

Informing the audit risk assessment for Cotswold District Council 2020/21

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Purpose

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

Background

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

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

Communication

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

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

Purpose

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

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p>	<p>The pandemic has had a considerable impact on the Council, lockdown has meant that many local businesses across the District have had to close – impacting on the local economy. Staff have been redeployed to work on Covid-19 related tasks including the processing and distribution of business grants.</p> <p>The Council has dealt with significant challenges in the year as it deals with the continuing crisis.</p> <p>Covid-19 will have a significant impact on several areas of the financial statements including reductions in the level of investment income received, the level of aged debt held by the Council will be considered for impairment and the accounting treatment of significant grant funding from central government.</p> <p>Land and property valuations are also expected to be affected by the uncertainty caused by the pandemic.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by the Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Accounting policies are reviewed and updated on an annual basis as part of closedown process to ensure that any new policies are incorporated and that existing policies are correct.</p> <p>The Government Grants and Contributions policy will be updated in the 2020/21 statement to reflect the treatment of Covid-19 business grants and an assessment of whether the Council is acting as agent or principal. Will also consider disclosure of this as a critical judgement within the statement of accounts.</p> <p>The implementation of IFRS 16 has been delayed by a further year, the policy has therefore not been updated.</p>

General Enquiries of Management

Question	Management response
3. Is there any use of financial instruments, including derivatives?	<p>The Council's financial instruments include: investments, cash equivalents, debtors, designated equity investment, finance lease assets and liabilities.</p> <p>Financial instruments are accounted for as per the requirements of IFRS 9.</p> <p>Financial instruments are per approved Investment Strategy developed with Arlingclose. Strategic investment reviews take place during the year with senior officers including consequent report and consultation with the Audit Committee.</p> <p>The Council's financial instruments do not include any derivative arrangements.</p>
4. Are you aware of any significant transaction outside the normal course of business?	<p>A pension lump sum deficit contribution of £4.9m was made to Gloucestershire Pension Fund in April 2020.</p> <p>A potential significant year end debtor or creditor with central government in respect of Covid-19 Business Grants where the Council has acted as agent.</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	None in 2020/21.
6. Are you aware of any guarantee contracts?	The contract with Publica, guarantees the company against future LGPS pension liabilities. Costs are passed through from Publica to the Council.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>A number of external solicitors are engaged on an ad hoc basis when there is no capacity in house. However none are engaged on a contentious matters. The external solicitors are used to support the in house team on non contentious matters such as property transactions and S.106 work.</p> <p>Firms engaged include Trowers and Hamlins, Bevan Britton, FTB Chambers, Albion Chambers and Martin Evans & Co</p>

General Enquiries of Management

Question	Management response
9. Have any of the Authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None reported.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Tax Advice (operational) provided by EY Arlingclose – Treasury advice Hymans Robertson – Pension Actuary Pixel Financial Management and LG Futures – Financial Advisory Service regarding government funding including Business Rates. Carter Jonas – Property consultancy advice and architectural fees

Fraud

Issue

Matters in relation to fraud

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

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

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

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

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

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

Fraud risk assessment

Question	Management response
<p>1. Have the Authority assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p>	<p>The Council has a robust financial control framework, supported by Financial Rules, Standing Orders, Scheme of Delegation and an independent and objective Internal Audit function and Counter Fraud Unit. Responsibility for ensuring that fraud and corruption risks are addressed sits with the Deputy Chief Executive in her role as Chief Finance Officer. The Internal Audit plan includes a risk based audit of the core financial systems that are used in the compilation of the financial statements. These core systems are audited annually, any risks that are identified that may result in the financial statements being materially mis-stated due to fraud will be reported to the Council's leadership team and the Audit Committee as part of the quarterly reporting cycle.</p> <p>The finance team comprises skilled, qualified accounting officers responsible for regular monitoring of management accounts to report actual income and expenditure against budgeted and forecast performance. This process includes discussions with service leads and review of variances to identify any instances of fraud and error. The annual budget is risk assessed and reported, and then monitored as part of the revenue and capital budget monitoring process. All reports to Cabinet include a section on financial implication and risk assessment to ensure that Members are aware of the financial risks of making a decision.</p> <p>The Counter Fraud and Anti-Corruption Policy, the Corporate Enforcement Policy, the Whistleblowing Policy, and the Internal Audit Charter are formally agreed by the Council (at a meeting of the appropriate Committee/Executive). These documents set out the role of Internal Audit in the prevention and investigation of fraud.</p> <p>The Audit Committee also approves the risk-based annual Audit Plan and Counter Fraud Work Plan which includes allocation of resources to respond to fraud allegations and prepare audits to consider possible areas where fraud may be a risk.</p>

