING UPDATE

- 5.1 Local authorities can borrow from the Public Works Loan Board (PWLB) provided they can confirm they are not planning to purchase ‘investment assets primarily for yield’ in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 Officer. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to re-finance existing loans or externalise internal borrowing.
- 5.2 Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, re-financing debt and treasury management.
- 5.3 Competitive market alternatives are available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders. Further changes to the CIPFA Prudential Code expected in December 2021 may prohibit borrowing for the primary purpose of commercial return even where the source of borrowing is not the PWLB. Consultation is currently taking place on the proposed changes.
- 5.4 The Council is not planning to purchase any investment assets primarily for yield within the next three years and so is able to fully access the PWLB.
- 5.5 As at 30 September 2021 the Council was debt free, however there are plans to borrow in the future to fund the Capital Programme and the Recovery Investment Strategy. Any borrowing undertaken will be reported back to members of this Committee and will be



subject to consideration by the Capital Programme Investment Board and approval by either Cabinet or Council as appropriate.

6. INVESTMENT PERFORMANCE AND PROJECTIONS

- 6.1 On 6 April 2021, the Council received Government funding to support small and medium businesses during the coronavirus pandemic. £13.326m was received and temporarily invested in short-dated, liquid instruments such as call accounts, Money Market Funds and the Debt Management Office's Debt Management Account Deposit Facility Account.
- 6.2 The Council invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first-half of the year, the Council's investment balances ranged between £45m and £23m million due to timing differences between income and expenditure. The investment position is shown in table 3 below:

Table 3: Treasury Investment Position

	31.3.21 Balance £m	Net Movement £m	30.9.21 Balance £m	30.9.21 Return %
Banks & Building Societies (unsecured)	0	-	0	-
Local Authorities	0	6.000	6.000	0.05
Money Market Funds/ Call Accounts	11.365	3.175	14.540	0.04
Pooled Funds (1)	12.212	0.288	12.500	2.88
Total Investments	23.577	9.463	33.040	1.22

(1) See breakdown at Table 4 below.

- 6.3 Both the CIPFA Code and Government Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 6.4 Due to the impact of the payment of the Government's Covid-19 grants to businesses on cash flow, the Council kept more cash available at very short notice than is normal. Liquid cash was diversified over several counterparties and Money Market Funds to manage both credit and liquidity risks. Now that cash flow has stabilised, and is more predictable, alternative investment opportunities are being considered.



6.5 Investment income was budgeted to be £402,668 in the Council's 2021/22 budget set in February 2021. The Council has reviewed its expectations for investment income in 2021/22 and has assumed after looking at the returns over the first 6 months that the income could exceed budget by £29,000 by year end due to the Council's Pooled Funds achieving higher returns than estimated when the budget was set. Further details are included in section 7 of this report.

7. EXTERNALLY MANAGED POOLED FUNDS

7.1 Of the Council's investments, £11.5m are held in externally managed strategic pooled cash, bond, equity, multi-asset and property funds and a further £1m is invested in a Housing Real Estate Investment Trust where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds have generated a revenue return of £174,947 (2.88% annualised) in the first 6 months of this financial year, which is used to support services in year, and £242,717 (2% annualised) of capital growth since 31 March 2021.

7.2 Table 4 below shows the current valuations of the Pooled Funds portfolio at 30 September 2021, compared with the opening balances of 1 April 2021.

Table 4: Pooled Funds

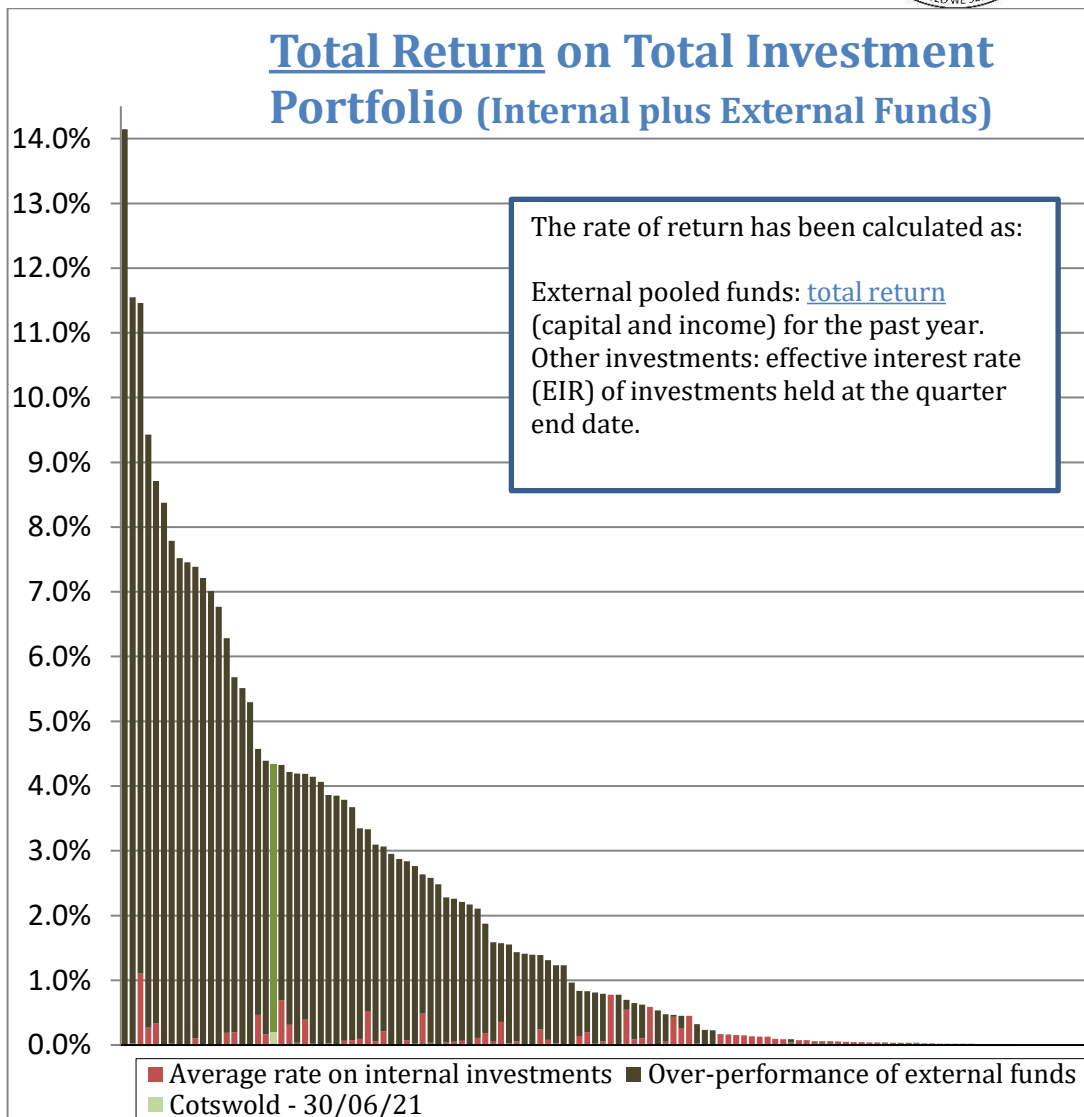
FUND NAME	Initial Investment	1 April Fund Value	30th Sept Fund Value	Dividends in 2021/22 (as at 30 Sept)	Gain / (Loss) for 2021/22	Gain / (Loss) to Initial Principal	% Return Capital & Dividend 201/22
	£	£	£	£	£	£	%
CCLA Property Fund	500,000	489,733	523,887	9,089	34,154	23,887	8.83
CCLA Property Fund	2,000,000	1,793,022	1,918,064	33,278	125,042	(81,936)	8.83
Schroders Income Maximiser Fund (E)	1,000,000	764,342	787,106	30,537	22,764	(212,894)	6.97
CCLA Diversified Income Fund (M)	1,000,000	985,600	1,041,928	8,201	56,328	41,928	6.55
M&G UK Income Fund (E)	2,000,000	1,831,782	1,881,089	27,981	49,307	(118,911)	4.22
Investec Diversified Fund (M)	2,000,000	2,018,818	1,961,972	35,797	(56,846)	(38,028)	(1.04)
Columbia Threadneedle Bond Fund (B)	2,000,000	2,148,990	2,160,560	18,904	11,570	160,560	1.42
Federated Cash + Fund (C)	1,000,000	1,071,595	1,071,993	-	398	71,993	0.04
Fundamentum Housing REIT	1,000,000	1,030,000	1,030,000	11,250	-	30,000	1.09
Total	12,500,000	12,133,882	12,376,599	175,037	242,717	(123,401)	3.44%

