

Anne Ryans
Director of Finance
Oldham Metropolitan Borough Council
Civic Centre
Oldham
OL1 1UT

Direct line 0161 238 9243 / 07909 986776

Email Alastair.Newall@mazars.co.uk

10 February 2020

Dear Anne

External Audit 2019/20 – understanding management processes and arrangements

We are required by auditing standards to maintain a good understanding of your management processes and arrangements. This enables us to deliver an efficient audit, and reduces the time the Council staff needs to spend responding to our queries. As part of this process I would be grateful if you could provide a response to the following questions:

- What processes are in place at the Council to:
 - undertake 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);
 - identify and respond to **risks of fraud**;
 - **communicate to employees the Council's views on business practice and ethical behaviour** (for example by updating, communicating and monitoring against relevant codes of conduct); and
 - **communicate to the Audit Committee the processes for identifying and responding to fraud or error.**
- How does management gain assurance that **all relevant laws and regulations have been complied with?** Have there been any instances of non-compliance during 2019/20?
- Are there any **actual or potential litigation or claims that would affect the financial statements?**
- **What controls are in place to: identify, authorise, approve, account for and disclose related party transactions and relationships.** For any new related parties (i.e. any not already disclosed in the previous year's audited financial statements) please provide a list of them, explain their nature, and whether there have been any transactions with these related parties during the year to 31 March 2020.

Mazars LLP – One St Peter's Square - Manchester – M2 3DE

Tel: +44 (0) 161 238 9200 – Fax: +44 (0) 161 238 9201 – www.mazars.co.uk

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

Registered by the Institute of Chartered Accountants in England and Wales to carry out audit work.





In addition to the above, which cover the Council's processes and controls, **Appendix 1 includes further questions to ascertain your views on fraud.** Your responses will inform our assessment of the risk of fraud and error within the financial statements, which in turn determines the extent of audit work undertaken in 2019/20.

I would be grateful if you could respond by letter or email on behalf of the Council by 30 April. In the meantime, please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Karen Murray
Partner

Question	Management Response
<ul style="list-style-type: none"> • What processes are in place at the Council to: 	
<ul style="list-style-type: none"> ○ undertake 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); 	<p>Staff within the Finance Team attend appropriate training courses and have up-to-date technical knowledge and skills to enable them to prepare the financial statements.</p> <p>The Council has in place a robust system to review the accuracy and quality of its accounts. This includes checks to ensure the financial statements are correct and are supported by detailed transactions. There is also management oversight and review of the accounts.</p> <p>This is supported by the review of fundamental financial systems (FFS), which are audited by the Internal Audit function in two stages each year. These audits include a follow up of previously agreed actions.</p> <p>The detailed audit programme for each financial system reflects the risk of fraud and error and are discussed with the Council's External Auditors, who also review the work completed. This review contributes to the assessment of the risk of material misstatement.</p> <p>The Annual Report from the Head of Corporate Governance (who is the designated Head of Audit at Oldham Council) gives an opinion on the overall control environment adding to the assurance the underlying processes for processing transactions are appropriate.</p>
<ul style="list-style-type: none"> ○ identify and respond to risks of fraud; 	<p>The Audit and Counter Fraud (A&CF) Team identifies and responds to the risk of fraud via the on-going review of the A&CF Plan. This is an annual plan based on strategic audit needs assessment, the Fraud Response Plan, and the Fraud and Loss Risk Assessment. This includes the risk of fraud identified by the National Audit Office (NAO) Fraud Advisory Panel, the CIPFA Fighting Fraud and Corruption Locally guidance and the Cabinet Office in their role as lead for the National Fraud Initiative (NFI).</p>
<ul style="list-style-type: none"> ○ communicate to employees the Council's views on business practice and ethical behaviour (for example by updating, communicating and monitoring against 	<p>The Staff Code of Conduct and its appendices set out the standards expected around a range of matters, including the "Nolan Principles Standards of Public Life", "Gifts and Hospitality", "Disclosure of Information", "Relationships", "Contractors" and "Behaviour during Tendering".</p> <p>The Code of Conduct is available via the Council's Intranet and is included as part of the Council's induction training. The A&CF Team delivers training which incorporates reference to this guidance.</p>

