

<b>Report To:</b>	<b>AUDIT PANEL</b>
<b>Date:</b>	6 March 2018
<b>Reporting Officer:</b>	Kathy Roe – Director of Finance Wendy Poole – Head of Risk Management and Audit Services
<b>Subject:</b>	<b>GRANT THORNTON – ASSURANCE FROM AUDIT PANEL CHAIR AND MANAGEMENT 2017/2018</b>
<b>Report Summary:</b>	Grant Thornton as part of their risk assessment procedures are required to obtain an understanding of management processes in relation to fraud risk assessment, laws and regulations and going concern considerations as part of their annual audit. The report presents the response to the letters and questionnaires received from Grant Thornton for consideration by the Panel ahead of the document being signed by the Chair of the Panel and the Director of Finance.
<b>Recommendations:</b>	That Members comment and challenge the responses detailed in <b>Appendices A and B</b> , so that the schedule can be signed by both the Chair of the Audit Panel and the Director of Finance ahead of it being provided to Grant Thornton.
<b>Links to Community Strategy:</b>	Demonstrates proper Corporate Governance
<b>Policy Implications:</b>	External audit of the Council supports the achievement of Council objectives and demonstrates a commitment to high standards of corporate governance.
<b>Financial Implications:</b> (Authorised by the Section 151 Officer)	There are no direct financial implications.
<b>Legal Implications:</b> (Authorised by the Borough Solicitor)	Demonstrates compliance with the International Auditing Standards.
<b>Risk Management:</b>	Ensuring that the Council meets the required standards in terms of management assurance in relation to fraud risk assessment, laws and regulations and going concern considerations supports corporate governance objectives and ensures risk is minimised.
<b>Access to Information:</b>	The background papers can be obtained from the author of the report, Wendy Poole, Head of Risk Management and Audit Services by:



Telephone: 0161 342 3846



e-mail: [wendy.poole@tameside.gov.uk](mailto:wendy.poole@tameside.gov.uk)

## 1. INTRODUCTION

- 1.1 To comply with International Auditing Standards, Grant Thornton need to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with the law and regulation. They are also required to make inquiries of both management and the Governing Body as to their knowledge of any actual, suspected or alleged fraud.
- 1.2 International Auditing Standards also place certain obligations on auditors to document management's view on some key areas affecting the financial statements.
- 1.3 The three specific areas covered are Fraud Risk Assessment, Law and Regulation and Going Concern Considerations.

## 2. ASSURANCE FROM AUDIT PANEL CHAIR AND MANAGEMENT

- 2.1 A letter was sent to the Chair of the Audit Panel requesting responses to a number of questions as follows:
  - How does the Council oversee management's processes in relation to:
    - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error;
    - identifying and responding to the risk of breaches of internal control;
    - 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); and
    - communicating to employees its views on appropriate business practice and ethical behaviour (for example by updating, communicating and monitoring against the codes of conduct)?
  - Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
  - How does the Council gain assurance that all relevant laws and regulations have been complied with?
  - Are you aware of any actual or potential litigation or claims that would affect the financial statements?
  - How does the Council gain assurance over its ability to continue as a going concern?
- 2.2 A letter was also sent to the Director of Finance requesting responses to a number of questions.
- 2.3 A detailed schedule of questions was provided with each letter, which explores the areas above in more detail and these have been completed and are attached at **Appendices A and B**.
- 2.4 Grant Thornton have requested that the responses to the questions shown in the appendices are discussed at this meeting.

## 3. RECOMMENDATION

- 3.1 As set out at the front of the report.

# APPENDIX A

## **GOVERNING BODY UNDERSTANDING OF HOW THE COUNCIL GAINS ASSURANCE IN RELATION TO FRAUD RISK ASSESSMENTS AND LAW AND REGULATIONS**