Key: E- Equity, M – Multi asset, B –Bond, C - Cash



- 7.3** Pooled funds fell in value at the start of the pandemic and have now returned to pre pandemic levels. The improved market sentiment in the past 6 months is reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of the Council's equity and multi-asset income funds in the Council's portfolio. The prospect of higher inflation and rising bond yields resulted in muted bond fund performance. The change in capital values and income earned is shown in Table 4.
- 7.4** Because the Council's externally managed funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.
- 7.5** Table 5 below shows that as at 30 June 2021, Cotswold District Council (green bar) achieved the 20th highest average rate on investments from the 124 local authorities that Arlingclose support.

Table 5 Cotswold's investment returns v Arlingclose clients (124) as at 30 June 2021.



8. ARLINGCLOSE'S ECONOMIC OUTLOOK FOR THE REMAINDER OF 2021/22

8.1

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
Official Bank Rate													
Upside risk	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.10	0.10	0.10	0.10	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15

8.2 Arlingclose expects Bank Rate to rise in Q2 2022. Arlingclose believe this is driven as much by the Bank of England's desire to move from emergency levels as by fears of inflationary pressure.

8.3 Investors have priced in multiple rises in Bank Rate to 1% by 2024. While Arlingclose believes Bank Rate will rise, it is by a lesser extent than expected by markets.



- 8.4** The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit.
- 8.5** While Q2 UK GDP expanded more quickly than initially thought, the ‘pingdemic’ and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of Government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support.
- 8.6** Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher.
- 8.7** The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increased in wages is possible given the pressures on businesses.
- 8.8** Government bond yields increased sharply following the September Federal Open Market Committee (FOMC) and the Monetary Policy Committee (MPC) minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled down on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy.
- 8.9** The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

9. COMPLIANCE

- 9.1** The Chief Finance Officer reports that all treasury management activities undertaken during the quarter complied fully with the CIPFA Code of Practice and the Authority’s approved Treasury Management Strategy.



10. LEGAL IMPLICATIONS

10.1 There are no legal implications arising from this report.

11. RISK ASSESSMENT

11.1 This report discusses the impact of economic risk on the value and returns associated with the Council's investment portfolio together with the risk of low interest rates on the Council's revenue budget.

12. CLIMATE CHANGE IMPLICATIONS

12.1 None directly arising from this report.

13. BACKGROUND PAPERS

13.1 None

(END)

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Agenda Item 9



COTSWOLD
DISTRICT COUNCIL

Council name	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	AUDIT COMMITTEE – 21 OCTOBER 2021
Report Number	AGENDA ITEM 09
Subject	INTERNAL AUDIT PROGRESS REPORT
Wards affected	N/A
Accountable member	Cllr Mike Every, Cabinet Member for Finance Email: mike.every@cotswold.gov.uk
Accountable officer	Jenny Poole, Chief Finance Officer Email: jenny.poole@cotswold.gov.uk
Summary/Purpose	To present a summary of the audit work concluded since the last meeting of this Committee.
Annexes	Annex A – REPORT OF INTERNAL AUDIT ACTIVITY – PLAN PROGRESS 2021/22
Recommendation(s)	<p>a) <i>That the Committee considers the report at Annex A and comments as necessary</i></p> <p>b) <i>If the Committee wishes to discuss the reports, and recommendations, contained within the exempt reports, then the Committee must enter confidential session</i></p>
Corporate priorities	Ensure that all services delivered by the Council are delivered to the highest standard.
Key Decision	NO
Exempt	NO
Consultees/ Consultation	N/A



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 The following documents have been identified by the author of the report in accordance with section 100D.5(a) of the Local Government Act 1972 and are listed in accordance with section 100 D.1(a) for inspection by members of the public:

- Internal Audit Reports.

These documents will be available for inspection at the Council Offices at Trinity Road, Cirencester, GL7 1PX during normal office hours for a period of up to 4 years from the date of the meeting. Please contact democratic services via democratic@cotswold.gov.uk

(END)

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Cotswold District Council

Report of Internal Audit Activity

October 2021

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Contents

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- Appendices:

Appendix A – Internal Audit Definitions

Appendix B – Audit Plan Progress

Appendix C – Summary of Audit Findings

Appendix D – High Priority Findings and Agreed Actions

Appendix E – Summary of Agreed Actions

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

No	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.
Limited	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.
Reasonable	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.
Substantial	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.

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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.

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

Definitions of Risk

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

Audit Type	Audit Area	Status	Opinion	No of Rec	Priority			Comments
					1	2	3	
2020/21 Audits in Draft / In Progress at Annual Opinion								
Key Financial Control	Payroll	Final Report	High Reasonable	1			1	See Appendix C
ICT	Systems Admin	Final Report	Medium Reasonable	2		2		Due to the sensitive nature of the audit the report is not published
Governance	Risk Management	Final Position Statement	N/A					See Appendix C
ICT	Data Recovery Capabilities	Final Report	Low Substantial	1			1	Due to the sensitive nature of the audit the report is not published

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Audit Type	Audit Area	Status	Opinion	No of Rec	Priority			Comments
					1	2	3	
2021/22 Audit Plan								
Support	Business Grant Funding	Complete	N/A	-				Head of IA seconded to Council to support processing of Mandatory and Discretionary Business Grants from November onwards
Support	Business Grant Funding – Post Payment Assurance	On-Going	N/A	-				Head of IA working with Counter Fraud Manager to support post payment assurance review
Support	Environmental Services Improvement Programme	On-Going	N/A					Support to the Programme
Support	Ubico – New Shareholder	Complete	N/A					Support to Project Team
Operational	Accounts Payable	In Progress						Quarterly review of payments made
Operational	Fire Risk Assessments	Final Report	High Reasonable	1		1		See Appendix C
Support	Civica – Merge of 3 Systems	Complete						Support to Project Team
Operational	Procurement Cards	Scope Agreed						
Operational	Emergency Planning	In Progress						
Operational	Election Expenses – Treatment of VAT	In Progress						
Operational	Procurement (Contract Management and Monitoring)	Draft Report						
Governance	Governance of Programmes and Projects	In Progress						