Question	Management Response
<p>relevant codes of conduct); and</p>	
<ul style="list-style-type: none"> ○ communicate to the Audit Committee the processes for identifying and responding to fraud or error. 	<p>Fraud risks and issues are reported by the Head of Corporate Governance in the A&CF Plan, the Fraud and Loss Risk Assessment and via regular specific reporting; e.g. update against specific risks in the Council’s Annual Governance Statement.</p> <p>The suite of updated Counter Fraud policies was presented to, reviewed by and approved by the Council’s Audit Committee on 12 September 2019.</p> <p>Ad hoc matters requiring a report to the Audit Committee are also prepared by the Head of Corporate Governance at the appropriate time.</p> <p>The Annual Governance Statement identifies the risks linked into the Transparency Agenda.</p>
<ul style="list-style-type: none"> ● How does management gain assurance that all relevant laws and regulations have been complied with? Have there been any instances of non-compliance during 2019/20? 	<p>In accordance with the appropriate financial thresholds/scheme of delegation, all reports to the Council’s Committees include formal comments from appropriate statutory officers.</p> <p>In response to the COVID 19 pandemic which resulted in extensive home working and devolved decision making from 23 March 2020 the Council invoked emergency powers enabling key officers/ Members to take emergency decisions in line with the Constitution.</p> <p>At the Audit level, Internal Audit will review whether the Council has arrangements in place to identify the necessary legal framework and that steps have been taken to consider the matters arising.</p> <p>Specific training is also arranged by relevant teams; e.g. Legal Services.</p>
<ul style="list-style-type: none"> ● Are there any actual or potential litigation or claims that would affect the financial statements? 	<p>All appropriate matters have been incorporated into the production and review of the Annual Governance Statement. As at 31 March 2020 there is no specific matter which is required to be reported upon in the accounts.</p> <p>The perceived risks in the financial year 2019/20 have been considered and appropriately reported to the Audit Committee.</p>
<ul style="list-style-type: none"> ● What controls are in place to: identify, authorise, approve, account for and disclose related party 	<p>The controls in place are:</p> <ul style="list-style-type: none"> ● The separate disclosure Note to the Council’s Statement of Accounts “Note 12: Related Parties” (which is subject to audit) sets out the key transactions with all related parties.

Question	Management Response
<p>transactions and relationships. For any new related parties (i.e. any not already disclosed in the previous year's audited financial statements) please provide a list of them, explain their nature, and whether there have been any transactions with these related parties during the year to 31 March 2020.</p>	<ul style="list-style-type: none"> • Members' Code of Conduct. • Members' Register of Interests in line with the 2011 Localism Act. • Member's Allowances' are disclosed in Note 8 to the Council's Statement of Accounts. • Officers' Code of Conduct requires staff to record Gifts and Hospitality in accordance with the Code of Conduct. • Officers' Remuneration is disclosed in Note 9 to the Council's Statement of Accounts. • Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out the relevant information to disclose, together with CIPFA Bulletins on Closure of the 2019/20 Financial Statements. • Internal and External Audit monitor compliance. • The Council operates a Standards Committee. • Levy Bodies are subject to a separate external audit process.

Appendix 1

Question	Response
1. Are you aware of any actual, suspected or alleged instances of fraud during the period 1 April 2019 – 31 March 2020 (<i>if 'yes', please provide details</i>)?	<p>No, during this period of time, there has been no significant (i.e. greater than £10k) corporate (in-house) fraud committed by internal staff, which have required investigation.</p> <p>The Head of Corporate Governance has reported on a confidential basis the sensitive matters it was appropriate to highlight to the Committee providing assurance the Council has dealt with the matters appropriately. This is supported by a Tribunal judgement linked into one of these matters.</p>
2. Do you suspect fraud may be occurring within the organisation?	<p>As at 31 March 2020 all instances of suspected fraud within the organisation had been investigated.</p> <p>The Council is a complex multidisciplinary organisation so there is a risk of the potential that management is unaware of some fraud occurring.</p> <p>An added assurance that appropriate controls are in place is the opinion, given in the Annual Report, of the Head of Corporate Governance.</p>
3. Have you identified any specific fraud risks within the Council?	<p>Fraud risks are captured, reported and monitored via the Fraud and Loss Risk Assessment, the Fraud Response Plan and potential fraud risks are assessed for each audit review.</p>
4. Are you satisfied that internal controls, including segregation of duties, exist and work effectively (<i>if 'yes', please provide details</i>)?	<p>Yes. In all financial systems for 2019/20, there are agreed processes to review transactions. The Fundamental Financial Systems reviews support this process.</p> <p>There are issues identified in the operation of some systems which have been highlighted to the Audit Committee and included in the Council's Annual Governance Statement (AGS). Where appropriate, extra audit testing is conducted by Internal and External</p>

Question	Response
	<p>Audit to provide extra assurance around known issues.</p> <p>Detailed Action Plans are in place, subject to regular follow-up to improve process for issues included in the AGS.</p>
<p>5. If not where are the risk areas?</p>	<p>As above, potential risks and issues are reported in the Council's AGS and updates are reported to the Audit Committee on a regular basis. Risks are assessed annually and as part of detailed audit planning.</p> <p>The Council has experienced significant change in social care and, due to the on-going integration with health partners, it continues to track the potential risk around these service areas as this is clearly an area of management focus.</p> <p>The funding provided to assist the wider government response to the COVID-19 pandemic has the potential to change the risk profile in relation to fraud, but this is an issue for the financial year 2020/21. The Council is, however, aware of the issue and is taking appropriate action in this regard.</p>
<p>6. How do you encourage staff to report their concerns about fraud?</p>	<p>The Whistleblowing Policy sets out the arrangements for staff to anonymously report potential concerns and it is included in the Staff Code of Conduct. Following a risk assessment process, the A&CF Team will investigate allegations discretely, agree a course of action and agree recommendations. Where significant issues arise, External Audit will be briefed.</p> <p>The Whistleblowing Policy has been reviewed and is due to be considered and approved by Full Council at its next meeting.</p>
<p>7. What concerns about fraud are staff expected to report?</p>	<p>The Whistleblowing Policy includes the reporting by employees of suspected misconduct, illegal acts or failure to act within the Council. The aim of the Policy is to encourage employees and others who have serious concerns about any aspect of the</p>

