

Informing the audit risk assessment for Cotswold District Council 2021/22

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

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Cotswold District Council's external auditors and CDC's 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 District Council's oversight of the following areas:

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

Purpose

This report includes a series of questions on each of these areas and the response we have received from Cotswold District Council'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 2021/22?</p> | <p>The continuation of the pandemic into 2021/22 had a considerable impact on the Council. A further lockdown meant that local businesses across the district lost business, impacting on the local economy. Staff have been working on continuing Covid-19 related tasks.</p> <p>Again, as in 2020/21, Covid-19 has impacted on several areas of the financial statements including the accounting treatment of grant funding from central government.</p> <p>The value of the Council's IAS 19 pension liability has reduced by £10.7m, details are provided in the narrative report and note E1 to the Statement of Accounts.</p> |
| <p>2. Have you considered the appropriateness of the accounting policies adopted by Cotswold District Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</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. The 2021/22 accounting policies were reviewed and approved by the Audit Committee in April 2022.</p> <p>The implementation of IFRS 16 Leases has been subject to an optional delay for a further year. The council has opted to take the opportunity to delay this until 2023/24. The policy has therefore not been updated.</p> |

General Enquiries of Management

| Question | Management response |
|---|---|
| <p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p> | <p>The Council's financial instruments include: investments, cash equivalents, debtors, equity investments, finance lease assets and liabilities. Financial instruments are accounted for as per the requirements of IFRS 9.</p> <p>Financial instruments are as per the 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>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p> | <p>No</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? If so, what are they? | None in 2021/22 |
| 6. Are you aware of any guarantee contracts? If so, please provide further details | <p>The contract with Publica guarantees the company against future LGPS pension liabilities. Costs are passed through from Publica to the Council.</p> <p>The Council is a shareholder of Ubico Ltd, owning one eighth of the company, and is a joint partner in Publica Group (Support) Limited, owning one quarter of the company. In both cases, should the company overspend, the Council would be liable for its share of the additional costs. In both companies, sound financial management and budgetary control mitigate the risk that additional sums will be required without adequate notice.</p> |
| 7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details | No |

General Enquiries of Management

| Question | Management response |
|---|---|
| <p>8. Other than in house solicitors, can you provide details of those solicitors utilised by Cotswold District Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p> | <p>A number of external solicitors are engaged on an ad hoc basis when there is no capacity in house. We have instructed Counsel to advise on various matters and to conduct Planning Inquiries and Court cases for us</p> <p>Firms engaged include</p> <p>Trowers Hamlin LLP (Potential Housing Delivery Partnership)</p> |
| <p>9. Have any of the Cotswold District Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p> | <p>None reported</p> |
| <p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p> | <p>Arlingclose – Treasury advice</p> <p>Hymans Robertson – Pension Actuary</p> <p>Pixel Financial Management and LG Futures – Financial Advisory Service regarding government funding including Business Rates</p> |
| <p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p> | <p>Provisions have been included for Debtors.</p> |

Fraud

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 Cotswold District Council'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 and Governance 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 Cotswold District Council's management.

Fraud risk assessment

| Question | Management response |
|--|--|
| <p>1. Has Cotswold District Council 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>How do the District Council's risk management processes link to financial reporting?</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 and Enforcement Unit (CFEU). Responsibility for ensuring that fraud and corruption risks are addressed sits with the Deputy Chief Executive in their role as Chief Finance Officer. Internal processes require managers to identify and mitigate all risks within projects and services with escalation to the Corporate Risk Register where appropriate, which is monitored regularly by the Council's Leadership Team and Audit Committee. The year end risk registers contain information to identify possible contingent assets/liabilities and/or requirements to include provisions.</p> <p>The Audit Committee approved the risk based annual audit plan which 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 Management Team and the Audit Committee as part of the quarterly reporting cycle. The Audit Committee also approves the work plan of the CFEU which are developed with Internal Audit and Senior Management based on current fraud trends and risk areas.</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> |

Fraud risk assessment

| Question | Management response |
|----------------|---|
| 1. (Continued) | <p>The CFEU is a permanent shared support service reporting directly to the Deputy Chief Executive. 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 work of the CFEU 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 CFEU and appropriate action has been taken and reported where appropriate. 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. The Council also employs a number of Enforcement Officers within the various service areas who undertake work to tackle abuse of public funds. The risk registers are used to identify cost or resource pressures or income streams and any significant risks.</p> |