### **FRAUD RISK ASSESSMENTS**

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements (including the Group statements) due to fraud?</p> <p>What are the results of this process?</p>	<p>The Council has assessed the risk of material misstatement in the financial accounts and to mitigate the risks has put in place:-</p> <p>Systems of internal control which are tested by Internal Audit on a cyclical basis. Acceptable controls were in place in the majority of the systems reviewed.</p> <p>The Council has an experienced Finance Team in place and the financial statements are prepared in accordance with an agreed action plan and checks and balances are incorporated into the process. Regular monitoring is undertaken quarterly for both revenue and capital which highlights any deviations from budget. Cost Centre Managers have to comment on all under/overspends.</p> <p>A report was presented to the Audit Panel on 6 March 2018 setting out the accounting policies and estimates for 2017/18 accounts, covering; the proposed accounting policies, the critical judgements made in applying the accounting policies and assumptions made about the future and other major sources of estimated uncertainty within the accounts.</p>
<p>What processes does the Council have in place to identify and respond to risks of fraud (including risks within Group components)?</p>	<p>Within Internal Audit a dedicated resource is available to respond to all fraud referrals.</p> <p>The Council also has a risk based audit plan which covers key systems and risks and gives assurance to members and officers that the controls in place are operating effectively.</p> <p>Attendance at seminars and fraud groups to ensure that learning is shared and participation in Webinars.</p> <p>The CIPFA Fraud and Corruption Tracker Report and other key fraud reports are reviewed. Fraud Alerts/Bulletins are received from NAFN Data and Intelligence Services and various online resources including CIPFA's TIS Online and the Better Governance Forum.</p> <p>All fraud cases are reported to the Standards Panel.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>Financial systems are reviewed on a regular basis.</p> <p>The high risk areas highlighted from available fraud reports and other intelligence are built into the audit planning process.</p> <p>The learning from frauds is built into audit programmes to ensure that checks undertaken are responsive to issues</p>

Question	Management response																																
	<p>identified.</p> <p>Where financial irregularities are identified and investigated a control report is produced for management highlighting recommendations for improving the control environment.</p>																																
<p>Are internal controls, including segregation of duties, in place and operating effectively across the Council and Group components?</p> <p>If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>Managers are responsible for implementing systems of internal control and this is confirmed annually in the Assurance Statement and Self- Assessment completed by each Director as part of the Annual Governance Statement process.</p> <p>Internal controls are reviewed by Internal Audit using a risk based audit plan and a standardised system of internal audit. Each audit is concluded by the production of a Final Report which details the recommendations made in terms of any system weaknesses and includes the management response together with a named responsible officer and deadline date.</p> <p>At the conclusion of a fraud/irregularity investigation a control report is produced making recommendations to systems and again the report includes management responses, a named officer and a deadline date.</p> <p>As the organisation moves to flatter structures and smaller teams; the audit team has to be responsive to the effects of these changes on the traditional controls like segregation of duties and look for compensating controls/automatic system controls to ensure that the control environment is not adversely affected and the Council put at risk.</p> <p>During 2017/18, 26 cases have been referred to Internal Audit and can be summarised as follows:-</p> <table><tr><th>Type of Irregularity</th><th>No. of Cases</th><th>New in 2017/18</th><th>Assistance Cases</th></tr><tr><td>Direct Payment</td><td>9</td><td>1</td><td>0</td></tr><tr><td>Procurement Fraud</td><td>2</td><td>1</td><td>0</td></tr><tr><td>Misappropriation of Monies/Stock</td><td>11</td><td>7</td><td>3</td></tr><tr><td>Staff Conduct (Time/HB Fraud)</td><td>2</td><td>0</td><td>0</td></tr><tr><td>Misappropriation of Grant Monies</td><td>1</td><td>0</td><td>1</td></tr><tr><td>Living Together (DWP Assistance)</td><td>1</td><td>0</td><td>1</td></tr><tr><td><b>Totals</b></td><td><b>26</b></td><td><b>9</b></td><td><b>5</b></td></tr></table> <p>21 Cases were considered to warrant an investigation and in 5 cases assistance was provided to management.</p> <p>Where appropriate learning from irregularity investigations is shared across the Council and with schools.</p>	Type of Irregularity	No. of Cases	New in 2017/18	Assistance Cases	Direct Payment	9	1	0	Procurement Fraud	2	1	0	Misappropriation of Monies/Stock	11	7	3	Staff Conduct (Time/HB Fraud)	2	0	0	Misappropriation of Grant Monies	1	0	1	Living Together (DWP Assistance)	1	0	1	<b>Totals</b>	<b>26</b>	<b>9</b>	<b>5</b>
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<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for</p>	<p>All financial reports are produced from the Council’s ledger system Agresso. As part of the audit plan the key systems feeding into Agresso are reviewed to ensure adequate</p>																																

