
Report To:	Audit Committee	Date:	19 April 2016
Report By:	Chief Financial Officer	Report No:	FIN/43/16/AP/CM
Contact Officer:	Alan Puckrin	Contact No:	01475 712223
Subject:	Assurances for External Audit		

1.0 PURPOSE

- 1.1 The purpose of the report is to seek the Committee's agreement to a draft response to specific questions asked by External Audit.

2.0 SUMMARY

- 2.1 As part of the preparation for the Annual Accounts exercise, the Council's External Auditors, Grant Thornton, have asked that the Council provide responses to various questions prepared by the Auditor.
- 2.2 The original request from External Audit was that these responses should come from the Chair of the Audit Committee, however, in line with the approach taken within Inverclyde Council, it is more appropriate that the response is from the Audit Committee.
- 2.3 The questions relate to fraud risk assessment, law and regulation and going concern. The questions and the draft response are contained in Appendix 1.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Audit Committee consider the responses to the questions, as set out in Appendix 1 and, thereafter, agree that the finalised response is sent by the Chief Financial Officer to the Council's External Auditors on behalf of the Audit Committee.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 Grant Thornton has previously prepared a list of questions for the Chair of the Audit Committee to respond to as part of their preparation for the Annual Audit of the Year End Accounts.
- 4.2 Officers believe it is more appropriate that the responses to these questions come from the Audit Committee as a whole, rather than the Chair of the Audit Committee and, as such, have prepared a report and a draft response for the Audit Committee to consider.

5.0 PROPOSALS

- 5.1 The questions prepared by the External Auditors relate to fraud risk assessment, law and regulation and going concern. There are no specific issues which Officers would flag up to the Audit Committee as part of this exercise.
- 5.2 Once the return is approved then it would be sent to the External Auditors by Chief Financial Officer on behalf of the Audit Committee.
- 5.3 The External Auditors will thereafter assess the level of assurance they can take from the responses provided by the Audit Committee.

6.0 IMPLICATIONS

6.1 Finance

There are no financial implications arising from this report.

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (If Applicable)	Other Comments
N/A					

6.2 Legal

There are no legal implications arising from this report.

6.3 Human Resources

There are no HR implications arising from this report.

6.4 Equalities

Has an Equality Impact Assessment been carried out?

Yes See attached appendix

No This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required.

6.5 Repopulation

There are no repopulations issues arising from this report.

7.0 CONSULTATIONS

7.1 The draft response contained in Appendix 1 has been prepared by the Chief Financial Officer with significant support from the Chief Internal Auditor and the Finance Manager (Environment & Technical) and has been subject to consultation with the Corporate Management Team.

8.0 LIST OF BACKGROUND PAPERS

8.1 None

Fraud risk assessment

Auditor Question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	The Audit Committee provides oversight and challenge in relation to the financial statements and seeks assurances from the Chief Financial Officer that the accounts are not materially misstated. Updates are regularly provided to Audit committee in key areas of the statement, any changes in accounting policies and their impact on the statements. In addition there are no prescribed financial targets which could encourage financial misreporting within Local Government.
What are the results of this process?	The risk is considered to be low and the Council believes adequate control procedures are in place to mitigate the risk of fraud in the financial statements.
What processes does the Council have in place to identify and respond to risks of fraud?	In addition to general risk management duties the Council has an anti-fraud and irregularity policy and a counter-fraud strategy in relation to Benefit Fraud. The Council also participates in and makes use of the National Fraud Initiative co-ordinated by Audit Scotland. From 1 February 2016, the Council established a Corporate Fraud team due to the launch of the DWP's Single Fraud Investigation Service. This team will have responsibility for undertaking fraud risk assessments and responding to any fraud risks identified.
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	Fraud risks are considered as part of the Internal Audit Annual Audit Plan. The Council established a Corporate Fraud team and specific fraud reviews will be included within the Annual Internal Audit plan from 1 April 2016 onwards using a risk-based approach. Specific areas kept under regular review are Treasury Management and Benefit Fraud.
Are internal controls, including segregation of duties, in place and operating effectively?	An adequate system of internal control is in place which includes segregation of duties. Internal controls, including where segregation of duties exist, are reviewed by Internal Audit as part of their annual audit plan. Exceptions are reported to management and inform the annual Internal Audit opinion.
If not, where are the risk areas and what mitigating actions have been taken?	Where control weaknesses are identified by Internal Audit or through the AGS self-assessment process, management action plans are put in place which are followed up on a regular basis by Internal Audit.

