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Dear Michael

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.

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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

SRNixon

Stephen Nixon
Senior Manager

1. 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)?

Quarterly performance and financial reports (PPRR's, CPRR) report on major risks and risk management. These are discussed at Cabinet, relevant Scrutiny Committee meetings including Corporate Resource Management and Governance (CRMG) Scrutiny Committee meetings as well as Audit Committee meetings. In addition the Council has robust internal control processes which are underpinned by an annual risk based internal audit plan. The Head of Internal Audit, Risk and Insurance produces an Annual Report to the Audit Committee delivering an independent opinion on the effectiveness of the system of internal control. This includes an assessment of the impact on the control environment at the end of the financial year as a result of the Covid-19 pandemic.

The Corporate Governance Group meets on a quarterly basis and discussions around governance, risk, control and audit are undertaken. The group has updated the terms of reference with clearer objectives and strengthened its membership of key strategic officers.

The governance, internal controls and independent reporting in place helps to ensure the integrity of the Council's various functions and processes giving assurance of the accuracy and integrity of financial transactions when putting together the Council's Annual Statement of Accounts.

2. What processes are in place at the Council to identify and respond to risks of fraud?

The Council has a robust process in place to both identify and formally report on fraud and suspected fraud via the Fraud and Irregularity Panel. Regular updates and outcomes following recommendations and actions taken are reported to the Panel. The annual Fraud Risk Assessment identifies the current levels of fraud risk, with resources put into those areas considered high risk. For example, Direct Payments.

Council Officers attend workshops and undertake targeted proactive Counter Fraud reviews, undertaken as part of the Annual Audit Plan. These sessions are designed to encourage Officers to identify and respond to risks of fraud. In the past 12 months this covered areas such as Blue Badges, school admissions, NNDR reliefs and Council Tax reliefs.

3. What processes are in place at the Council to 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)?

The staff Code of Conduct forms part of the Council Constitution (Part 5, Section CP2 - Codes & Protocol). This is displayed on the Council intranet site. There are specific sections relating to gifts and hospitality, personal interests, dignity at work, conduct,

political neutrality, customer care, security, working with elected members, hospitality and sponsorship. The Code is part of the staff induction process.

4. What processes are in place at the Council to communicate to the Audit Committee the processes for identifying and responding to fraud or error?

The Audit Committee Chair and Vice Chair attend pre-audit meetings with the Head of Internal Audit, Risk and Insurance on a quarterly basis. Issues, concerns and ongoing investigations around fraud risks are discussed as part of this process.

In addition the Audit Committee discuss and approve an Annual Fraud Report that highlights the findings of all anti-fraud work throughout the Council in the previous financial year. This now includes the annual completion of the CIFAS Action Plan – Responses to Fighting Fraud and Corruption Locally. From this assessment detailed improvements are actioned if necessary. At each meeting there is an opportunity for the Committee to review and challenge the findings contained within the Annual Fraud Report. Findings of specific fraud audits are reported and follow up work is reported to the Committee. If the Audit Committee is not satisfied with any aspect of a report involving a fraud risk then the manager responsible for the service area concerned would be requested to attend a future Committee meeting and questioned directly by all Members.

Regular updates are received from the National Anti-Fraud Network (NAFN) and are subsequently forwarded to key stakeholders within the organisation. Fraud risk issues are discussed at the quarterly Corporate Governance Group and at quarterly Senior Management Team Audit Update Meetings (Corporate Leadership Team). Change proposals within the Council are risk assessed and risk is embedded within project management techniques. Internal Audit provides ongoing assurance on key risks within key projects. All relevant findings are presented to the Audit Committee.

The committee receive regular training on all audit development matters and this includes fraud risks. This includes an overview of whistleblowing and anti-fraud updates, facilitated by the Head of Internal Audit, Risk and Insurance. Attending regular training workshops chaired by the Head of Internal Audit helps to improve an overall understanding of fraud risks.

5. 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?

The Council has an agreed Constitution setting out how decisions are taken within the legal and regulatory framework. Regular reports are prepared and presented to Cabinet (the Council's decision making body).

