

ANNEX 1

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Date: 14th February 2022

Dear Anne,

External Audit 2021/22 – 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 2021/22?
- 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

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nature, and whether there have been any transactions with these related parties during the year to 31 March 2022.

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 2021/22.

I would be grateful if you could respond by letter or email on behalf of the Council by 30 June 2022. In the meantime, please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Alastair Newall
Senior Audit Manager

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 records. 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 Audit and Counter Fraud gives an opinion on the overall control environment adding to the assurance that the underlying processes for processing transactions are appropriate.</p> <p>Notwithstanding the above, the Council, alongside Authorities across the country, awaits the outcome of a current consultation exercise (closing date 14th June) in connection with the valuation of Infrastructure Assets. Whilst not the result of either fraud or error, this could lead to a requirement, mirrored nationally, to re-state the Council's financial statements for 2021/22, and possibly the prior year(s).</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> <p>In administering Business Grants required due to the COVID-19 pandemic, appropriate controls were designed into payment processes to allow appropriate checks and balances alongside speed of payment.</p>

Question	Management Response
<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 relevant codes of conduct); and 	<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.</p> <p>The Code of Conduct is regularly reviewed.</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 Audit and Counter Fraud in the A&CF Plan, the Fraud and Loss Risk Assessment and via regular specific reporting, e.g. updates on specific risks in the Council’s Annual Governance Statement.</p> <p>A suite of refreshed Counter Fraud policies was presented to, reviewed by, and approved by the Council’s Audit Committee on 12 September 2019. An updated policy to counter misappropriation on Business Grants was submitted to the Audit Committee at its meeting on 4 June 2020.</p> <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 as required.</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 2021/22? 	<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. These arrangements continued initially in 2021/22 before a gradual return to business as usual in the second part of the year.</p> <p>Internal Audit reviews whether the Council has adhered to relevant legislation and guidance as part of its ongoing audit arrangements and programmes.</p>

Question	Management Response
	Specific training is also arranged by relevant teams; e.g. Legal Services.
<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 2022 there is no specific matter which is required to be reported upon in the accounts other than the potential restatement in relation to Infrastructure Assets referred to above.</p> <p>The perceived risks in the financial year 2021/22 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 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>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. 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 2021/22 sets out the relevant information to disclose, together with CIPFA Bulletins on Closure of the 2021/22 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
<p>1. Are you aware of any actual, suspected or alleged instances of fraud during the period 1 April 2021 – 31 March 2022 (<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 committed by internal staff, which have required investigation.</p> <p>The Assistant Director of Corporate Governance and Strategic Financial Management throughout 2021/22 has reported on a confidential basis the sensitive matters it was appropriate to highlight to the Committee including the risks to the Council should there be poor oversight of key partner organisations.</p>
<p>2. Do you suspect fraud may be occurring within the organisation?</p>	<p>As at 31 March 2022 all instances of suspected fraud within the organisation had been investigated.</p> <p>The Council is a complex multidisciplinary organisation so there is a potential risk 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 Internal Audit and Counter Fraud.</p>
<p>3. Have you identified any specific fraud risks within the Council?</p>	<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>
<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 2021/22, 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</p>

Question	Response
	<p>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 Audit to provide extra assurance around known issues.</p> <p>Detailed Action Plans are in place, subject to regular follow-up to address 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 continues to experience 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>Large Capital Programme projects will also provide additional fraud opportunities in areas such as mandate fraud.</p> <p>The funding provided to assist the wider Government response to the COVID-19 pandemic has changed the risk profile in relation to fraud. The Council has, however, introduced appropriate safeguards into its administration to minimise loss in this area.</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>

Question	Response
<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 in 2021/22.</p> <p>The continued funding provided to assist the wider government response to the COVID-19 pandemic has changed the risk profile for the financial year 2021/22 similar to 2020/21 as reported above.</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.

Question	Response
	<ul style="list-style-type: none"> Levying Bodies are subject to a separate external audit process. The Council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. These details are included in Note 12 to the Annual Financial Statements. In support of this Senior Officers are required to declare interests in companies, organisations and entities with which the Council may interact in order to ensure transparency.
<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. The 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.</p>
<p>11. Are there particular balances in the accounts where fraud is more likely to occur?</p>	<p>The balances of Accounts Payable (AP), Accounts Receivable and Fixed Assets were reviewed twice in 2021/22 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>
<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>	<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>

Question	Response
	<p>The three stage Quality Assurance process ensures the detailed review of the draft accounts prior to the submission to the External Auditors.</p>
<p>13. Could a false accounting entry escape detection? If so, how?</p>	<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 potential risk 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>
<p>14. Are there any external fraud risk factors, such as collection of revenues?</p>	<p>During 2021/22, the collection of revenue from Sundry Debtors, Council Tax and Business Rates was administered 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 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>

Question	Response
	<p>The Council's Corporate Performance Indicators are reported to Cabinet and recorded via the Council's "Corvu" reporting system. Detailed review is now undertaken by the Performance Overview and Scrutiny Committee (previously the Overview and Scrutiny Performance and Value for Money Select Committee).</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 to Cabinet and recorded via the Council's "Corvu" reporting system. Detailed review is now undertaken by the Performance Overview and Scrutiny Committee (previously the Overview and Scrutiny Performance and Value for Money Select Committee).</p>
<p>17. What arrangements has the Council put in place in response to the Bribery Act 2010?</p>	<p>The Council intranet includes information on the responsibilities around the Bribery Act 2010 in the Fraud Response Plan. The Staff Code of Conduct 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 in relation to the Bribery Act 2010, and works in conjunction with Legal colleagues, where appropriate.</p>

Question	Response
	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. These will be reviewed in 2022/23.