Question	Response
	<p>Council's work to come forward and voice those concerns.</p> <p>As above, the Whistleblowing Policy has been reviewed and is due to be considered and approved by Full Council at its next meeting.</p>
<p>8. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p>	<p>None are recorded. Contract Procedure Rules set out the procedures for procurement and this service is subject to regular review by Internal Audit. No significant issues which will impact the financial statements have been identified in 2019/20.</p> <p>The funding provided to assist the wider government response to the COVID-19 pandemic has the potential to change the risk profile in relation to fraud, but this is an issue for the financial year 2020/21.</p>
<p>9. How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>As above, the Council's Contract Procedure Rules set out the procedures for Procurement and this service is subject to review by Internal Audit. Other policies (and internal controls) to mitigate this risk include:</p> <ul style="list-style-type: none"> • Members' Code of Conduct. • Members' Register of Interests in line with the 2011 Localism Act. • Member's Allowances' are disclosed in Note 8 to the Council's Statement of Accounts. • Officers' Code of Conduct requires staff to record Gifts and Hospitality in accordance with the Code of Conduct. • The Council operates a Standards Committee. • Levy Bodies are subject to a separate external audit process.
<p>10. Are you aware of any entries made in the accounting records that you</p>	<p>No, I am not aware of any entries in the accounting records of this nature. The</p>

Question	Response
believe, or suspect are false or intentionally misleading?	Council applies a detailed three stage quality assurance process, which incorporates independent/ “fresh eye” review prior to submitting its draft Accounts to the External Auditor.
11. Are there particular balances in the accounts where fraud is more likely to occur?	<p>The balances of Accounts Payable (AP), Accounts Receivable and Fixed Assets were reviewed twice in 2019/20 as part of the yearly FFS programme of audits. The systems for AP are exposed to the potential risk of bank mandate fraud, whereby a “fraudster” contacts the Council to inform them that their bank details have changed, in an attempt to persuade the Council to make the payment to the erroneous account.</p> <p>Colleagues in the AP service and Procurement team are aware off these risks and apply manual checks to mitigate them.</p>
12. Are you aware of any assets, liabilities or transactions that you believe have been improperly included or omitted from the accounts of the organisation?	<p>No, I am not aware of any assets, liabilities or transactions that I believe have been improperly included or omitted from the accounts of the organisation.</p> <p>The three stage Quality Assurance process ensures the detailed review of the draft accounts prior to the submission to the External Auditors.</p>
13. Could a false accounting entry escape detection? If so, how?	<p>This is unlikely given the controls in place for processing transactions.</p> <p>The Council is a complex multidisciplinary organisation so there is a risk of the potential that management is unaware of some false accounting occurring.</p> <p>An added control in this area is the review by the external audit team who provide added assurance for transactions which are in excess of the materiality value.</p>
14. Are there any external fraud risk factors, such as collection of revenues?	Revenue for Sundry Debtors, Council Tax and Business Rates is collected by the Council’s Strategic Partner. Transactions are sample reviewed by Internal Audit as part of the Fundamental Financial Systems audits.

Question	Response
	<p>These audits include transactions processed by the relevant computer (IT) system.</p> <p>The external frauds in this area have become more sophisticated as fraudsters use information obtained to test the systems of all collection authorities.</p>
<p>15. Are you aware of any organisational or management pressure to meet financial or operating targets?</p>	<p>No, I am not aware of any inappropriate organisational or management pressure being applied, or incentives offered, to myself or to colleagues to meet financial or operating targets.</p> <p>Monthly budget monitoring is conducted with service managers and reconciliations of key balances are conducted monthly, and significant variances are investigated.</p> <p>Corporate Performance Indicators are reported via the Council's "Corvu" reporting system, and results are reviewed by managers prior to finalisation.</p>
<p>16. Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?</p>	<p>No, as above, I am not aware of any inappropriate organisational or management pressure being applied, or incentives offered, to myself or to colleagues to meet financial or operating targets. Monthly budget monitoring is conducted with service managers and reconciliations of key balances are conducted monthly, and significant variances are investigated.</p> <p>As above, Corporate Performance Indicators are reported via the Council's "Corvu" reporting system, and results are reviewed by managers prior to finalisation.</p>
<p>17. What arrangements has the Council put in place in response to the Bribery Act 2010?</p>	<p>The Council intranet includes the responsibilities around the Bribery Act 2010 in the Fraud Response Plan. The Staff Code of Conduct, Section 12, sets out the responsibilities for staff re: Bribery and Corruption.</p> <p>The Head of Corporate Governance arranged for in-house training of colleagues</p>

Question	Response
	<p>in the A&CF Team around the Bribery Act 2010, and works in conjunction with Legal colleagues, where appropriate.</p> <p>As part of the regular review of the suite of Counter Fraud policies the “Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan” was reviewed and revised and approved by the Council’s Audit Committee on 12 September 2019.</p>