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Audit Type	Audit Area	Status	Opinion	No of Rec	Priority			Comments
					1	2	3	
Operational	Publica Performance Information	In Progress						
Assurance	S106 Contributions to Tetbury Town Council (NEW)	In Progress						
Key Financial Control	Revenues and Benefits							
	<ul style="list-style-type: none"> • Council Tax and National Non-Domestic Rates 	In Progress						
	<ul style="list-style-type: none"> • Housing and Council Tax Benefits 	In Progress						
Key Financial Control	Core Financials							
	<ul style="list-style-type: none"> • Accounts Payable 							
	<ul style="list-style-type: none"> • Accounts Receivable 							
	<ul style="list-style-type: none"> • Main Accounting 							
	<ul style="list-style-type: none"> • Payroll 							
	<ul style="list-style-type: none"> • Treasury Management and Bank Reconciliation 	Final Report	High Substantial	-				See Appendix C
Key Financial Control	Human Resources							
Key Financial Control	Other Support Service provided by Publica <ul style="list-style-type: none"> • Procurement (Compliance with Strategy) 							
Grant Certification	Disabled Facilities Grants	Complete						

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Audit Type	Audit Area	Status	Opinion	No of Rec	Priority			Comments
					1	2	3	
Grant Certification	Restart Grants	In Progress						
Follow-Up	Follow-Ups of Recommendations made in Substantial and Reasonable Audits	On Going						
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

Payroll – Final Report – June 2021

Audit Objective

To provide assurance key controls within Payroll are operating effectively to ensure that payments are accurate, appropriately authorised and made in a timely manner, also that the risks of fraudulent payments 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 Agreed Actions

Priority	Number
Priority 1	0
Priority 2	0
Priority 3	1
Total	1

Risks Reviewed

Salary payments are made incorrectly or fraudulently resulting in financial loss and reputational damage.

Assessment

Low

Key Findings



Payroll processes have not changed because of home working. Basic payroll process notes were supplied for review along with the monthly payroll checklist. Review of the checklist found some items were not completed; changes will be made to the checklist going forward to ensure the correct tasks and reports are included. Process notes will also be updated to state when they were last reviewed.

One recommendation from 2018/19 has been implemented. Two previously outstanding recommendations now have compensating controls in place. One recommendation from 2019/20 is still outstanding.



Reconciliation of payroll to the general ledger for all clients is not undertaken, but year-end reconciliations of control accounts is completed, and this is operating effectively.

We received satisfactory responses to our sample testing queries to support permanent and temporary contract variations were processed in accordance with guidance.

All payroll files are reviewed and authorised by an independent manager prior to processing the payments. Monthly variance reports are produced for all client payrolls to investigate exceptions and these are reviewed by a senior officer.

Audit Scope

The areas reviewed are as follows:

- Key Controls – Reconciliation of payroll to the general ledger, production and independent review of exception reports, payroll authorisation process.
- Follow up of recommendations made in previous audits.
- Sample testing of permanent and temporary contract variations processed between April 20 – February 2021.

Discussions were held with the Publica HR Manager – Recruitment, Business Centre & Payroll.

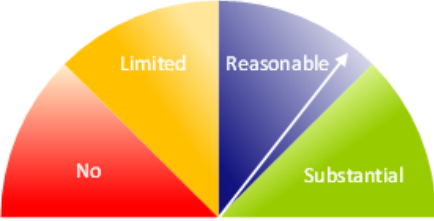
Other Relevant Information





Due to Covid-19, payroll officers are working from home unless essential they need to be in the office. Documentation required for new starters, leavers and variations to contracts is the same as before the pandemic but supplied via email. Policies on the Publica Portal contain guidance for the parts of payroll processes delegated to service areas (self-service in BWO), these have been reviewed within the last 2 years but not since Coronavirus.

Fire Risk Assessments – Final Report – September 2021

Audit Objective

To assess the arrangements and mechanisms in place to identify the risks associated with fire, and the resulting implementation of adequate and timely controls and actions to mitigate risks identified.

Assurance Opinion		Number of Agreed Actions		Risks Reviewed	Assessment
	<p>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.</p>	Priority	Number	<p>If the arrangements in place to identify and mitigate fire risk are not adequate, this could result in fatalities and/or damage following a fire at a Council property.</p>	<p>Low</p>
		Priority 1	0		
		Priority 2	1		
		Priority 3	0		
		Total	1		

Key Findings		Audit Scope
<p>Page 53</p> 	<p>The Fire Risk Assessment Works Schedule supplied by Publica Property Services was incomplete and outdated.</p> <p>Publica Property Services have agreed to review and update the document to ensure it is current and actions are SMART. This will ensure remedial actions can be effectively monitored and completed.</p>	<p>The scope of this audit covered the Trinity Road Offices, Cirencester.</p> <p>Meetings were held with the Publica Health and Safety Business Partner and Publica Interim Joint Operations Manager, and we discussed;</p> <ul style="list-style-type: none"> • Fire Risk Assessments • Fire Risk Assessment Action Plan and Remedial Actions • Monitoring and Review <p>The 2021/22 Fire Risk Assessment works schedule maintained by Publica Property Services was also reviewed for the property included in the scope.</p>
	<p>A temporary fire evacuation procedure was implemented and published on the Publica Portal in response to Covid-19. The Health and Safety Business Partner confirmed a new procedure is currently being developed for when more people return to the office.</p>	
	<p>Corinium Fire Safety Consultancy completed the most recent Fire Risk Assessment in 2019; the next assessment is due to be completed in 2022. Publica Health and Safety service area audits include a section on safety and maintenance aspects of fire prevention.</p>	
	<p>The Responsible Person, a Property Services Officer and a Health and Safety Officer meet to review the Fire Risk Assessment actions quarterly.</p>	

Other Relevant Information

The Regulatory Reform (Fire Safety) Order 2005 covers general fire safety in England and Wales. The Chief Executive Officer is the 'Responsible Person' and must ensure a fire safety risk assessment is carried out, implemented, and maintained. In most premises, local fire and rescue authorities are responsible for enforcing this fire safety legislation.

Risk Management – Final Position Statement – September 2021

Objective

To ensure the Councils and Publica have a planned and systematic approach to the identification, evaluation, and management of risks to control the probability and/or impact of unfortunate events, or to maximise the realisation of opportunities.

Executive Summary

Effective Risk Management is an important part of an organisation's ability to identify, assess and mitigate areas of concern or take advantage of opportunity that may affect, positively or negatively, the achievement of an organisation's business objectives and goals within their strategy.

As Service Provider for most Council services, Publica manage operational risk on behalf of the Council. An assurance audit for Risk Management was originally included in the agreed Audit Plans at CDC and Publica. Currently, work is being done to update the policy, processes, and compliance procedures. Previous audit recommendations which are not yet fully implemented including implementing robust and consistent working practices.

We have not offered an assurance opinion due to the planned improvements and current work ongoing, but we have agreed an action plan with the Business Manager based on our observations and suggestions, which when implemented, will enhance compliance with the policy and process.

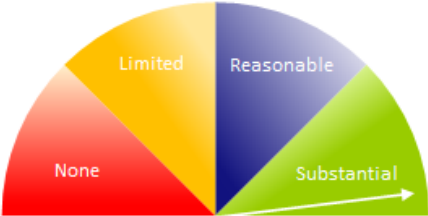
We will undertake a further audit later in the year including following up on progress of the agreed actions and provide an assurance opinion. Where appropriate, we will also include specific Risk Management compliance tests within future Service Area audits to continually assess the general improvements being made in this area.