Fraud risk assessment

| Question | Management response |
|---|--|
| <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. The procurement policy has recently been updated and the procurement threshold raised to £25,000 above which a full competitive procurement shall be undertaken using an Invitation to Tender</p> |
| <p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Cotswold District Council as a whole, or within specific departments since 1 April 2021? If so, please provide details</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 (see CFEU reports for full details). Benefit fraud investigation is the responsibility of the DWP. Abuse of the Council Tax Reduction Scheme is supported by the Revenues and Benefit staff.</p> <p>The CFEU investigate all allegations of wrongdoing in relation to the abuse of public funds. These matters are managed in line with Council's policies, including disciplinary policy, and will be reported to the police where appropriate</p> |

Fraud risk assessment

| Question | Management response |
|---|--|
| 4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance? | <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 CFEU 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.</p> |

Fraud risk assessment

| Question | Management response |
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| <p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Cotswold District Council where fraud is more likely to occur?</p> | <p>The main areas of abuse relate to fraud associated with benefits to include the Council's 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. Due to the pandemic, abuse of Business Grants is a significant fraud risk area.</p> <p>The CFEU 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, Compliance and Governance Committee.</p> <p>Some high risk areas are no longer within the domain of the Council - Depot services are managed by Ubico, Leisure matters are outsourced. There are low risk internal areas such as mileage expense abuse but this is not significant due to changes that working from home has introduced. Recruitment and payroll are also areas which are open to abuse. Procurement fraud, specifically within departments such as Property Services, remains an area susceptible to abuse because of the significantly high levels of expenditure. Regarding external fraud, both Internal Audit and the CFEU have undertaken work around serious and organised crime</p> <p>Cyber related crime remains a significant risk for the Council and this is managed and reported on by the ICT Team. It cannot be stated that fraud will not occur, but we would not consider one area being significantly at risk. There is a current increased risk of fraud across the Council due to the pandemic, especially with the payment of Business and Community Grant payments.</p> |

Fraud risk assessment

| Question | Management response |
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| <p>6. What processes do Cotswold District Council have in place to identify and respond to risks of fraud?</p> | <p>The existence of the CFEU 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 work with HR re recruitment controls in place to ensure all new employees are vetted properly and that staff recognise fraudulent qualifications. Work has been completed in relation to gifts and hospitality procedures and is underway in relation to conflicts / declarations of interest by staff. The CFEU assist with NFI data matching and undertake their own data matching exercises where risk has been identified. The Council also employs a number of Enforcement Officers within the various service areas who undertake work to tackle abuse of public funds.</p> |

Fraud risk assessment

| Question | Management response |
|--|---|
| <p>7. How do you assess the overall control environment for Cotswold District Council, 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)? If so, please provide details</p> | <p>There remains a separation of duties, 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 CFEU and Internal Audit, which ensures that internal control weaknesses identified through counter fraud activities are followed up, following management action to address the weaknesses by internal audit reviews. External Audit also report their findings and recommendations to Audit Committee, which is subject to the same process of monitoring and challenge. Outcomes of audit work feed in to the Annual Governance Statement which is considered by the Councils Leadership Team and Audit Committee.</p> <p>Awareness training on a regular basis reduces the risks associated with internal abuse and fraud. The promotion of integrity and whistleblowing channels also mitigates this. Conflict of interest / declaration of interest processes also help identify those staff who are a potential risk so that appropriate training and management controls can be put in place. The CFEU submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation. 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> |

Fraud risk assessment

| Question | Management response |
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| <p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p> | <p>The financial reporting process is subject to review and challenge by both the Deputy S151 Officer and 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. The Council monitors budgets to cost centre level which would highlight any unexpected variances for further investigation. Financial rules govern what is required to be reported and controls the rules surrounding 'virement'. Reports produced by the CFEU are subject to auditable case files held on the case management system. These reports are then scrutinised by Governance staff, Members and Executive Leadership which therefore mitigates the risk of misreporting.</p> |
| <p>9. How does Cotswold District Council 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>The Council communicates and encourages ethical behaviour and business processes of its staff and contractor through its policies and strategies including the Counter Fraud and Anti- 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. Staff and Member awareness sessions have been provided by the CFEU. Provision of refresher information and literature for new starters is being developed as are online training modules</p> <p>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> |

