

Finance

Lorna Baxter, Director of Finance



DISTRICT COUNCIL
NORTH OXFORDSHIRE

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Dear Charmaine

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

I refer to the annual requirement for the Council to provide its external auditors details of the management assurance process that is in place. I have set down below the arrangements that those charged with governance (the Accounts, Audit & Risk Committee) have in place to gain the necessary assurance from management. Please find my response below, with your questions in bold.

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 S151 Officer, Internal Audit and, to a lesser extent External Audit, to report to them or to me as committee chairman if fraudulent activity has been uncovered. I am confident that all significant 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 2020/21 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 S151 Officer and their team. 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 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 S151 Officer 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.

(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 them and the deputy S151 Officer whether any further action has been taken to minimise the risk of misstatement due to fraud.
- The Accounts, Audit & Risk Committee consider internal audit reports on an exceptional and risk based basis and the audits undertaken include 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 2020/21 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 Budget Planning Committee. 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.
- The Internal Audit Report of the Head of Internal Audit 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 S151 Officer will contact me to brief me on the issue and discuss it. 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 behaviour (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 Monitoring Officer and, when required, the Standards Committee.

The employee code of conduct requires employees to notify all relevant personal interests to their Head of Service/Director. Completed declaration forms are accessible by the Chief Executive, the Section 151 officer and the Monitoring Officer.

Employees and Committee members are aware that identifying and responding to fraud should be done through the Director of Finance. 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 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 Director of Finance and the Counter Fraud Team. 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 and Head of Internal Audit.

The Head of Internal Audit produces an annual report which includes their 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 2020/21 will be presented to the Accounts, Audit & Risk Committee.

All risks identified are being addressed by the Council. The Accounts, Audit and Risk Committee monitors the action plans associated with all risks identified.

Committee members are aware that identifying and responding to fraud should be done through the Director of Finance and the Counter Fraud Team. This is reinforced by the regular update on anti-fraud and corruption issues, risk management and whistle blowing updates.

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 Head of Internal Audit 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 2020/21, the audit plan was approved by the Committee. The Committee is aware of the allocation of time in the annual audit plan for counter fraud activity.

(b) The Accounts, Audit & Risk Committee

- The Accounts, Audit & Risk Committee has access to internal audit reports and within these reports any possible fraudulent activity identified through the audit work would be recorded. In addition, the Head of Internal Audit would report any fraudulent, or potentially fraudulent, activity to the Committee in his regular progress reports.
- The Head of Internal Audit, 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) Is the Committee aware of any:

- **breaches of, or deficiencies in, internal control;**

Breaches of internal control, including the segregation of duties are picked up through the internal audit work programme which are reported and acted upon by management, with progress reported through to the Accounts, Audit and Risk Committee at each of its meetings. Internal audit reports which find significant control breaches resulting in either a finding of limited assurance or containing high risk recommendations are automatically forwarded to the Committee for their consideration and management monitor and track progress with all outstanding audit recommendations at regular intervals.

- **and actual, suspected or alleged frauds during 2020/21?**

During 2020/21 there were 31 cases logged by the Counter Fraud Team (provided by Oxford City Investigation Service up until 31/3/21) of actual, suspected or alleged fraud – 26 of these cases have been resolved/closed down and the remaining 5 have been transferred over to the Oxfordshire County Council team, who are providing Counter Fraud services for CDC from 1 April 2021, and are currently open and under review/investigation.

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 operating targets.

5) How does the Accounts, Audit & Risk Committee gain assurance that the Council has complied with all relevant laws and regulations? Are you aware of any instances of non-compliance during 2020/21?

The authority has a statutory S151 officer (Director of Finance) and monitoring officer (Assistant Director, 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 Chief Executive Direct Reports (CEDR) 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 provided by all senior managers and the annual governance statement.

I am pleased to state that I am not aware of any instances of non-compliance to date. Should there be any I would expect they would be referred to my committee for consideration.

6) Is the Committee aware of any actual or potential litigation or claims that would affect the financial statements?

The committee is not aware of any potential claims as at the date of this letter but will continue to receive an update on any potential 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?

The Council has a robust approach to the setting of its budget and medium-term financial strategy and has in place processes to deliver acceptable balanced budgets over the medium term. The 2021/22 budget and Medium-Term Financial Strategy to 2025/26 were approved by Council in February 2021. Reports to the Budget Planning Committee continue to consider not only the short term but also medium-term financial impacts on the Council.

The Council has established and maintained a minimum level of reserves and completed a review of the wider reserves including the Earmarked Reserves and the Section 106 Reserves.

The financial impact of the Covid-19 pandemic has been significant on the Council. Regular reports to the Executive and to all members, via all Member Briefings have highlighted the impact and the action taken. The Council agreed a revised budget for 2020/21 in September 2020, to ensure it had in place actions to deliver a balanced budget by the end of the year after taking into account Government support.

The Council maintains a daily cashflow forecast to ensure that it will retain sufficient cash balances to make any necessary payments. This also monitors the levels of Council debt forecast based on these daily cashflows to ensure that it will not exceed the Operational Boundary for Total External Debt.

A scenario has also been considered to assess the impact of all potential guarantees and commitments issued by the Council being called on the same day that the Council needs to borrow the most for cash flow purposes. The Council would still be within its operational boundary despite this scenario being highly unlikely.

Through the management of the budget, Medium Term Financial Strategy and reserves the Council is confident of it being appropriate to adopt the going concern basis for its financial statements.

8) What does the Committee consider to be the related parties significant to the Council and what is its understanding of the relationships and transactions with those related parties?

The Council has included the nature and relationship with related parties within the Statement of Accounts. In particular the Council has continued to provide a small number of its activities through externally operated companies, where senior officers and members have operated as directors. The related party relationships between those officers and members have been declared by the respective officers and members and included within the Statement of Accounts.

The Council continued to develop its relationship with Oxfordshire County Council during 2020/21, with a joint leadership team in place from February 2020. There have been many positive benefits of joined up working across the County Council and District. This joined up approach has played an essential and valuable role during the response phase of the Covid-19 pandemic.

The Council has clear defined and separate governance structures, but is benefiting from being able to review those documents and processes alongside the County Council and vice versa the County Council has been able to utilise the experience and knowledge from the District Council to improve and innovate its processes.

9) Does the Accounts, Audit and Risk Committee have any concerns about relationships or transactions with related parties and, if so, why?

No.

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.

Yours sincerely

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