SWAP is looking to introduce a Risk Management Forum. The aim of this is to discuss such topics as common risks, analysis of strategic risks, frameworks used for risk management, horizon scanning and other items of interest. Officers and Members from across the Partnership will be welcome to join and contribute so ideas and best practice can be shared and learned from one another. The Business Manager – Corporate Services has advised she has already been contacted and confirmed her interest in the Forum.



Treasury Management and Bank Reconciliation – Final Report – September 2021

Audit Objective

To ensure that the key controls within Treasury Management and Bank Reconciliations are operating effectively.

Assurance Opinion		Number of Actions		Risks Reviewed	Assessment
	<p>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.</p>	Priority	Number	1. Inadequate treasury management arrangements in place, resulting in financial loss.	Low
		Priority 1	0	2. If bank reconciliations are not regularly carried out, there is a risk of inaccurate financial reporting, loss of income and fraud.	Low
		Priority 2	0	3. If previous recommendations made are not implemented, the organisation may be open to unnecessary risk exposure	Low
		Priority 3	0		
		Total	0		

Key Findings

Page 55	 <p>Treasury Management Strategies are approved in accordance with the budget setting process. Regular reports and cashflow forecasts are presented to senior management. A Treasury Management Outturn report is presented to members each year.</p>
	 <p>Completed bank reconciliations are reviewed, anomalies investigated and approved by a senior independent officer within 2 to 3 days of month end.</p>
	 <p>The agreed action from our previous audit has been implemented.</p>

Audit Scope

A high-level review was completed in the following areas:

- Treasury Management Strategy approval and reporting process
- Bank Reconciliation procedures.
- Follow up on last year’s recommendations

We held discussions with the Publica Business Partner Accountant and the Senior Accounting Technician. And reviewed evidence provided to support discussions held.

Bank statements and the bank reconciliations from February 2021 were reviewed for all Councils and Publica.

Conclusion

Robust controls are operating effectively within the areas reviewed. We did not identify any areas which warrant further review or reporting.

High Priority Findings and Agreed Actions

APPENDIX D

Audit Name	Priority	Finding	Agreed Action(s)	Due Date	Update October 2021
Systems Admin 45115	2	Previous Recommendations not implemented		Jan 2022	
Systems Admin 45236	2	Some controls not as robust as expected		Jan 2022	
Accounts Payable 45450	2	Amendments to supplier accounts cannot be monitored.	We will contact Publica Business World On System Support & Maintenance to investigate how we can monitor amendments made to supplier accounts, and we will monitor account amendments weekly.	Sept 2021	
Human Resources 45249	2	Third parties and/or temporary staff working for or on behalf of the Council are not required to carry out mandatory training modules	Consideration will be given to providing access to individuals with access to the Publica/Council network and/or working on Publica/Council premises with access to mandatory training via the current e-learning systems in place, including temporary agency staff, external partnership workers and Members.	Mar 2022	
Human Resources 45287	2	The Publica Learning and Development Guidance and associated forms (Training Brief form and Learning Contract) have not been fully approved by relevant Employee Trade Unions.	The Publica Learning and Development Guidance and associated forms will be submitted for review and approval by Employee Trade Unions, and upon approval will be submitted for formal adoption by Publica.	Sept 2021	

High Priority Findings and Agreed Actions

APPENDIX D

Audit Name	Priority	Finding	Agreed Action(s)	Due Date	Update October 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	Revenues Manager to monitor the Revenue Technical Lead's suppression activities. Further follow-up will be undertaken during the 2021/22 annual audit.
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	Ledger reports have been issued to the service and have been reconciled to Northgate and Open Revenues. Further follow-up will be undertaken during the 2021/22 annual audit.
ICT Business Continuity 44816 Page 57	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: - A comprehensive Business Impact Analysis identifying the critical functions. - Documented detailed action plans to consider the extended loss of ICT service.	May 2021	The BCP templates were issued to Business Managers during May 21, with an action for completion, and to include impact analysis and actions to be taken following the loss of ICT. There is a Steering Group meeting to be held on 14 September, where the respective BCPs will be reviewed prior to being finalised. Revised implementation date 30 th September 2021
ICT Business Continuity 44817	2	There are inconsistencies between the recovery times of critical business applications.	1.Consider a permanent ICT representative in the BCM Steering Group. 2.Work on the Asset Inventory has already commenced and is to be completed. (Target date 31 December 21) 3.Determine recovery timescales from the BIA, update new BCP template and DR Plans.	Dec 2021	A dedicated ICT representative will attend Steering Group meetings, the next being 14 September. Asset inventory work is in progress and ongoing. Hardware and Software inventory Audits are due to be undertaken in this year's Audit plan. New Business Continuity Templates include Business Impact Analysis' and are due for review by the Steering Committee in September.

High Priority Findings and Agreed Actions

APPENDIX D

Audit Name	Priority	Finding	Agreed Action(s)	Due Date	Update October 2021
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	The refresh and update of all ICT Policies is in progress, however the new target date for completion and issue of draft Policies for review/input, is 30 September 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	Jan 2022	Ongoing The ICT Audit and Compliance Manager is working with the Security Engineer on an incident playbook that define the procedures and steps to be taken during an incident investigation. On target for completion by January 2022.
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 onboarding process without specific criteria being fulfilled first (e.g. obtaining references, ID checks etc).	Sep 2020	We were advised that the current HR Pre-employment screening procedures are based on 'types of job' and 'appointments' whereby risk assessments are conducted to set the screening requirements for different types of jobs. They also ensure BPSS checks are performed on all employees who have access to sensitive information. The Applicant Tracking System was recently introduced. Agreed action completed.

High Priority Findings and Agreed Actions

APPENDIX D

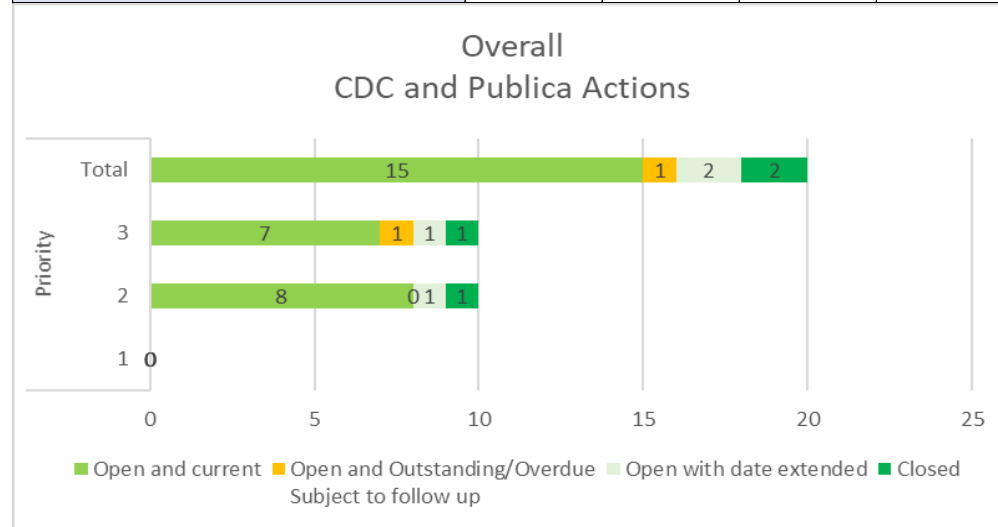
Audit Name	Priority	Finding	Agreed Action(s)	Due Date	Update October 2021
Health and Safety – Fire Risk Assessments 43147	2	We recommend that officers should ensure all remedial actions identified in fire risk assessments are completed using a risk-based approach.	These remedial action requirements are in progress and will be completed in accordance with the noted time scale.	Sep 2020	The agreed action has been followed up and some remedial actions have been completed. A full audit of Fire Risk Assessments is in progress and will include further follow-up of this recommendation. Recommendation closed.
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. An audit on Contract Management and Monitoring is in progress, this recommendation will be reviewed as part of the new audit. Recommendation closed.
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	Finding has been actioned. Agreed action completed.