The Head of Internal Audit meets quarterly with the Council's Monitoring Officer and these requirements are discussed. Furthermore, Internal Audit will review whether

the Council has arrangements in place to identify the necessary legal framework and that appropriate steps have been taken to consider the risks. Specific training is organised where appropriate by relevant teams including Legal Services.

There have been no instances of non-compliance during 2019/20.

6. Are there any actual or potential litigation or claims that would affect the financial statements?

There are no potential litigation or claims that would affect the financial statements that I am aware of.

7. What controls are in place to: identify, authorize, 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 2019.

As part of the Council's year end closedown process, Senior Officers and Members are asked to identify any related parties for consideration for disclosure in the Council's Annual Statement of Accounts. In addition the Council's Register of Members Interests is reviewed to identify any related parties.

The Council also has a policy for registering the receipt of gifts and hospitality from related parties.

The staff Code of Conduct forms part of the Council Constitution (Part 5, Section CP2 - Codes & Protocol). This is displayed on the Council intranet site. There are specific sections relating to gifts and hospitality, personal interests, dignity at work, conduct, political neutrality, customer care, security, working with elected members, hospitality and sponsorship. The Code is part of the staff induction 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 (if 'yes', please provide details)?	There has been one ongoing instance of suspected fraud relating to an external organisation that was concluded early on in the period. Regular updates have been provided to the Fraud and Irregularity Panel. The investigation has now been concluded by the SRA (Solicitor's Regulatory Authority) as part of a wider investigation involving Stockport, Manchester and Oldham councils. Consequently the organisation

Question	Response
	under investigation is no longer trading.
<p>2. Do you suspect fraud may be occurring within the organisation?</p>	<p>Working in a large organisation with over 2000 employees (excluding school based employees) and which provides a wide range of services to the residents of Stockport, the risk of fraud occurring is always present.</p> <p>However I am confident that the Council has robust processes in place to both identify and formally report on fraud and suspected fraud (see responses to questions below for further detail). Regular updates on the risks and instances of fraud are provided to the Fraud and Irregularity Panel as well as outcomes following recommendations made.</p>
<p>3. Have you identified any specific fraud risks within the Council?</p>	<p>The annual Fraud Risk Assessment identifies the current levels of fraud risk, with resources put into those areas considered high risk, for example, Procurement processes and Direct Payments.</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. We have a strong and experienced Internal Audit and Risk Service that delivers an annual Risk Based Internal Audit Plan. Key performance indicators that support the Plan are consistently met. 90% of the audit reviews completed in 2019/20 were assessed as either moderate or substantial assurance. This means that overall there is a sound system of internal control within the areas reviewed. Furthermore the overall number of audit recommendations continues to be managed effectively and regular updates are provided to the Audit Committee on progress.</p> <p>The key indicator on agreed audit recommendations shows 23% are</p>

Question	Response
	<p>categorised as high level, strategic and prioritised as high risk against a target of 15-30%. Internal Audit and Risk staff provide ongoing support and advice on a wide range of high risk areas including health and social care integration, MTFP savings projects and Information Governance. All of these key areas are included in the Corporate Risk Register and the current Annual Governance Statement and associated Action Plan. These provide additional assurance on the levels of internal control within these key high risk areas.</p> <p>The Annual Internal Audit Plan is discussed by Corporate Governance Group and Corporate Leadership Team before approval by the Audit Committee. The Plan is risk assessed on a regular basis and updated if the risk environment changes.</p> <p>The Corporate Governance Group meets on a quarterly basis to discuss and advise on issues around the Council's internal control processes. Regular Internal Audit Progress is presented at all Audit Committee meetings and all Members have an opportunity to question and challenge the internal control environment of all audit reviews covered in that period. Furthermore additional Audit Committee workshops/meetings are now held on a regular basis on high risk areas (e.g. MTFP projects, Digital by Design, Highways Investment Programme and health and social care integration), which allows for more detailed discussion on the internal controls processes in place within chosen areas.</p>
5. If not where are the risk areas?	N/A see answer above.