Fraud risk assessment

Question	Management response
<p>1. Cont. How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>The work of the Counter Fraud Team is reported to the Audit Committee on a biannual basis. The overall remit is to prevent, detect and deter the abuse of public funds within the Council by working closely with other public sector organisations. The team can undertake reactive investigation work where a referral is received and where necessary, proactive fraud drives in high risk areas. Internal investigations have taken place by the Counter Fraud Unit and appropriate action has been taken and reported where appropriate.</p> <p>Where an investigation takes place due to the suspicion of fraud, any areas of risk or poor control that are identified will also be reported to the appropriate manager with remedial recommendations. Internal Audit will include a follow up audit in the Audit Plan to ensure the recommendations have been implemented.</p> <p>The Council also employs a number of Enforcement Officers within the various service areas who undertake work to tackle abuse of public funds.</p> <p>The year end risk registers contain information to identify possible contingent assets/liabilities and/or requirements to include provisions. The data in the register is used to identify cost or resource pressures or income streams. The information can be used to inform the financial planning process. The Council's risk register contains any significant risks from the Publica and/or Transformation Programme risk registers. A separate Covid-19 risk register is also in place from April 2020.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Revenue – streams such as Council Tax, Business Rates and any rental income</p> <p>Grants / Benefits – Business Grants, Council Tax Reduction Scheme (and Housing Benefit), Track and Trace Support Payments</p> <p>Expenditure – procurement and contract management</p>

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Authority as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Any instances of actual, suspected or alleged fraud, error or other irregularities that are identified are reported to Corporate Management and the Audit Committee.</p> <p>Benefit fraud is dealt with by the DWP. Abuse of the Council Tax Reduction Scheme is supported by the Revenues and Housing Support Department.</p> <p>The Counter Fraud team investigate allegations of wrongdoing. These matters are managed in line with Council's policies, including disciplinary policy, and will be reported to the police where appropriate. A criminal case relating to fraud and theft that is awaiting trial relates to a previous member of staff who was dismissed for gross misconduct.</p> <p>In some instances recommendations have been made in respect of control procedures and reports are issued to the appropriate Service Leads and Governance Group.</p> <p>The Audit Committee approves the risk based Annual Audit Plan which includes a risk based system audit of core financial systems and resources for auditing non financial systems on a risk basis.</p> <p>The Counter Fraud team has a similar annual plan for its work which includes an allocation of resources to investigate any alleged fraud. Performance against the Internal Audit Plan and Counter Fraud Plan and any specific issues identified are reported quarterly/half yearly to the Audit Committee. The Council's Overview and Scrutiny Committee also receives the Council's quarterly performance reports, which includes risk registers and financial performance.</p>
<p>4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Authority where fraud is more likely to occur?</p>	<p>The main areas of abuse relate to fraud associated with benefits to include the Councils Council Tax Reduction Scheme although reviews and verification processes within the department keep this to a minimum. In addition abuse relating to Council Tax and Business Rates avoidance / evasion affects a main revenue stream and due to the pandemic, abuse of Business Grants is a significant fraud risk area.</p>