Fraud risk assessment

| Question | Management response |
|---|---|
| <p>9. (continued) What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details.</p> | <p>Publicity with regard to identified fraud and error will also be encouraged to act as a deterrent generally. Through the continued work the CFEU have delivered across the Council relating to awareness and through reputation, staff continue to approach the team. HR colleagues also ensure fraud reports come to the CFEU for assessment.</p> <p>No significant issues have been reported in 2021/22. 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>10. 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, Marketing Teams. Officers with significant operational financial responsibilities, such as roles in the Treasury Management team, Chief Finance Officer/Deputy Chief 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 is assessed for the requirement to undertake post holder security checks. 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. Conflict of interest / declaration of interest process development make it a more risk based one - identifying high risk staff and ensuring the correct controls are in place. Recruitment checks to vet staff and prevent them entering the workplace enables the Council to manage the risk.</p> |

Fraud risk assessment

| Question | Management response |
|---|---|
| <p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p> | <p>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 and 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 corruption form part of the CFEU work stream and are detailed within the Counter Fraud and Anti Corruption Policy. 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 to minimise any risk of conflict of interest.</p> <p>Transparency, audit and scrutiny practices are in place across these partnerships. The CFEU were consulted by Publica in relation to the new procurement processes and fraud awareness training/updated documents were reviewed in relation to fraud risk.</p> |

Fraud risk assessment

| Question | Management response |
|---|--|
| <p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>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. In addition, the CFEU report biannually to Committee. 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. The CFEU 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 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. 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 / Overview and Scrutiny Committee.</p> |

Fraud risk assessment

| Question | Management response |
|--|---|
| 13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response? | The CFEU has received referrals via whistleblowing. Reports are dealt with correctly and in line with the Whistleblowing Policy and with due consideration to sensitive referral sources. 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. 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. |
| 14. Have any reports been made under the Bribery Act? If so, please provide details | There have been none. |

Law and regulations

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 Cotswold District Council'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 body is in compliance with laws and regulations. Where we become aware 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 Cotswold District Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the District Council's regulatory environment that may have a significant impact on the District Council'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, DLUHC and DWP statutory regulations, RIPA updates, newsletters and best practice guidance. The implications of such changes are fed into 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 Chief Finance Officer is responsible for preparing the Statement of Accounts in accordance with the relevant legal and regulatory requirements.</p> <p>Not aware of any significant changes to regulatory environment.</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> |

Impact of laws and regulations

| Question | Management response |
|--|--|
| <p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p> | <p>The accounts were published after the deadline of the 31 July 2022 on the 25th August 2022. This had no impact on the external audit which is not due to start until October 2022.</p> |
| <p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p> | <p>The only material claim relates to NNDR appeals as disclosed in note D7 of the financial statements</p> |

Impact of laws and regulations

| Question | Management response |
|---|--|
| <p>5. What arrangements does Cotswold District Council have in place to identify, evaluate and account for litigation or claims?</p> | <p>The Legal Services team works with management when potential claims or litigation identified. The Head of Legal Services provides 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. 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. Contract performance is monitored by the use of management information including key performance indicators.</p> |
| <p>6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details</p> | <p>No significant findings</p> |

Related Parties

Matters in relation to Related Parties

Cotswold District Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Cotswold District Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the District Council;
- 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 District Council, or of any body that is a related party of the District Council

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 District's perspective but material from a related party viewpoint then the District Council 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 including those disclosed in Cotswold District Council's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and CDC • whether CDC 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 2021/22.</p> |
| <p>2. What controls does Cotswold District Council 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 member's 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.</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.</p> |

Related Parties

| Question | Management response |
|--|--|
| | <p>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. This 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.</p> <p>A register of gifts and hospitality is also maintained.</p> |
| <p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p> | <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. Historically there have been no other related party transactions in relation to officers.</p> |
| <p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p> | <p>Transactions outside of the normal course of business would be subject to S151 approval and be reported to full Council.</p> |