Question	Management response
<p>example because of undue pressure to achieve financial targets)?</p>	<p>controls are in place.</p> <p>All reporting processes are timetabled and supported by an action plan.</p> <p>All users of Agresso access the system using their individual network login and password and a full audit log is maintained.</p> <p>The finance function is lead and managed by professional officers who are members of professional bodies and as such are bound by codes of conduct/ethics. No one person has sole control.</p>
<p>Are there any areas where there is a potential for misreporting?</p>	<p>Manual intervention can take place throughout the year for reporting purposes where projected outturns are based on estimates of spend. However, at the year end the ledger is solely used and is checked by external audit.</p> <p>An element of judgement is required in estimating spending to the year end, but this is undertaken using professional insight and evidence.</p>
<p>How does the Audit Panel exercise oversight over officers' processes for identifying and responding to the risks of fraud at the Council and other Group components?</p>	<p>The Head of Risk Management and Audit Services reports to every Audit Panel and the reports contain an update on fraud cases. The Panel receives and approves the Fraud Response Plan, Internal Audit Strategy and Charter.</p> <p>All fraud investigations are reported to the Standards Panel monthly.</p>
<p>What arrangements are in place to report fraud issues and risks to the Audit Panel?</p>	<p>The Head of Risk Management and Audit Services regularly reports to the Audit Panel. The Head of Internal Audit's Annual Report is presented in May and progress reports presented throughout the year.</p>
<p>How does the Council communicate and encourage ethical behaviour amongst officers and partners?</p>	<p>Contract Term and Conditions and Partnership agreements.</p> <p>Articles published in the Wire, Chief Executive's Brief and on the staff portal. Manager Team briefings. Code of Conduct in place and on the staff portal. Employment contracts, job descriptions and person specifications and induction.</p> <p>Anti-Fraud, Bribery and Corruption Strategy: Statement of Intent on the staff portal and the public website.</p> <p>Whistleblowing policy in place.</p> <p>Professional staff (e.g. Accountants, Solicitors, Auditors and Social Workers) are also bound by codes of ethics issued by their professional bodies.</p>
<p>How do you encourage staff to report their concerns about fraud?</p> <p>Have any significant issues been reported?</p>	<p>Fraud Response Plan and Whistleblowing Policy in place and available on the intranet/internet.</p> <p>During 2017/18, nine new cases were reported to Internal Audit; however, the amounts involved were not significant. A number of Direct Payment Frauds continue to be investigated which are in excess of £10,000.</p>

Question	Management response
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	No.
Are you aware of any whistleblowing tips or complaints?	Two of the 26 referrals investigated during 2017/18 were whistleblowing referrals.
Are you aware of any instances of actual, suspected or alleged, fraud, within the Council since 1 April 2017?	Internal Audit has investigated several allegations of fraud and these are reported to both the Standards Panel on a regular basis and the Audit Panel. Investigations are currently ongoing in respect of a number of serious direct payment frauds and a procurement fraud against the Council.

### **LAWS AND REGULATIONS**

Question	Management Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	<p>Qualified officers in place.</p> <p>Director of Governance and Pensions (Borough Solicitor) reviews all reports presented to Panels, Working Groups, Board, Cabinet and Council to ensure the legal implications have been fully considered.</p> <p>Legal briefings are also circulated weekly to inform Service Unit Managers and above of changes.</p> <p>Internal/External Audit Reviews.</p> <p>External Inspections.</p>
How do officers gain assurance that all relevant laws and regulations have been complied with?	<p>Feedback from Borough Solicitor when reviewing reports.</p> <p>Internal Audit/Inspection Reports.</p> <p>Annual Governance Statement Self-Assessment and Assurance Statements.</p> <p>Appointment of professional and qualified staff.</p>
How is the Audit Panel provided with assurance that all relevant laws and regulations have been complied with?	<p>The Annual Governance Statement (AGS) and the associated assurance framework is presented to the Audit Panel.</p> <p>All reports are reviewed by Legal to ensure the legal implications have been fully considered.</p> <p>Significant issues identified by Internal Audit would be highlighted in the Annual Report and progress reports by the Head of Risk Management and Audit Services.</p>
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2017?	No.

Question	Management Response
<p>What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>The Council holds an internal insurance reserve which is actuarially valued regularly for Insurance claims. An insurance portfolio is in place for all major insurance covers, which is reviewed annually.</p> <p>We have procured Insurance Brokers to provide independent advice and the Insurance Team receive regular industry bulletins keeping them up to date with new claim trends, litigation judgements and risk mitigation strategies.</p> <p>We have always had a strong stance on fighting claims and work in partnership with departments, legal representatives and our insurers to put forward a strong and robust defence for all litigated claims.</p> <p>Regular liaison between Legal and finance on potential and current claims/litigation.</p>
<p>Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>An assessment of litigation and claims is made and included in the Statement of Accounts. Internal funds and reserves mitigate the effect on the financial statements. Note included in the statement of accounts.</p>
<p>Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?</p>	<p>None received.</p>