Question	Response
6. How do you encourage staff to report their concerns about fraud?	Via workshops and targeted proactive Counter Fraud reviews that are undertaken as part of the Annual Audit Plan. In the past 12 months this covered areas such as Blue Badges, school admissions and NNDR/Council Tax relief.
7. What concerns about fraud are staff expected to report?	<p>The staff Code of Conduct forms part of the Council Constitution (Part 5, Section CP2 - Codes & Protocol). This is displayed on the Council intranet site. There are specific sections relating to gifts and hospitality, personal interests, dignity at work, conduct, political neutrality, customer care, security, working with elected members, hospitality and sponsorship. The Code is part of the staff induction process.</p> <p>Further examples are provided via targeted workshops and training.</p>
8. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?	I am not aware of any related party relationships or transactions that could give rise to instances of fraud.
9. How do you mitigate the risks associated with fraud related to related party relationships and transactions?	<p>We have robust processes in place to both identify and formally report on fraud and suspected fraud via the Fraud and Irregularity Panel. This process covers fraud related to the Council's related party relationships and transactions.</p> <p>In addition there are regular strategic and operational meetings with our partners where financial matters are discussed and any irregularities can be identified and reported.</p>
10. Are you aware of any entries made in the accounting records that you believe or suspect are false or intentionally misleading?	I am not aware of any entries made in the accounting records which are false or intentionally misleading.

Question	Response
<p>11. Are there particular balances in the accounts where fraud is more likely to occur?</p>	<p>The risk based audit plan sets out what are considered high, medium and low risk areas. Underpinning the plan is a separate Fraud Risk Plan which assesses all activities of the Council with a potential risk of fraud. Traditionally services such as Personal Budgets fall under the high risk categories. However, we now include proactive counter fraud activities, for example, the Blue Badge service and mandate fraud which were both reviewed in the period.</p> <p>We use continuous audit routines using data matching techniques to help identify possible areas of fraud related activity. This is undertaken in key high risk areas such as Payroll, Procurement, Payments and Housing Benefits.</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>I am not aware of any assets, liabilities or transactions that been improperly included or omitted from the Council's accounts.</p>
<p>13. Could a false accounting entry escape detection? If so, how?</p>	<p>The Head of Internal Audit, Risk and Insurance produces an Annual Report delivering an independent opinion on the effectiveness of the system of internal control. This includes a detailed assessment of risk management and corporate governance arrangements. In addition regular peer reviews of internal controls and risk management are completed providing further independent assurance on the arrangements in place. Any weaknesses identified in the above assessments are highlighted in the Annual Report and recommendations for actions to be taken made to address weaknesses. The report is discussed at Corporate Leadership Team and then approved by the Audit Committee. Ongoing progress reports are provided</p>

Question	Response
	<p>at each Audit Committee</p> <p>These control processes and independent reporting help ensure the integrity of the Council's various functions and processes giving assurance of the accuracy and integrity of the transactions included in the Council's Annual Statement of Accounts.</p>
<p>14. Are there any external fraud risk factors, such as collection of revenues?</p>	<p>I am not aware of any external fraud risk factors.</p>
<p>15. Are you aware of any organisational or management pressure to meet financial or operating targets?</p>	<p>I am not aware of any organisational or management pressure to meet financial or operating targets.</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>I am not aware of any inappropriate organisational or management pressure being applied, or incentives offered, to meet financial or operating targets.</p>
<p>17. What arrangements has the Council put in place in response to the Bribery Act 2010?</p>	<p>Anti-Fraud, Bribery and Corruption Strategy, Policy and Response Procedure all refer to the Bribery Act. These documents are regularly updated.</p> <p>Key outlines provided to new members as part of induction workshop delivered by Head of Internal Audit.</p> <p>Bribery risk considered as part of the Annual Fraud Risk Assessment.</p> <p>Regular Counter Fraud Workshops refer to staff responsibilities in relation to bribery.</p>

