

Finance & Procurement

Paul Sutton – Head of Finance & Procurement



DISTRICT COUNCIL
NORTH OXFORDSHIRE

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Dear Mark

Understanding how the Accounts, Audit and Risk Committee gains assurance from management

I refer to your letter of 13 February 2015. I have set down below the arrangements that those charged with governance (the Accounts, Audit & Risk Committee) have in place to gain assurance from management. This letter provides responses to the questions in your letter and details the arrangements in place at the Council. Please find my response below, with your questions in italics

1) How the Accounts Audit and Risk Committee, as 'those charged with governance' at the Council, exercise oversight of management's processes in relation to:

- **undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);**

The committee receives regular reports on fraud at their meetings but also relies on the Head of Finance and Procurement, Internal Audit and, to a lesser extent External Audit, to report to them or to me as committee chairman if fraudulent activity that has been uncovered. I am confident that all known instances of fraud have been properly reported to me or the committee. I am also confident that if there was an awareness of a fraud, at senior management level, that would potentially materially misstate the accounts I would be informed immediately. No such incidents have taken place in 2014/15 and therefore based on the information I am aware of at the moment I am assured that the accounts are not materially misstated as a result of fraudulent activity.

- **identifying and responding to risks of fraud in the Council, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;**

The committee receives regular reports and updates on risk management, anti-fraud, corruption and bribery and whistle blowing. All of these items are standard items on the agenda and are covered at each meeting by the Head of Finance and Procurement. I also outline the arrangements in place;

(a) Management Arrangements

- The financial statements are prepared in line with the Statement of Recommended Practice and are subject to an internal quality assurance arrangements and an assurance framework of S151 assurances that review areas of highest risk. The accounts are subject to a series of analytical reviews that would identify major movements between years and seek explanations that would assess the likelihood for material misstatement.
- A risk assessment relating to the preparation of the accounts is undertaken each year by the Head of Finance and Procurement and issues raised by Internal or External audit are given particular attention.
- The Council's finance function includes a service accountancy team who directly support and advise all the Council directorates. Through monthly support, challenge and review of the financial spend as part of budget monitoring, any material misstatement against budget or spend should be picked up.
- The officers who prepare the statements are experienced accountants who undertake CPD activities. Their work is segregated where feasible and they work to local and professional codes of conduct.
- Fundamental audits are conducted annually and reported to the Accounts, Audit & Risk Committee on the main accounting system by our Internal Auditors PWC.

(b) Accounts, Audit & Risk Committee

- The Committee considers the internal control arrangements exercised by the Council as part of the Annual Governance Statement along with the S151 Officer's report on the accounts including the S151 Officer's arrangements for production of the accounts.
- In receiving the annual accounts from the S151 Officer, the Committee will enquire of him and the Head of Finance and Procurement any further action taken to minimise the risk of misstatement due to fraud.
- The committee has regular updates and presentations on Fraud. These presentations highlight the areas that this committee should focus on

when reviewing financial statements in order to seek assurances from officers that the accounts are not subject to any risk.

- The Accounts, Audit & Risk Committee consider all internal audit reports including those on fundamental systems and are able to take into account the likelihood of fraud being detected.
- The Annual Governance Statement, the reports from the Head of Internal Audit on internal control and S151 Officer on the adequacy and effectiveness of internal audit are further bases for coming to a judgement on the risk of misstatement. However, nothing has come to the attention of the Accounts, Audit & Risk Committee which would cause the Committee to consider there is a risk that the financial statements for 2014/15 could be misstated as a result of fraud.
- All members (including the Accounts, Audit & Risk Committee) are aware of the in year budget reporting and monitoring arrangements to Executive and Scrutiny. All budgets are assigned to a named individual.
- The Accounts, Audit & Risk Committee note the inclusion within the constitution of contract and financial procedure rules and application of external codes such as CIPFA's Treasury Management Code of Practice, which has been fundamentally updated and reviewed regularly during the course of 2014/15.
- The Accounts, Audit & Risk Committee is regularly advised on the progress with investigations and where relevant will question whether the nature of the allegations under investigation and any findings could impact on the accuracy of the financial statements.
- The Internal Audit Report of the Chief Internal Auditor and the Annual Governance Statement reported to this committee highlight areas where the Council should seek improved control effectiveness.

On occasions when there is something to report outside of the normal committee framework the Head of Finance and Procurement will contact me to brief me on the issue and discuss. The Internal Audit manager and External Audit manager, as well as all officers have the right to raise, directly, any issues with me they feel I need to be aware of.

- **communicating to employees its view on business practice and ethical behavior (for example by updating, communicating and monitoring against the Council's code of conduct);**

The Monitoring Officer and the Standards Committee are responsible for the Council's ethical governance arrangements. The Monitoring Officer is proactive in raising awareness of the ethical agenda with employees and members. Compliance with ethical standards is monitored by the Standards Committee.

Employees and Committee members are aware that identifying and responding to fraud should be done through the responsible financial officer. This is reinforced by

the regular update on anti-fraud and corruption issues, risk management and whistle blowing updates. The Anti-Fraud, Corruption and Bribery Policy, the Money Laundering Policy and the Whistle Blowing Policy have been updated to take account of the joint working arrangements and these policies are available to view on the Councils intranet sites.

