

Report to Audit Committee

Charged with Governance - Management Processes and Arrangements

Portfolio Holder: Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member Finance and Low Carbon

Officer Contact: Anne Ryans, Director of Finance

Report Author: Mark Stenson, Assistant Director of Corporate Governance and Strategic Financial Management

Ext. 4783

10 June 2021

Reason for Decision

To enable the Council's external auditors, Mazars, to carry out their duties under the Local Audit and Accountability Act 2014, the Audit Committee via the Chair is required to provide the auditors with the necessary assurances required under International Standards on Auditing (ISA), particularly, ISA 260, Communication with Those Charged with Governance.

Executive Summary

In carrying out their annual audit of the Council, Mazars comply with the International Standards on Auditing (ISAs) as adopted by the UK Financial Reporting Council (FRC).

ISAs require the auditor to make inquiries of those charged with governance (TCWG) to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. These inquiries are made in part to corroborate the responses to the inquiries of management.

Mazars has sent the Chair of the Audit Committee a questionnaire setting out their inquiries of TCWG. The questionnaire and the Chair of the Audit Committee's proposed responses are set in the attachment.

Recommendations

That Members of the Audit Committee are asked to note the Council's response.

Chair of the Audit Committee
Oldham Metropolitan Borough Council
Civic Centre
Oldham
OL1 1UT

Direct line 0161 238 9243 / 07909 986776

Email Alastair.Newall@mazars.co.uk

25 May 2021

Dear Chair

Audit 2020/21 - understanding those charged with governance processes and arrangements

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

- How do you 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);
 - 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;
 - **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); and
 - communicating to you the processes for **identifying and responding to fraud or error**.
- How do you **oversee management processes** for identifying and responding to the risk of fraud and possible breaches of internal control? Are you aware of any breaches of internal control during 2020/21? If so, please provide details.
- How do you gain assurance that **all relevant laws and regulations have been complied with?** Are you aware of any instances of non-compliance during 2020/21? If so, please provide details.

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

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- Are you aware of any **actual or potential litigation or claims that would affect the financial statements**? If so, please provide details.
- Have you carried out a **preliminary assessment of the going concern assumption** and if so have you identified any events which may cast significant doubt on the Council's ability to continue as a going concern? If so, please provide details.

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 2020/21.

I would be grateful if you could respond by letter or email on behalf of the Audit Committee by 30 June. In the meantime, please don't hesitate to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Karen Murray
Partner

| Question | Management Response |
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| <ul style="list-style-type: none"> • How do you exercise oversight of management's processes in relation to: | |
| <ul style="list-style-type: none"> ○ 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); | <p>In my role as Vice Chair of the Audit Committee, I can advise that the Director of Finance provides regular updates to the Audit Committee on matters relating to the production of the Statement of Accounts. Arrangements are in place for staff within the Finance Team to attend appropriate training courses so that they have up-to-date technical knowledge and skills. The Council has in place a robust quality assurance 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.</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. The findings arising from the financial audits are reported to the Audit Committee on a regular basis and updates are provided against specific areas and/or systems as requested by the Audit Committee.</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 Assistant Director of Corporate Governance and Strategic Financial Management (who fulfils the role of the 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 and this includes the conclusions from the audit reviews of the financial systems.</p> <p>An agenda item for the 10 June 2021 Audit Committee Meeting is discussing training for Members.</p> <p>2020/21 was a unique year in that all meetings of the Committee were held remotely. The unusual circumstances disrupted plans for Members training.</p> |
| <ul style="list-style-type: none"> ○ identifying and responding to risks of fraud in the Council, | <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</p> |