Audit Name	Priority	Finding	Agreed Action(s)	Due Date	Update October 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	<p>Flowcharts have been produced for the starters / leavers / variation processes.</p> <p>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.</p> <p>Further follow-up has been included in the 2020/21 audit plan</p> <p>Revised implementation date to 31/12/20 due to Covid-19. Annual audit is in progress</p> <p>The original recommendation related to an Identity & Access Management Process, which is in place.</p> <p>Recommendation closed.</p>
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	<p>We were advised:</p> <ul style="list-style-type: none"> • A review of ABW requisitioner and approver roles is currently in progress. • Together with the finance team, the ABW support team aim to review all clients over the coming months. <p>We have followed up this finding and are waiting for a response from the Group Manager.</p> <p>An audit in respect of system access is planned for 2021/22. This recommendation will be followed up in the new audit.</p>

Audit Name	Priority	Finding	Agreed Action(s)	Due Date	Update October 2021
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	<p>No evidence has been provided of actions carried out by responsible officers to support implementation of this recommendation at the time of follow-up.</p> <p>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.</p> <p>Revised implementation date to 31/12/20 due to Covid-19. We have followed up this finding and are waiting for a response from the Group Manager.</p> <p>An audit on Contract Management and Monitoring is in progress, this recommendation will be reviewed as part of the new audit.</p> <p>Recommendation Closed</p>

Summary of all Agreed Actions from April 2020 and Progress against them

CDC ONLY	Priority			Total
	1	2	3	
TOTAL in Audit Period (From 4/20)	0	2	1	3
Open and current		0	0	0
Open and Outstanding/Overdue Subject to follow up	0	0	0	0
Open with date extended	0	1	1	2
Closed	0	1	0	1
PUB ONLY	Priority			Total
	1	2	3	
TOTAL in Audit Period (From 4/20)	0	8	9	17
Open and current	0	8	7	15
Open and Outstanding/Overdue Subject to follow up	0	0	1	1
Open with date extended	0	0	0	0
Closed	0	0	1	1



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Council name	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	AUDIT COMMITTEE – 21 OCTOBER 2021
Report Number	AGENDA ITEM 10
Subject	COUNTER FRAUD UNIT REPORT
Wards affected	All indirectly
Accountable member	Cllr Mike Evely, Deputy Leader and Cabinet Member for Finance Email: Mike.Evely@cotswold.gov.uk
Accountable officer	Emma Cathcart, Counter Fraud Unit Manager Email: Emma.Cathcart@cotswol.gov.uk
Summary/Purpose	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. The 2021/2022 work plan is presented, with progress and results for consideration and comment.
Annexes	Annex A – Work Plan 2021/2022
Recommendation(s)	<i>That the Audit Committee notes the report and the work plan at Annex A.</i>
Corporate priorities	Delivering our services to the highest standards.
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 Legal Services and have been issued to the relevant Senior Officers, Management and Governance Officers for comment.



1. BACKGROUND

- 1.1 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.
- 1.2 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.
- 1.3 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.
- 1.4 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.
- 1.5 Attached at Annex A is a copy of the work plan for 2021/2022.

2. MAIN POINTS

- 2.1 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 251 referrals to review resulting in the following:
 - 145 cases that were confirmed as eligible and the grant was paid.
 - 32 cases of loss prevention, in that the grant monies were not paid, totalling £434,334 (3 classed as fraudulent attempts).
 - 57 cases of post payment recovery totalling £585,908 (5 classed as fraud) have been identified and invoices have been raised. Of this £585,908, £303,662 has been repaid. A significant reconciliation exercise has taken place in relation to invoicing and recovery hence the minimal changes to the recovered funds since April.
 - 11 cases that are still under review and 6 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 the



Department for Business Energy and Industrial Strategy (BEIS). A comprehensive template has been provided to ensure a consistent approach to fraud risk assessment in this area and includes details relating to how these are mitigated and managed. The team are currently reviewing all successful applications and reporting any findings.

- 2.2** 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. The CFU are processing the following:
- 204 matches have been received which has collated and compared business grant data nationwide in relation to the original schemes paid during the first lockdown.
 - 866 matches relating to Council Tax Discounts/Exemptions and the Council Tax Reduction Scheme.
 - 82 matches relating to the Housing Waiting List.
- 2.3** A review of the Track and Trace Payments is underway. 109 payments have been reviewed resulting in 16 cases of recovery totalling £8,000.
- 2.4** A review of 698 Licensed Premises, as held by the Licensing Team, was compared to the information held on the invoicing system to ensure the correct liable party was being charged. In addition, the rateable value of the premises was also verified to confirm that the correct License charge was being applied. The review resulted in 206 amendments, 60 cases which require further investigation and 154 subscription anomalies. Results are pending regarding increased Licensing revenue.
- 2.5** 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.
- 2.6** Since 1 April 2021:
- The team has received 21 referrals from across the Council and closed 23 cases. This excludes any Council Tax Reduction Scheme referrals.
 - The CFU is now overseeing the investigation of alleged fraud and abuse in relation to the Council Tax Reduction Scheme (Council Tax Support) and act as the single point of contact for Department for Work and Pensions (DWP) Housing Benefit investigations.



9 referrals were received and 6 cases were closed.
Increased Council Tax revenue of £285 has been raised.

- Cases relating to Council Tax have resulted in the removal of discounts or exemptions, increased Council Tax revenue of £7,205 and the application of one £70 Penalty.
- The team undertakes disciplinary investigations for Publica across the partnership. 3 cases have been referred and 2 cases have been closed. One of the closed matters related resulted in a referral being passed to another enforcement body with jurisdiction and one case was closed, no further action but a management report was passed to the service area. Both the individuals have now left the organisation and are no longer employed by Publica.
- The team successfully prosecuted two individuals for licensing offences; one for failing to keep records and operating an unlicensed private hire vehicle and the other for acting as and using an unlicensed private hire vehicle. Both defendants were found guilty, each received a £120 Fine and were ordered to pay £400 towards costs.
- The team successfully prosecuted an individual for housing offences. The defendant pleaded guilty to six charges of fraud in relation to housing applications within the Cotswold District. Charges were brought for Cotswold District Council, Bromford, Greensquare, Stonewater and Fortis (all social housing providers). The defendant was fined £692 and ordered to pay costs of £761.
- The team successfully prosecuted an individual for unauthorised work to a listed building. The defendant pleaded guilty, received a Fine of £1,000 and was ordered to pay costs of £500.
- The team successfully prosecuted an individual for unlawful works to trees protected by a Tree Preservation Order. The defendant pleaded guilty and received a Fine of £1,250 and was ordered to pay costs of £1,950.
- There is a case listed in the Crown Court following a not guilty plea relating to Fraud offences.

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.

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.).

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.

7. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS

- 7.1 None.

8. ALTERNATIVE OPTIONS

- 8.1 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.
- 8.2 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.