Signed:

Kathy Roe  
Director of Finance

Dated: 6 March 2018

Signed:

Councillor Vincent Ricci  
Chair of Audit Panel

Dated: 6 March 2018

## APPENDIX B

### QUESTIONS FOR MANAGEMENT TO GAIN ASSURANCE IN RELATION TO FRAUD RISK ASSESSMENTS, LAW AND REGULATION AND GOING CONCERN CONSIDERATIONS

Question	Management Response
What do you regard as the key events or issues that have a significant impact on the financial statements for 2017/18?	<p>The introductory narrative to the financial statements comments on significant transactions in the year, together with issues faced over the medium term.</p> <p>The key corporate issue remains our response to funding reductions at a time of the increasing demand on services, which does not affect the 2017/18 statements.</p>
<p>Have you considered the appropriateness of the accounting policies adopted by the Council?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>The policies are considered each year by the Audit Panel. No changes have been made to previous policies and no events have occurred that would require that to have happened.</p>
Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	No.
How would you assess the quality of the Council's internal control processes?	<p>Internal Audit has undertaken a number of audits/reviews during 2017/18 to review the Council's internal control processes and the results of their work are reported to the Audit Panel by the Head of Risk Management and Audit Services. Where improvements have been highlighted, managers have agreed to implement the suggested recommendations. This will aid the management of risks and support the overall control environment.</p> <p>Senior Management is responsible for the control environment and work with Internal Audit throughout the year to ensure that any proposed changes to systems and processes do not adversely affect the control environment.</p> <p>With a reducing work force more reliance is being placed on technological controls rather than on conventional controls like segregation of duties.</p> <p>All Directors sign Assurance Statements annually for the Annual Governance Statement to confirm that internal controls have been in place in their Directorate during the year.</p> <p>The Head of Risk Management and Audit presents an Annual Report to the Audit Panel in May summarising the work of Internal Audit and providing an opinion on the control environment.</p>



Question	Management Response
How would you assess the process for reviewing the effectiveness of internal control?	<p>The effectiveness of internal control is reviewed during the mature process in place to compile the Annual Governance Statement, which involves the Head of Risk Management and Audit, Senior Management Team, Audit Panel and Executive Members.</p> <p>Internal Audit is also reviewed annually to ensure compliance with the Public Sector Internal Audit Standards.</p>
How does the Council's risk management processes link to financial reporting?	The Council is risk aware and financial risks and challenges facing the Council are detailed in the Medium Term Financial Plan and the budget report.
How would you assess the Council's arrangements for identifying and responding to the risk of fraud?	<p>The Council has a corporate fraud team in place which responds to all reported fraud. The arrangements in place have been measured against CIPFA's Code of Practice - Managing the Risk of Fraud and Corruption and are compliant.</p> <p>Intelligence is obtained from numerous fraud websites, from NAFN Data and Intelligence Services which is hosted by Tameside MBC and the North West Chief Audit Executives Fraud Sub Group.</p> <p>A Whistleblowing Policy is available on Council's Website and the Intranet for staff/public to raise concerns and whistleblowing referrals are received.</p>
What has been the outcome of these arrangements so far this year?	<p>All reported frauds have been investigated.</p> <p>Regular reports are prepared for the Standards Panel giving the Council's Monitoring Officer the opportunity to input into the process by providing advice and guidance.</p> <p>Reports are also provided to the Audit Panel.</p>
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	<p>Financial systems are reviewed on a cyclical basis to ensure that they are fit for purpose and the controls are operating effectively. No major issues have been identified in any of the systems.</p> <p>Payment systems are considered to present more risks as they are open to external risk factors like the bank mandate fraud.</p>
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	Several whistleblowing complaints were received during the year and investigated by Internal Audit in accordance with the published policy.
Have any reports been made under the Bribery Act?	No.
As a management team, how do you communicate risks issues (including fraud) to those charged with governance?	Regular progress reports from the Head of Risk Management and Audit to the Audit Panel.