| Question | Management Response |
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| <p>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;</p> | <p>annual plan based on strategic audit needs assessment, the Fraud Response Plan, and the Fraud and Loss Risk Assessment.</p> <p>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> <p>The Assistant Director of Corporate Governance and Strategic Financial Management ensures that the risk of fraud is highlighted to the Audit Committee in the regular updates reported against the Annual Governance Statement (AGS) and via the service updates submitted to the Audit Committee.</p> <p>In respect of the grants administered to support third parties throughout the pandemic regular updates have been reported to the Committee throughout the financial year.</p> |
| <ul style="list-style-type: none"> ○ communicate to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Council's code of conduct); and | <p>The Council's 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 Council's 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> <p>The Members Code of Conduct sets out the standards expected from elected Members.</p> |
| <ul style="list-style-type: none"> ○ communicate to you the processes for identifying and responding to fraud or error. | <p>As Vice Chair of the Audit Committee, I can advise that fraud risks and issues are reported by the Assistant Director of Corporate Governance and Strategic Financial Management 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 (AGS).</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. A specific policy to deal with fraud on Business Grants was agreed by the Committee at its meeting on 4 June 2020.</p> |

| Question | Management Response |
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| | <p>Ad hoc matters requiring a report to the Audit Committee are also prepared by the Assistant Director of Corporate Governance and Strategic Financial Management at the appropriate time.</p> <p>The AGS identifies the risks linked into the Transparency Agenda, and the Assistant Director of Corporate Governance and Strategic Financial Management provides regular updates to the matter reported in the AGS.</p> <p>I receive briefings on a one to one basis from the Assistant Director of Corporate Governance and Strategic Financial Management on matters as required.</p> |
| <ul style="list-style-type: none"> • How do you oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control? Are you aware of any breaches of internal control during 2019/20? If so, please provide details. | <p>The A&CF Plan as reported to the Audit Committee includes reviews of management process and controls. The conclusions and actions arising from the audits in the plan, and any ad hoc reviews, are reported to the Audit Committee regularly as part of the summary of Internal Control Matters in each Directorate/service areas.</p> <p>A&CF agree recommendations with managers to improve internal control, which are routinely subject to follow-up. The 2020/21 Annual Report by the Assistant Director of Corporate Governance and Strategic Financial Management sets out his opinion for 2020/21 to reassure the Audit Committee.</p> |
| <ul style="list-style-type: none"> • How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2019/20? If so, please provide details | <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. This includes the "Risk Assessment" comments, which are provided by the Assistant Director of Corporate Governance and Strategic Financial Management.</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>No reports were subject to Call In by the Scrutiny Committee during 2020/21.</p> |
| <ul style="list-style-type: none"> • Are you aware of any actual or potential litigation or claims that would affect the financial statements? If so, please provide details. | <p>I am assured by the Assistant Director of Corporate Governance and Strategic Financial Management that all appropriate matters have been incorporated into the production and review of the AGS.</p> <p>As at 31 March 2021, there is no specific matter which is required to be reported upon in the accounts. The perceived risks in the financial year</p> |

| Question | Management Response |
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| | <p>2020/21 have been considered and appropriately reported to the Audit Committee.</p> |
| <ul style="list-style-type: none"> Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Council's ability to continue as a going concern? If so, please provide details. | <p>By compliance with professional standards, the Director of Finance prepares a balanced budget at full Council for approval and prepares the Council's financial statements on the going concern basis of accounting. This confirms the ability of a business to meet its financial obligations when they fall due.</p> <p>The 2020/21 Draft Statement of Accounts sets out that the financial statements are prepared on a going concern basis. Additional reports such as the Reserves Policy are submitted to this Committee to provide additional assurance on the going concern basis.</p> <p>Disclosures are included within the Statement of Accounts based on an assessment of their materiality. A disclosure is considered material if through an omission or a misstatement the decisions made by users of the accounts would be influenced. This could be due to the value or the nature of the disclosure.</p> <p>In my role of as the Vice Chair of the Audit Committee I liaise closely with the Assistant Director of Corporate Governance and Strategic Financial Management and the Director of Finance and can therefore receive specific briefings on the overall financial position of the Council and can request detailed information on any issues should I have any concerns.</p> |