9. BACKGROUND PAPERS

None

(END)



COTSWOLD
DISTRICT COUNCIL

Department / Contact	Task
Governance	Delivery of two reports for Audit Committee
Governance	Fighting Fraud & Corruption Locally - Checklist Compliance
Governance	Government Functional Standard 013: Counter Fraud - Compliance
Policy	Counter Fraud and Anti-Corruption Policy
Policy	Corporate Enforcement Policy
Policy	Council Tax, Council Tax Reduction Scheme & Housing Benefit Penalty and Prosecution Policy
Policy	Proceeds of Crime & Anti-Money Laundering Policy
Policy	Whistle-Blowing Policy
Policy	Regulation of Investigatory Powers Act 2000 (Surveillance & Covert Human Intelligence Sources)
Policy	Investigatory Powers Act 2016 (Acquisition of Communications Data)
Policy	Use of the Internet and Social Media in Investigations and Enforcement
Bribery and Corruption	Assessment Template Review
Bribery and Corruption	Policy and Procedure: Staff Declarations of Interest / Conflicts of Interest
Bribery and Corruption	Review of the Gifts and Hospitality Policy and Procedure
Serious and Organised Crime	Checklist Review
Serious and Organised Crime	Proactive Fraud Drive - transient / cash businesses
Statutory / Regulatory	Collation and Publication of Fraud Transparency Data
Statutory / Regulatory	RIPA / IPA - Annual Report to Members / Advisory / Inspection Single Point of Contact
Strategy : Detection	Housing Waiting List review
Strategy : Detection	National Fraud Initiative Match Reviews - Revenues / Benefits / Housing

Department / Contact	Task
Strategy : Detection	Holiday / Airbnb Review
Strategy : Detection	SMI Review (sample 20)
Strategy : Detection	Procurement - Supplier Payment Review
Strategy : Detection	Charity Shop Exemption Review
Strategy : Detection	Track and Trace - Assurance and Enforcement Activities
Strategy : Detection	Business Grants - Assurance and Enforcement Activities
Strategy : Detection	Licensing / Invoice Review
Strategy : Detection	Waterpark Review
Strategy : Prevention	Development / Review of Fraud Response Plan
Strategy : Prevention	Development of Fraud Awareness Literature (staff)
Strategy : Prevention	Development of Right to Buy Debt Recovery Process
Strategy : Prevention	Development of Service Specific Fraud Risk Register
Strategy : Prevention	Training Members / Staff - Fraud Awareness / RIPA & IPA / CPIA, PACE, Disclosure Training
Strategy : Prevention	Review of HR Recruitment and Vetting Policy and Procedures

RIPA = Regulation of Investigatory Powers Act 2000

IPA = Investigatory Powers Act 2016

CPIA = Criminal Procedure and Investigations Act 1996

PACE = Police and Criminal Evidence Act 1984



Council name	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	AUDIT COMMITTEE – 21 OCTOBER 2021
Report Number	AGENDA ITEM 11
Subject	EXTERNAL AUDIT UPDATE REPORT
Wards affected	N/A
Accountable member	N/A
Accountable officer	Jenny Poole, Chief Finance Officer Email: jenny.poole@cotswold.gov.uk
Summary/Purpose	To receive an update report from the Grant Thornton, the Council's external auditor.
Annexes	Annex A – Audit Progress Report and Sector Update
Recommendation(s)	<i>To Consider the Grant Thornton Audit Progress and Sector Update report.</i>
Corporate priorities	Ensure that all services delivered by the Council are delivered to the highest standard. The External Auditor's work on "Value for Money" is relevant to the Council principle of "Value for money – we will use the council's resources wisely, but will invest in the fabric and future of the district".
Key Decision	NO
Exempt	NO
Consultees/ Consultation	Chief Finance Officer



1. BACKGROUND

- 1.1 Attached at Annex A is the Council's external audit, Grant Thornton LLP, Audit Progress Report and Sector Update.

2. MAIN POINTS

- 2.1 The Committee are asked to consider the report. Officers from Grant Thornton will be available at the meeting to answer any questions.
- 2.2 The report highlights that the Audit Findings Report and Audit Opinion, originally planned to be delivered by the 30 September 2021 is now expected to be delivered in November 2021. The audit team has experienced resource challenges and this combined with the challenges of working in a remote environment, the increased volume of work needed to do to be able to issue a safe opinion, and the additional scrutiny external audit face from their Regulator has resulted in Grant Thornton needing to revise their completion timetable.
- 2.3 From the work undertaken to date, Grant Thornton have not identified any significant or material issues impacting on the accuracy of draft financial statements presented for audit, however, this is subject to the caveat that the audit team need to complete the remainder of their work.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications arising from this report.

4. LEGAL IMPLICATIONS

- 4.1 There are no direct legal implications arising from this report.

5. RISK ASSESSMENT

- 5.1 The Chief Finance Officer has requested that advanced notice is provided of any work which is likely to incur additional audit fees.



6. BACKGROUND PAPERS

6.1 None

(END)

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Audit Progress Report and Sector Update

Cotswold District Council
Year ending 31 March 2021

October 2021



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Introduction



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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at October 2021

Financial Statements Audit

We presented our 2020/21 audit plan to the Audit Committee in April 2021. This set out our proposed approach to the audit of the Council's 2020/21 financial statements.

The significant risks we identified within the plan was as follows:

- Management override of controls;
- Valuation of land and buildings;
- Valuation of investment properties; and
- Valuation of net pension fund liability.

In presenting the plan we noted that MHCLG has set an indicative date of 30 September 2021 for audited local authority accounts (two months earlier than in 2019/20).

Given the system-wide pressures set out in our audit plan, we indicated that delivery against this target would be a significant challenge across the sector.

We selected a sub-set of our LG councils, where we felt we had the greatest change of completing the audit by 30 September 2021 to prioritise, and this included Cotswold District Council.

Progress as at 11 October 2021

Our audits of the Council's 2020/21 financial statements commenced in July.

Since then progress has been slower than we would have hoped. This has been due to a number of factors, most notably resourcing challenges.

This, combined with the challenges of working in a remote environment, the increased volume of work that we need to do to be able to issue a safe opinion, and the additional scrutiny we are under from our regulator has resulted in us needing to revise our completion timetable.

It is important to stress that we have had good co-operation from the Council's finance officers. Both teams have worked hard to deliver to the original timeline but we recognise that on this occasion it proved too much.

From our work undertaken to date, we have not identified any significant or material issues impacting on the accuracy of draft financial statements presented for audit, however, this is subject to the usual caveat that we need to complete the remainder of our work.

From a context point of view, we want to assure you that you are not alone in being in this position, with the national picture being such that a significant proportion of local government audits have not meet the deadline of the end of September, and we are aware that some firms are not even starting their LG audits until the beginning of October. The delays nationally reflect the late start on many 2020/21 audits due to overrunning 2019/20 audits.

Progress at 14 September 2021

Way forward

Although it is disappointing that we have not been able to achieve the early September completion. We are not too far behind our original schedule.

We are keen to get the opinion audit complete as soon as is practical, but want to work out a robust resource plan from our side to make sure we can deliver to the agreed revised timescale. We anticipate that this would mean we are working to a target timeline of the middle of November with an Audit Committee to be rearranged after this to receive our audit findings report ahead of adoption of the accounts and us issuing our opinion. We are currently working through the exact resourcing details and will communicate this to your finance team once we have more exact dates.