Fraud risk assessment

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

Fraud risk assessment

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

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for the Authority, including:</p> <ul style="list-style-type: none">• the existence of internal controls, including segregation of duties; and• the process for reviewing the effectiveness the system of internal control?	<p>The Council's internal audit service is provided by SWAP Internal Audit Services (SWAP). SWAP provide the Council with an annual audit opinion using findings from review work carried out across the Council services. At the point of preparing this response, it is expected that the Council will have a "Reasonable" internal audit opinion, confirming that internal control processes are effective. As part of the core audit of systems, appropriate internal controls (or their absence/non-compliance) is considered by internal audit. Appropriate testing by internal audit, enables advice to be produced on the effectiveness of internal controls. The outcome of internal audit reviews are reported to management through audit reports and to the Audit Committee as part of quarterly performance updates.</p> <p>There is a good working relationship between the Counter Fraud Unit and Internal Audit, which ensures that internal control weaknesses identified through CFU reviews are followed up, following management action to address the weaknesses by internal audit reviews.</p> <p>Internal Audit Plans are approved at Council's leadership team and subsequently Audit Committee. Internal Audit then reports their findings and recommendations to both bodies and Audit Committee has a monitoring and challenge role to ensure the system of internal control is robust.</p> <p>External Audit also report their findings and recommendations to Audit Committee, which is subject to the same process of monitoring and challenge.</p>

Fraud risk assessment

Question	Management response
<p>6. Cont. How do you assess the overall control environment for the Authority, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The outcome of internal and external audit work, together with Assurance Statements prepared by senior managers feed into the preparation of the Annual Governance Statement which is considered by Council's leadership team and the Audit Committee. Internal Audit provides assurance on the robustness of the arrangements for production of the AGS.</p> <p>In summary, internal controls work effectively, including segregation of duties.</p> <p>N/A</p> <p>The Counter Fraud team submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation.</p> <p>On occasions such issues have been raised by both internal and external audit as part of the audit work. Appropriate recommendations for changes to internal controls are made on these occasions for management to implement.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>The financial reporting process is subject to review and challenge by both the Deputy S151 Officer and Deputy Chief Executive in her role as Chief Finance Officer.</p> <p>There is always the potential but we believe appropriate checks and balances are in place within the shared Finance Team to ensure mis-reporting does not occur.</p>

Fraud risk assessment

Question	Management response
<p>8. How do the Authority communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>The Council communicates and encourages ethical behaviour and business processes of its staff and contractor through its policies and strategies including Anti Fraud and Corruption Policy, Employee Code of Conduct and Whistleblowing policy all of which are available on the intranet site. Updates are communicated through induction and refresher training and other channels such as 'Keeping You Connected', emails or staff training events.</p> <p>The Audit Committee approves the risk-based annual audit plan. The annual plan includes resource allocation to core financial and governance audits as well as service audits which will include a review of various policies and strategies such as: the Counter Fraud and Anti-Corruption Policy, Employee Code of Conduct and Whistle-Blowing Strategy. The various strategies will be reviewed for timeliness and completeness as well as how well they are communicated to employees through processes such as induction training, appraisals and refresher training. Any areas of concern are reported to the Audit Committee through the SWAP quarterly monitoring reports.</p> <p>In terms of contractors, significant contracts are let following a robust process which seeks assurance from the potential contractor that the organisation has appropriate policies and processes in place. The Council monitors performance and quality and adherence to standards of service delivery. The Procurement Team have included statements on all tender / quote documentation detailing the Councils approach to modern slavery, ethical procurement and supporting local businesses</p> <p>The Counter Fraud Team remit includes staff and Member awareness sessions and alerts where necessary to encourage reporting which is further complemented by the Whistle-Blowing Policy. Training and briefings are provided by the Counter Fraud Unit to highlight activity and their role. Publicity with regard to identified fraud and error will also be encouraged to act as a deterrent.</p>