Appendix 1

| Question | Response |
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| <p>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> | <p>No. During this period of time (excluding business grants administered by the Council), there has been no significant (i.e. greater than £10k) corporate (in-house) fraud reported to me committed by internal staff, which has required investigation.</p> |
| <p>2. Do you suspect fraud may be occurring within the organisation?</p> | <p>As at 31 March 2021 all instances of suspected fraud within the organisation I am assured have been investigated. It has not been practical to have face to face interviews due to the pandemic.</p> <p>The Council is a complex multidisciplinary organisation so as Vice-Chair of the Audit Committee I am aware that there is a risk that Officers are unaware of some fraud occurring that they would otherwise bring to my attention.</p> <p>An added assurance that appropriate controls are in place is the opinion given in the Annual Report of the Assistant Director of Corporate Governance and Strategic Financial Management. The routine reports to the Audit Committee on progress against the Plan set out the position on fraud uncovered.</p> |
| <p>3. Have you identified any specific fraud risks within the Council?</p> | <p>Fraud Risks are captured, reported and monitored by the Audit Committee via the Fraud and Loss Risk Assessment, the Fraud Response Plan, and fraud risks are assessed for each audit review.</p> |
| <p>4. Are you satisfied that internal controls, including segregation of duties, exist and work effectively (<i>if 'yes', please provide details</i>)?</p> | <p>Yes. In all financial systems for 2020/21, officers have provided assurance that there are agreed processes to review transactions.</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).</p> |

| Question | Response |
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| | <p>Where appropriate, extra audit testing is conducted by Internal and External Audit to provide extra assurance around known issues.</p> <p>Detailed Action Plans are in place, subject to regular follow-up to improve processes 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 is experiencing significant change in social care and the on-going integration with health partners. The Council continues to track the potential risks around these service areas, as this is clearly an area of management focus.</p> |
| <p>6. How do you encourage staff to report their concerns about fraud?</p> | <p>The Council's Whistleblowing Policy sets out the arrangements for staff to anonymously report potential concerns and it is included in the Council's 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>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 Council's work to come forward and voice those concerns.</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, I am assured, in 2020/21.</p> |
| <p>9. How do you mitigate the risks associated with fraud related to</p> | <p>As above, the Council's Contract Procedure Rules set out the procedures for Procurement and this service is subject</p> |

| Question | Response |
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| <p>related party relationships and transactions?</p> | <p>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 Notes 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 believe or suspect are false or intentionally misleading?</p> | <p>No, I am not aware of any entries in the accounting records of this nature. I am assured, supported by past External Audit feedback that the Finance Service applies a detailed three stage quality assurance process, which incorporates independent/ "fresh eye" review prior to submitting its draft Accounts to the External Auditor.</p> |
| <p>11. 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> | <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>I am assured that the Quality Assurance process in the preparation of the draft financial statements, by the Finance Team, ensures the detailed review of the draft accounts prior to the submission to the External Auditors.</p> |
| <p>12. Could a false accounting entry escape detection? If so, how?</p> | <p>This is considered to be unlikely given the internal and external assurance provided to the Audit Committee of 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> |

| Question | Response |
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| | <p>An added assurance in this area is the review of external audit who provide added assurance for transactions which are in excess of the materiality value.</p> |
| <p>13. Are there any external fraud risk factors, such as collection of revenues?</p> | <p>The 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. 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>14. 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 meet financial or operating targets. Regular budget monitoring is reported to Cabinet and feedback to the Audit Committee indicates reconciliations of key accounts are conducted monthly, and significant variances are investigated.</p> <p>The Council's Corporate Performance Indicators are reported via the Council's "Corvu" reporting system, and results are reviewed by the Overview and Scrutiny Performance and Value for Money Select Committee.</p> |
| <p>15. 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, to meet financial or operating targets. The Director of Finance arranges for monthly budget monitoring to be 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 the Overview and Scrutiny Performance and Value for Money Select Committee.</p> |

| Question | Response |
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| <p>16. 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 Assistant Director of Corporate Governance and Strategic Financial Management arranged for in-house training of colleagues 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> <p>As Vice Chair of the Audit Committee, I have had appropriate guidance from Officers on this matter.</p> |