As a team we are committed to completing this audit as soon as practically possible. The timeline above reflects some leave that our team have booked off in early October.

We would like to put on record our appreciation for the continued support from officers at the Council.

Value for Money

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 improving 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 the three specified reporting criteria (i.e. financial sustainability, governance and improving economy, efficiency and effectiveness).

The NAO has set a deadline for the completion of this work as three months after the opinion on the Council's financial statements has been given.

At this stage we continue to work to the original timeline of the end of December 2021 for completion for this work.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Audit and General Purposes Committee setting out our proposed approach in order to give an opinion on the 2020/21 financial statements.</p>	April 2021	Completed (issued 7 May 2021)
<p>Audit Findings Report</p> <p>The Audit Findings Report will cover the findings on our financial statements audits.</p>	September 2021 (now expected to be November 2021)	Not yet due
<p>Auditors Report</p> <p>This is the opinion on your financial statements and annual governance statement.</p>	September 2021 (now expected to be November 2021)	Not yet due
<p>Auditor's Annual Report</p> <p>This summarises the work undertaken as part of our Value for Money assessment. The NAO has set a deadline for the completion of this work as three months after the opinion on the Council's financial statements has been given.</p>	September 2021 (now expected to be December 2021)	Not yet due

Annual Transparency Report – Grant Thornton

As auditors of several listed entities as well as nearly one hundred major local audits, we are required as a firm to publish an annual transparency report.

The report contains a variety of information which we believe is helpful to audit committees as well as wider stakeholders. The Financial Reporting Council (FRC) in their thematic review of transparency reporting noted that they are keen to see more Audit Committee Chairs actively engaging and challenging their auditors on audit quality based on the information produced in Transparency reports on a regular basis. We agree with the FRC and are keen to share our transparency report and discuss audit quality with you more widely.

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The transparency report provides details of our:

- Leadership and governance structures
- Principle risks and Key Performance Indicators
- Quality, risk management and internal control structure
- Independence and ethics processes
- People and culture
- Compliance with the Audit Firm Governance code and EU Audit directive requirements

We have made significant developments in the year as part of our Local Audit Investment Plan to improve our audit quality. We welcome an opportunity to discuss these developments and our transparency report should you wish.



The full report is available here:

[Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)



Council name	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	AUDIT COMMITTEE – 21 OCTOBER 2021
Report Number	AGENDA ITEM 12
Subject	AGED DEBTOR ANALYSIS
Wards affected	N/A
Accountable member	Cllr Mike Every, Cabinet Member for Finance Email: mike.every@cotswold.gov.uk
Accountable officer	Jenny Poole, Chief Finance Officer Email: jenny.poole@cotswold.gov.uk
Summary/Purpose	To receive and consider the Council's Aged Debt Analysis
Annexes	Annex A – Sundry Debtor Aged Debt Profile (5 Years) Annex B – Sundry Debtor Aged Debt Profile by Service (8 October 2021)
Recommendation(s)	<i>The Audit Committee are asked to consider the levels of aged debt held.</i>
Corporate priorities	The Council's recovery of debtors underpins all of the Council Priorities and is relevant to the Council principle of "Value for money – we will use the council's resources wisely, but will invest in the fabric and future of the district".
Key Decision	NO
Exempt	NO
Consultees/ Consultation	N/A



1. BACKGROUND

- 1.1 At the July Audit Committee meeting Members asked for an update in respect of the levels of aged debt held within the Council's accounts.
- 1.2 As we enter the recovery stage of the Covid-19 pandemic Officers have been working to recover outstanding debts that during the pandemic they were in many instances not pursued to ensure that businesses and people were not disadvantaged during the period of lockdown when business were closed and at a time when many individuals were furloughed.
- 1.3 At 31 March 2021, the value of outstanding sundry debtors totalled £2.245m. This included debt requiring action (i.e. debtors older than 30 days) of £1.059m. Over the course of the last six months this level has reduced. At 8 October 2021, the value of outstanding sundry debtors totalled £1.950m with aged debt requiring action reducing by £0.196m to £0.863m.
- 1.4 The analysis provided in this report excludes non-invoiced debtors such as Council Tax, Business Rates and the recovery on non-invoiced housing benefit overpayments which are being recovered through a deduction from ongoing housing benefit payments.

2. AGED DEBT PROFILE

- 2.1 At 8 October 2021 there were 793 sundry debt invoices outstanding with a value of £1.950m (an average balance of £2,459). The total aged debt profile for sundry debtors over the last five years can be seen at Annex A.
- 2.2 Annex B summarises the current aged debt profile by service.
- 2.3 Table I below summarises the total sundry debtors older than 30 days.

Table I Sundry Debtors Older than 30 days

Date	Rent Allowance (3) £	Excluding Rent Allowance £	Total Debtors > 30 days £
31/03/2018	759,935	243,142	1,003,077
31/03/2019	780,569	379,460	1,160,029
31/03/2020	668,711	48,828	717,539
31/03/2021	586,373	472,535	1,058,908



08/10/2021	542,540	320,260 (1)(2)	862,800
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(1) The balance at 8 October 2021 includes the recovery of £74,000 of Covid-19 business grants.

(2) Sundry Debtors older than 30 days at 8 October 2021 includes 26 debtors totalling £237k where the debtor is overdue by 1-3 months.

- 2.4** From 2019/20 housing benefit overpayments recovered from claimants in receipt of housing benefit is recovered through a deduction to benefit received rather than invoiced via the Accounts Receivable system. This amounted to £156k at 31 March 2020 and £200k at 31 March 2021.
- 2.5** In order to ensure that the Council adopts a prudent approach to accounting for debt that might not be due, a “provision for doubtful debts” is made against the year-end balance. The value of this provision for 2020/21 for sundry debtors was £625,575, 72.5% of the sundry debtor balance outstanding.

3. DEBT RECOVERY PROCESS

- 3.1** The current process for debt recovery involves an automated approach being followed for the first two months with the system generating standardised reminder letters to the relevant debtors. At the end of this process, as the debt becomes 3 months old, the relevant service area is required to actively chase the debt through phone calls and further correspondence. The service area can instruct the Accounts Receivable team to take further action including referral to legal or establishing a payment plan.
- 3.2** Housing Benefit debtors (which make up 63 per cent of the current debtors requiring action) are actively chased by the Benefit recovery team.
- 3.3** Officers within Estates have worked proactively throughout the pandemic with commercial property tenants to agree payment plans without any reduction in rent payable. This has resulted in a debtors older than 30 days reducing from £0.079m at 31 March 2021 to £0.024m at 8 October 2021.
- 3.4** The aged debt position is monitored on a monthly basis with reports provided to both budget holders and the finance team. The aged debt position will continue to be monitored closely on a monthly basis to ensure proactive action is taken where necessary.



4. LEGAL IMPLICATIONS

4.1 There are no legal implications arising from this report.

5. RISK ASSESSMENT

5.1 Failure to take the necessary corrective action in relation to aged debt may result in the Council having to write off significant balances which are not covered by existing bad debt provisions. This is mitigated by the Council maintaining a high level of provision for bad debt.