<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>All Financial Monitoring Reports are prepared jointly by Finance and the Budget Holder and this reduces the risk outlined. The financial reporting process is set out in the Council's Financial Regulations, training for non-finance managers and are supported by specific procedures and accounting policies. Accounting arrangements are undertaken in accordance with all relevant Codes of Practice. Comprehensive year-end accounts guidelines and outturn proformas, senior officer review of reports and the accounts, officer review of provisions, reserves, carry forwards, accruals and liabilities ensure that the override of controls or inappropriate influence are minimised. Major variances between years are reviewed for accuracy. Final outturn on revenue budgets are reported annually to the relevant Committee.</p>
<p>Are there any areas where there is a potential for misreporting?</p>	<p>As above. Senior officer review of the reporting processes including at year end mitigate this risk.</p>
<p>How does the Council exercise oversight over management's processes for identifying and responding to risks of fraud?</p>	<p>The Internal Audit Annual Audit Plan is approved by the Audit Committee prior to commencement each year. Internal Audit review internal controls on a risk basis and report regularly to Audit Committee. Audit Committee are informed of the audit review opinion and are provided with follow up reports on management's intended action for higher risk issues. Internal Audit also reports on activity where actual, suspected or alleged fraud has taken place and been investigated. The Audit Committee has a role in influencing and approving but not directing the audit plan, to accommodate areas it feels it needs assurance on.</p>
<p>What arrangements are in place to report fraud issues and risks to the Council / Audit Committee?</p>	<p>As above.</p>
<p>How does the Council communicate and encourage ethical behaviour of its staff and contractors?</p>	<p>The Code of Conduct was updated and disseminated to all staff in February 2012 which incorporates the Confidential Reporting (Whistleblowing) Policy. The Audit Committee provides oversight of the Local Code of Governance and the Annual Governance Statement which sets out the Governance Framework within the Council. The Audit Committee is responsible for considering and receiving assurance on the findings from the annual review of effectiveness of the governance framework. It does this by reviewing the AGS as part of the annual accounts process.</p> <p>All new staff undertake corporate induction training which includes awareness of key governance documents. There are posters outlining our whistleblowing procedures for staff.</p>

Auditor Question	Response
<p>How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?</p>	<p>As above. Concerns about fraud or irregularity can be raised via management, Internal Audit or via the Whistleblowing Policy.</p> <p>As part of annual reporting requirements, the Council is required to report frauds of £5000 or more to External Audit. For 2015/2016, no such reports have been made.</p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p>The Corporate Director, Environment, Regeneration & Resources is currently acting as Chief Executive of Riverside Inverclyde and this joint role does raise issues of conflict of interest leading to an increased risk. Adequate procedures are in place to minimise this risk and a formal protocol is in place.</p>
<p>Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2015?</p>	<p>All investigations of fraud are reported to the Audit Committee with Internal Audit present to consider the implications for fraud.</p> <p>As part of annual reporting requirements, the Council is required to report frauds of £5000 or more to External Audit. For 2015/2016, no such reports have been made.</p>

Law and regulation

Auditor Question	Response
<p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>The Council has a Local Code of Governance in place and has appointed a Monitoring Officer to ensure that the Council acts lawfully, and provides the MO with sufficient resources to enable him to carry out his role. All Committee reports include consultation and comment from Legal Services on the legal implications (if any) of the proposals and/or recommendations.</p> <p>As part of the Annual Governance Statement self-assessment process, Corporate Directors and Heads of Service review and report on compliance with the governance framework.</p>
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>The committee reporting process mandates that where reports require decision making or where the Council is exercising functions, these reports are required to have been consulted on with Finance, HR and Legal officers to ensure appropriate advice is given.</p>

<p>How is the Council provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Council gains assurance through a number of mechanisms including:</p> <ul style="list-style-type: none"> • Scheme of Delegation • Financial Regulations • Standing Orders for Contracts • Code of Conduct for Employees and Members • Through the work of the Internal and External Auditors assessing and reporting on controls and any areas of non-compliance. • Through the Annual Governance Statement self-assessment process which requires Corporate Directors and Heads of Service to confirm that laws and regulations have been complied with. • That all reports requiring decision making are required to have been consulted on with Finance, HR and Legal officers to ensure appropriate advice is given with Senior Officers from these services in attendance at all Committee meetings.
<p>Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2015?</p>	<p>The Council is currently appealing against a judgement in relation to a recent Procurement Exercise.</p>
<p>What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>Litigation and claims against the Council are assessed by the Council's Legal team who work closely with Finance and Insurance teams to evaluate and account for litigation and claims.</p>
<p>Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>All ongoing or potential claims are considered by officers in Finance and Legal and where appropriate provisions are made in the Financial Statements.</p>
<p>Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?</p>	<p>No.</p>