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

| Question | Management response |
|---|--|
| <p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Cotswold District Council will no longer continue?</p> | <p>The Council's performance and financial position is reported to members and senior officers on a quarterly basis. Overview and Scrutiny Committee and Cabinet receive quarterly performance and financial reports which set out the Council's financial position against budget and report performance against a number of indicators.</p> <p>The Council's Senior Leadership Management Team meet on a weekly basis and the Public Executive Directors also have regular departmental leadership meetings to discuss performance and finances.</p> <p>Cabinet Members have regular briefings that ensure they are aware of the latest developments in a service and are made aware of any issues.</p> <p>As part of the process of preparing the MTFS, external factors such as the funding landscape, changing political priorities and the wider economic context are considered and the authority's ability to manage potential or emerging financial challenges is assessed. Officers continually monitor and report on any known changes to legislation or political decisions.</p> <p>Note E7 to the 2021/22 draft financial statements confirms that the statement of accounts have been prepared on a going concern basis.</p> |
| <p>2. Are management aware of any factors which may mean for Cotswold District Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p> | <p>Management are not aware of any factors which may mean for Cotswold DC that either statutory services will no longer be provided or that funding for statutory services will be discontinued.</p> |

Going Concern

| Question | Management response |
|--|---|
| <p>3. With regard to the statutory services currently provided by Cotswold District Council, does CDC expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for CDC to cease to exist?</p> | <p>Statutory services will continue to be delivered by Cotswold DC for the foreseeable future, there are no plans for Cotswold DC to cease to exist.</p> |
| <p>4. Are management satisfied that the financial reporting framework permits Cotswold District Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p> | <p>Management are satisfied that the financial reporting framework permits Cotswold DC to prepare its financial statements on a going concern basis and doing so provides a faithful representation of the items in the financial statements.</p> |

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body'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 body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body'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 included in the 2021/22 statement of accounts include:</p> <ul style="list-style-type: none"> Valuation of PPE Valuation of Investment Properties NNDR appeals provision Pension Liability |
| <p>2. How does the District Council's risk management process identify and address risks relating to accounting estimates?</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 costs or resource pressures or income streams. The information can be used to inform financial planning process.</p> <p>The Council's Risk Register contains significant risk from Publica and project and service operational risk registers.</p> |
| <p>3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p> | <p>See separate list</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 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 2021/22 and, if so, what was the reason for these? | No changes to the estimation process. |

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|---|---|
| <p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p> | <p>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 and External Valuers (Carter Jonas) – Valuer and Estates Surveyor (RICS)) • Depreciation – Useful Economic Lives (Internal Valuers – Valuer and Estates Surveyor (RICS)) • Valuation of Investment Properties (Internal Valuers) • Pension Liability (Hymans Robertson – Actuary) |
| <p>7. How does the District Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p> | <p>Assurances are sought from the Council's internal and external valuers in relation to their independence, objectivity and professional qualifications. Regular communication between the finance team and the Property Team ensures that the valuers have access to the information they require to undertake detailed valuations in accordance with RICS guidance.</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 does 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 the experts are not used, including accruals and NNDR appeals provision, these are subject to review by the Section 151 Officer. Control arrangements are reviewed by internal audit and external audit and any findings reported to Audit Committee.</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 assumptions 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 Section 151 Officer and disclosed in the notes to the Accounts for transparency.</p> <p>Methods and assumptions are reported within this paper and to the Audit Committee as those charged with governance.</p> |

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|--|--|
| <p>10. Are management aware of any 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 the management summary)? If so, what are they?</p> | <p>All significant accounting estimates that require significant judgement are separately disclosed.</p> |
| <p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in the management summary, are reasonable?</p> | <p>They are satisfied as the estimates are reviewed by qualified finance staff, the Section 151 Officer and such experts as required for specific areas of expertise. They are also reviewed by the Audit Committee as part of the accounts.</p> |
| <p>12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p> | <p>The assurance which underpin the figures reported in the Statement of Accounts are reviewed in advance of preparation and such estimates and assumptions are disclosed in the notes to the Accounts for transparency.</p> |



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