Fraud risk assessment

Question	Management response
<p>8. Cont. How do the Authority communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>No significant issues have been reported in 2020/21. Staff are expected to report any concerns they have about fraud or the misuse of public funds. Any allegations received are referred to the Counter Fraud Unit for investigation. These matters are managed in line with the Council policies, including disciplinary policy, and will be reported to the Council's leadership team where appropriate. In some instances, recommendations will be made in respect of control processes.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Contract procurement posts, high level budget controllers/approvers, ICT staff with high level system access. Officers with significant operational financial responsibilities, such as roles in the Treasury Management team, Chief Finance Officer/Deputy Finance Officer, and roles in Revenues and Benefits are subject to regular security checks, at recruitment and then regularly every three years.</p> <p>Each role in the Council or Publica, as the Council's service provision body, is assessed for the requirement to undertake post holder security checks. These checks are designed to prevent inappropriate individuals from entering the workplace – prevention is always the best control.</p> <p>Many Local Government staff are susceptible to duress and corruption due to the nature of their duties - housing teams, Council Tax officers, Planning staff, however there must be a level of trust within the organisation to promote a healthy working environment. Staff are required to declare any conflict of interests and to complete returns on gifts and hospitality.</p>

Fraud risk assessment

Question	Management response
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Service providing organisations such as Ubico and Publica all give rise to fraud risk which may affect the Council.</p> <p>The risks associated with fraud related to related party relationships and transactions are mitigated through the requirement within the Constitution for Members to make declarations of all relevant relationships and transactions and update their declarations on a quarterly basis. They are also required to disclose any relevant interests at Committee meetings and where appropriate withdraw from the meeting. Members and Officers are also required to disclose any gifts and/or hospitality received via the Council register. Officers are also required to declare any related party transactions.</p> <p>Prevention methods for bribery and corruptions are detailed within the Counter Fraud and Anti Corruption Policy.</p> <p>With the establishment of Publica, the Council reviewed the appointment of Statutory Officers to ensure that they are employed by the Council (or shared with a partner Council) rather than Publica and to minimise any risk of conflict of interest. Transparency, audit and scrutiny practices across these partnerships and more generally Local Government.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>On a quarterly basis, the Audit Committee receives monitoring reports from the South West Audit Partnership regarding work carried out by the internal audit team. The report details the work carried out compared to the plan, the level of assurance resulting from the audit, the key issues regarding internal controls or fraud including any breaches. Reporting includes the outcome of internal audit follow-up reviews of the implementation of audit recommendations.</p> <p>In addition, the Counter Fraud Team report biannually to Committee.</p> <p>The Audit Committee approves the risk based Annual Audit Plan which includes a risk based system audit of core financial systems and resources for auditing non financial systems on a risk basis.</p> <p>The Counter Fraud Unit has a similar annual plan for its work which includes an allocation of resources to investigate any alleged fraud. Performance against the Intern Audit Plan and Counter Fraud Plan and any specific issues identified are reported quarterly/half yearly to the Audit Committee.</p> <p>The Committee is consulted on any proposed changes to relevant Council Policy – e.g. Whistle Blowing Policy, Counter Fraud and Anti-Corruption Policy, Money Laundering Policy, RIPA Policies etc.</p> <p>Changes to the Council's Corporate Risk Register are also reported to the Audit Committee on a quarterly basis. The Council's Overview and Scrutiny Committee also receives the Council's quarterly performance reports, which includes changes to the Council's risk registers and details of financial performance.</p> <p>The Audit Committee exercise oversight over management processes for identifying and responding to risks of fraud and breaches of internal control through challenge of Internal Audit and Counter Fraud, monitoring the implementation of recommendations and seeking additional assurances from operational management.</p> <p>See reports presented to Audit Committee and Overview and Scrutiny Committee.</p>

Fraud risk assessment

Question	Management response
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	<p>Reports from whistle blowers are investigated by the Counter Fraud Team. Once the investigation is complete, appropriate recommendations are made for action which may include prosecution, civil penalties, improvements to internal controls, and (where an employee is the subject), consideration of disciplinary action.</p> <p>There have been no whistle blowing reports of fraud during the year. Where there are reports, appropriate action would be taken, and if warranted a report would be made to the Audit Committee and recommendations for improvements to internal controls issued to Corporate Management to be followed up by internal audit.</p>
13. Have any reports been made under the Bribery Act?	None.