The Council are members of the National Anti-Fraud Network and the Investigations team receives National Fraud Alerts, which are cascaded to the Council and specific areas at risk of fraud. Finance is an area regularly monitored.

- **encouraging employees to report their concerns about fraud**

Employees are aware that identifying and responding to fraud should be done through the responsible financial officer. Briefing messages are sent to staff on issues when it is felt appropriate to do so.

- **communicating to you the processes for identifying and responding to fraud or error.**

The Accounts, Audit & Risk Committee receive written and verbal reports from the S151 Officer, Head of Finance and Procurement and Chief Internal Auditor.

The Chief Internal Auditor produces an annual report which includes his opinion on the adequacy and effectiveness of the Council's system of internal control. This report highlights anything that constitutes a significant control weakness during the year under review. The Annual Internal audit report for 2014/15 will be presented to the Accounts, Audit & Risk Committee in June 2015.

Their work has identified mostly low and medium rated risks on business critical systems. The Accounts, Audit and Risk Committee monitors the action plans associated with all risks identified.

2) How does the Accounts, Audit and Risk Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control?

(a) Management Processes

- Submission to the Accounts, Audit & Risk Committee of regular updates on fraud activity and initiatives to deter and detect fraud such as the whistle blowing policy.
- The Chief Internal Auditor undertakes an annual risk assessment exercise in formulating the Internal Audit Plan. This plan is then submitted to the Accounts, Audit and Risk Committee for approval. For the current year 2014/15, the audit plan was approved by the Committee in March 14. Within the Internal Audit plan for 2014/15 there was a review of anti-fraud and corruption arrangements within the Council and the review of risk management arrangements included a

fraud risk assessment. Committee is aware of the allocation of time in the annual audit plan for counter fraud activity.

- The activity of the Council's Corporate Fraud Investigation team is also included in the Chief Internal Auditors' progress reports to the Accounts, Audit and Risk Committee.
- Reporting of National Fraud Initiative outcomes.

(b) The Accounts, Audit & Risk Committee

- The Accounts, Audit & Risk Committee has access to all internal audit reports and within these reports any possible fraudulent activity identified through the audit work would be recorded. In addition, the Chief Internal Auditor would report any fraudulent, or potentially fraudulent, activity to the Committee in his regular progress reports.
- The Chief Internal Auditor, and where appropriate the Monitoring Officer and S151 Officer, are required to advise about each case of alleged fraud. The committee receives regular update reports and communication regarding fraud and if required these would be detailed in the annual governance statement and the committee annual report.

3) Are the Committee aware of any: breaches of, or deficiencies in, internal control; and actual, suspected or alleged frauds during 2014/15?

I, on behalf of the Committee, have no knowledge of any actual or suspected alleged frauds that could have a significant impact on the Council's 2014/15 financial statements. I am confident that if any such instances were discovered, suspected or alleged they would be brought to my attention by the Head of Finance and Procurement or his deputy.

4) Is the Committee aware any organisational or management pressure to meet financial or operating targets?

I am not aware of any organisational or management pressure placed on staff to meet financial or organisational targets.

5) How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2014/15?

The authority has a statutory S151 officer (Director of Resources) and monitoring officer (the Head of Law and Governance) who are responsible for ensuring, as far as possible, that all relevant laws and regulations have been complied with.

The Monitoring Officer and S151 Officer, via membership of the Joint Management Team and through the established process for reporting to members under the executive arrangements, will advise on and identify areas of concern and risk of non-compliance. Arrangements are established under the Constitution (e.g. contract

procedure rules) to ensure that appropriate consideration is given to (and advice taken on) the application of the legal and regulatory framework.

The constitution provides further safeguards as do the management assurance statements that are provide by all senior managers and the annual governance statement.

I am pleased to state that there has been none to date. Should there be any I would expect they would be referred to my committee for consideration.

6) Is the Accounts, Audit and Risk Committee aware of any actual or potential litigation or claims that would affect the financial statements?

As at 18th March 2015 we are aware of the following potential claim around Property Searches. A group of Property Search Companies are seeking to claim refunds of fees paid to the Council to access land charges data since 2005. Four potential claims have not yet commenced as a Court claim but are subject to “standstill agreements” to enable future claims to be pursued despite the expiry of the statutory period of limitation. A significant claim, known as the APPS claim, has been brought against most Councils in the country including CDC. It is anticipated that settlement negotiations, which are being conducted by external legal advisers on behalf of the Councils affected, will conclude shortly. The external advisers are also lobbying central government to seek reimbursement of at least some of the damages that may be paid via New Burdens grant.

The committee will continue to receive an update on these issues and consideration if we need to make formal representation in our financial statements. Officers will be in a position to provide you with any additional information you may need.

7) How does the Accounts, Audit and Risk Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

We have considered the going concern assumption and have not identified any events which may impact on the authority’s ability to continue as a going concern. The Council has adequate general fund reserves and continually reviews its risk register and mitigations.

As Chairman of the Accounts, Audit & Risk Committee, I have signed this letter on behalf of the committee. The content of this letter will also be discussed at the Accounts, Audit & Risk Committee on 25th March 2015.

Yours sincerely

Councillor Mike Kerford-Byrnes
Chairman of the Accounts, Audit & Risk Committee