6. CLIMATE CHANGE IMPLICATIONS

6.1 None directly arising from this report.

7. BACKGROUND PAPERS

7.1 None

(END)

Annex A – Sundry Debtor Aged Debt Profile (5 Years)

	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Date	Total Outstanding Sundry Debtors	Total Number	Not due	0-30 days	1-3 Mths	3-6 Mths	6 mth - 1 Yr	1 - 2 Yrs	2 Yrs+	Invoices with halted recovery (*)	Invoices in payment plan	Invoices with legal	Invoices for Write off (**)	Invoices awaiting credit notes (**)	Customer Credits (****)
31/03/2018	1,730,635	1,035	307,258	420,300	174,534	159,399	4,232	6,128	11,883	157,359	526,885	123,781	0	2,121	-163,245
31/03/2019	1,851,567	940	296,616	394,919	20,514	341,550	17,258	5,913	8,479	207,481	514,869	69,656	0	0	-25,691
31/03/2020	1,496,508	829	410,402	368,567	4,621	8,287	30,388	74,728	71,436	67,372	368,659	98,541	142	0	-6,635
31/03/2021	2,245,432	814	894,167	292,355	187,705	95,894	37,414	53,582	86,364	204,623	367,624	131,796	8,109	2,154	-116,357
08/10/2021	1,950,075	793	213,755	873,520	237,120	3,203	61,550	15,615	126,191	68,521	363,420	103,618	5,067	0	-121,505

Excludes Council Tax, NNDR and Housing Benefit non invoiced debtors.

* **Value of Invoices with Halted Recovery** – invoices where recovery is halted for example, a disputed service, or the customer has requested more time to pay.

** **Value of Invoices for Write Off** - invoices have been proposed for write off but are awaiting submission to or approval by the S151 Officer or Finance Manager

*** **Value of Invoices Awaiting Credit Note** - credit notes need to be authorised by the relevant service area on Agresso. Until they are authorised and matched off, the invoices remain outstanding

**** **Customer Credits** - accounts where customers have paid in advance of an invoice, in error, or where credit notes have been raised and a refund is due back to the customer

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Annex B - Sundry Debtor Aged Debt Profile By Service 8/10/21

	Total Outstanding Sundry Debtors	Total Number	Not due	0-30 days	1-3 Mths	3-6 Mths	6 mth - 1 Yr	1 - 2 Yrs	2 Yrs+	Invoices with halted recovery (*)	Invoices in payment plan	Invoices with legal	Invoices for Write off (**)	Invoices awaiting credit notes (***)	Customer Credits (****)
	£		£	£	£	£	£	£	£	£	£	£	£	£	£
By Service 8/10/21															
Environmental and Regulatory															
Building Control	12,277	3	0	11,265	0	0	0	757	0	255	0	0	0	0	0
Licensing	5,250	47	2,330	130	340	0	0	72	0	0	300	2,000	78	0	0
Environmental Protection	4,097	16	195	0	143	1,910	795	705	0	0	0	349	0	0	0
Food Safety	216	2	0	0	0	0	0	216	0	0	0	0	0	0	0
Abandoned Vehicles	786	3	0	0	0	0	0	0	0	0	0	786	0	0	0
Finance, HR and ICT															
Creditors	42,573	1	0	0	0	0	42,573	0	0	0	0	0	0	0	0
ICT	500	1	0	500	0	0	0	0	0	0	0	0	0	0	0
Street Naming	3,049	5	450	1,250	0	149	0	0	0	1,200	0	0	0	0	0
Land, Legal and Property															
Asset Management	22,008	19	370	387	17,232	121	908	0	0	0	3,039	0	0	0	-49
Legal	17,687	10	0	1,091	0	0	0	0	0	16,229	0	365	2	0	0
Revenues															
Rent Allowances	542,540	513	0	0	22	101	555	1,212	126,191	50,837	315,052	47,956	614	0	0
Homelessness	8,082	8	0	0	0	0	0	0	0	0	1,170	6,912	0	0	0
Council Tax Collection	46,741	1	0	46,741	0	0	0	0	0	0	0	0	0	0	0
Revenues - Business Grants															
Business Lockdown Grants	71,857	9	0	65,016	0	0	0	0	0	0	6,841	0	0	0	0
NNDR Collection - Business Grants	66,700	5	0	0	0	0	10,000	0	0	0	21,700	35,000	0	0	0
Environmental Services															
Car Parks	4,868	4	4,868	0	0	0	0	0	0	0	0	0	0	0	0
Cemetery, Crematorium and Churchyard	2,368	4	415	1,953	0	0	0	0	0	0	0	0	0	0	0
Public Conveniences	60	1	60	0	0	0	0	0	0	0	0	0	0	0	0
Recycling	192,504	5	192,504	0	0	0	0	0	0	0	0	0	0	0	0
Green Waste	23,881	4	0	0	23,641	120	120	0	0	0	0	0	0	0	0
Refuse/Recycling Organic and Food Waste	13,435	12	0	0	92,074	0	2,500	5,306	0	0	0	0	0	0	-86,445
Household Waste	26,234	2	0	84	26,150	0	0	0	0	0	0	0	0	0	0
Leisure and Communities															
Community Liaison	41,357	1	0	41,357	0	0	0	0	0	0	0	0	0	0	0
Tourism	4,960	11	0	0	0	0	0	587	0	0	0	0	4,373	0	0

Annex B - Sundry Debtor Aged Debt Profile By Service 8/10/21 (Continued)

	Total Outstanding Sundry Debtors	Total Number	Not due	0-30 days	1-3 Mths	3-6 Mths	6 mth - 1 Yr	1 - 2 Yrs	2 Yrs+	Invoices with halted recovery (*)	Invoices in payment plan	Invoices with legal	Invoices for Write off (**)	Invoices awaiting credit notes (**)	Customer Credits (****)
	£		£	£	£	£	£	£	£	£	£	£	£	£	£
Planning and Housing															
Development Management - Appeals	10,250	1	0	0	0	0	0	0	0	0	0	10,250	0	0	0
Democratic and Committee															
Elections	679	2	0	0	0	0	0	129	0	0	550	0	0	0	0
Printing	2,052	17	1,941	0	0	224	0	0	0	0	0	0	0	0	-113
Retained and Corporate															
Commercial Property	69,430	31	1,535	43,694	0	578	4,099	6,631	0	0	12,893	0	0	0	0
Publica Group	133,787	1	0	133,787	0	0	0	0	0	0	0	0	0	0	0
NHS Test and Trace Grants	6,875	15	1,000	4,000	0	0	0	0	0	0	1,875	0	0	0	0
Counter Fraud	47,854	5	8,087	1,118	38,649	0	0	0	0	0	0	0	0	0	0
Capital Grants and Contributions	461,000	1	0	461,000	0	0	0	0	0	0	0	0	0	0	0
Balance Sheet	64,118	33	0	60,147	38,869	0	0	0	0	0	0	0	0	0	-34,898
TOTAL	796,045	106	12,563	703,746	77,518	802	4,099	6,760	0	0	15,318	10,250	0	0	-35,011

WORK PLAN 2021/22

COMMITTEE DATE	ITEMS
21 October 2021	External Audit Contract
	Treasury Mid-Term Report 2021-22
	Internal Audit Progress Report
	Counter Fraud Unit Report
	External Audit Update Report
	Aged Debtor Analysis
	Work Plan 2021/22
23 November 2021	Corporate Risk Policy update
	Statement of Accounts 2020/21 and Grant Thornton Audit Findings Report
	Corporate Risk Register as at 30 September 2021
	Local Government Ombudsman Letter
	Code of Conduct matters
	Local Government Ombudsman Annual Letter 20/21
	Work Plan 2021/22
27 January 2022	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
	Update on elected member code of conduct issues including complaints and investigations
	Procurement of External Audit Services
	Work Plan 2021/22
28 April 2022	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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