Question	Management Response
<p>As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?</p>	<p>Articles in the Wire Chief Executive's Brief Team Briefs Contracts of Employment/Codes of Conduct Gifts and Hospitality Protocol Professional staff are also bound by their Professional Body's Ethical Codes of Practice.</p>
<p>What are your policies and procedures for identifying, assessing and accounting for litigation and claims?</p>	<p>The Council holds an internal insurance reserve which is actuarially valued regularly for Insurance claims. An insurance portfolio is in place for all major insurance covers, which is reviewed annually.</p> <p>We have procured Insurance Brokers to provide independent advice and the Insurance Team receive regular industry bulletins keeping them up to date with new claim trends, litigation judgements and risk mitigation strategies.</p> <p>Litigation not covered by the Council's insurers is dealt with in-house by the Borough Solicitor and her Legal Team, who will assess cases on their merits, and ensure the appropriate level of expertise is employed, also ensuring that any potentially large claims are reflected appropriately in the Council's contingency arrangements. If it is assessed that a liability is likely to arise from litigation or claims then an appropriate sum will be included in the financial statements.</p>
<p>Is there any use of financial instruments, including derivatives?</p>	<p>No.</p>
<p>What is the current position of those issues included as contingencies and provisions at 31 March 2017?</p>	<p>The contingencies and provisions are kept under review and the latest position is as set out in the financial statements.</p>
<p>Are you aware of any significant transaction outside the normal course of business?</p>	<p>No.</p>
<p>Are you aware of any changes in circumstances that would lead to impairment of non-current assets?</p>	<p>The liquidation of Carillion and the impact on the Vision Tameside project will need to be monitored carefully to ensure no impairment arises.</p>
<p>Are you aware of any guarantee contracts?</p>	<p>The Council is guarantor for Tameside Sports Trust in respect of the Pulse Fitness Agreements.</p>
<p>Are you aware of allegations of fraud, errors, or other irregularities during the period?</p>	<p>A number of irregularities were investigated during the year but they did not present any risk to the compilation of the Council's accounts.</p>
<p>Are you aware of any instances of non-compliance with laws or</p>	<p>No.</p>

Question	Management Response
regulations or is the Council on notice of any such possible instances of non-compliance?	
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	There have been the regular VAT inspections by HMRC
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	<p>A report is presented annually to the Audit Panel outlining Accounting Policies and Estimates.</p> <p>The report for 2017/18 will be presented on 6 March 2018.</p>
<p>Where the financial statements include amounts based on significant estimates:</p> <ul style="list-style-type: none"> <li>• how have the accounting estimates been made?</li> <li>• what is the nature of the data used? and</li> <li>• the degree of estimate uncertainty inherent in the estimate?</li> </ul>	<p>Accounting estimates are made on the basis presented and approved by the Audit Panel annually.</p> <p>Estimates are made based on the best available data from the relevant financial year. This is amended in light of finalised information.</p> <p>Pension's information is estimated based on advice from the independent actuary.</p>
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No.
<p>Has the management team carried out an assessment of the going concern basis for preparing the financial statement?</p> <p>What was the outcome of that assessment?</p>	<p>This is undertaken through budget planning to ensure the ongoing sustainability of the Council. This is led by the Monitoring Officer, Head of Paid Service (Chief Executive) and Section 151/Chief Finance Officer.</p> <p>The Council is assessed as being a going concern.</p>
Although the public sector interpretation of IAS1 means that unless services are being transferred out of the public sector then the financial statements should be prepared on a going concern basis, management is still required to consider whether there are any material uncertainties that cast doubt on the Council's ability to continue as a business. What is the process for undertaking a rigorous assessment of going concern? Is the process carried	<p>The Budget Report and MTFP are prepared in full consultation with the Single Leadership Team and Cabinet with best estimates of the likely expenditure requirements and the resources available. This allows the Council to rigorously assess that the Council continues to be a going concern.</p> <p>Both Capital and Revenue monitoring continue throughout the year to provide reassurance of its belief. Regular reappraisal of the MTFP takes place together with a daily review of the cash flow.</p> <p>A review of the adequacy of reserves is undertaken by the Director of Finance (Section 151 Officer) each year.</p>

Question	Management Response
<p>out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?</p>	
<p>Can you provide details of those solicitors utilised by the Council during the year?</p> <p>Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>Forbes, BLM and Weightmans Solicitors provide legal support to the council in relation to Litigated Insurance Claims.</p> <p>All three legal firms will be working on both open cases and contingencies from prior years.</p> <p>They are currently representing the Council on 33 open/contingency cases.</p>
<p>Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Hymans Robertson (Pension Fund Actuarial advice).</p> <p>Meridian - Duplicate Payments</p> <p>PFI – Capita (Fair value on PFI liabilities)</p> <p>STAR Procurement, review of the Council's procurement function.</p> <p>Other advice provided to or commissioned by service areas from time to time.</p>
<p>Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?</p>	<p>None reported to Internal Audit.</p> <p>None reported to Finance.</p>

Signed:

Kathy Roe  
Director of Finance

Dated: 6 March 2018