Law and regulations

Issue

Matters in relation to laws and regulations

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

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

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

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

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>Internal Audit reviews are designed to ensure that services are complying with internal and external policies and procedures and all legislation. Where non compliance is identified, this is reported to Management and Members via the Council's Audit Committee.</p> <p>There is a dedicated Legal Services team that provides advice to members and officers in relation to laws and regulations. The Council's Legal Services, Counter Fraud Team, Revenues and Benefit Team and Enforcement Teams for various services receive regulatory updates and changes via their own services sources e.g. CIPFA, MHCLG and DWP statutory regulations, RIPA updates, newsletters and best practice guidance. The implications of such changes are fed to the Council's leadership team for advice and to gain approval and, when necessary, recommend approval from Committee/Cabinet.</p> <p>In addition, the Whistle-blowing Strategy provides staff with the ability to report to management where laws and regulations have not been complied with. Any allegations that relate to criminal offences can be investigated by the Counter Fraud Team with appropriate legal action being taken by the Council where appropriate.</p> <p>The Deputy Chief Executive in her role as Chief Finance Officer is responsible for preparing the Statement of Accounts in accordance with the relevant legal and regulatory requirements.</p> <p>The Government's response to the Covid-19 pandemic has changed various regulations especially in relation to Environmental and Regulatory Services, changes to Council decision making meetings (virtual meetings rather than physical presence), Business Rate Relief and Business Grants. The Council has received grants from Government, and the County Council to enable it to respond to these new Regulations which will be accounted for in 2020/21.</p>

Impact of laws and regulations

Question	Management response
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Internal Audit review are designed to ensure services are complying with internal and external policies and procedures and all legislation. Where non compliance is identified, this is reported to Management and Members via the Council’s Audit Committee. Management actions are agreed where non compliance is identified.</p> <p>Senior managers within Publica and the Council complete an Annual Assurance Statement at the end of the financial year. These governance declarations provide appropriate management assurance that key area of the system of internal control are in place and working effectively. In addition, training sessions are used to explain new legislation. Where the changes would have a significant impact on the Council they will appear on the Corporate Risk Register which is reported to the Audit Committee on a quarterly basis. Any accounting requirements are explained to members as part of the approval of the accounts. For any specific cases a special report is prepared for the Audit Committee.</p> <p>Any allegations that relate to criminal offences can be investigated by the Counter Fraud Team with legal action being taken by the Council where appropriate.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>Only issues identified as part of Internal Audit reviews which have been reported to Management and the Audit Committee.</p> <p>Management have agreed actions to ensure compliance.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Businesses can appeal the Rateable Value for business premises through the Valuation Office Check, Challenge and Appeal process. The Council recognised this and makes a financial provision for potential NNDR appeals claims.</p>

Impact of laws and regulations

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

Related Parties

Issue

Matters in relation to Related Parties

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

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

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

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

Related Parties

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

Related Parties

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

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

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

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

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

Specifically do Audit Committee members:

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

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

Accounting Estimates - General Enquiries of Management

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

Accounting Estimates - General Enquiries of Management

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

Accounting Estimates - General Enquiries of Management

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

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Management ensure that experts appointed are independent, professional, suitably experienced and qualified.</p> <p>For areas of estimation where experts are not used, including accruals and the NNDR appeals provision, these are subject to review by the S.151 Officer. Control arrangements are reviewed by internal audit and external audit and any findings reported to the Audit Committee.</p> <p>See further detail in Annex B.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none">- Management's process for making significant accounting estimates- The methods and models used- The resultant accounting estimates included in the financial statements.	<p>The assumption which underpin the figures reported in the Statement of Accounts are reviewed in advance of preparation and such estimates and assumptions are reviewed by the S.151 Officer and disclosed in the notes to the Accounts for transparency.</p> <p>Methods and assumptions are reported within this paper and Annex B to the Audit Committee as those charged with governance.</p> <p>See further detail in Annex B.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	All significant accounting estimates that require significant judgement are disclosed in Annex B.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The assumption which underpin the figures reported in the Statement of Accounts are reviewed in advance of preparation and such estimates and assumptions are disclosed in the notes to the Accounts for transparency. The Audit Committee is provided with further assurance through the review of this paper and Annex B.



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