

External Audit 2020/21 – Response to Those Charged With Governance Questions

Response to letter (dated 16 March 2021) – Audit 2020/21 – understanding those charged with governance processes and arrangements:

How do you exercise oversight of management's processes in relation to:

o 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);

The financial statements are prepared in line with CIPFA Code of Practice. Relevant professionals within the service attend the Audit Committee in July to present the accounts. This follows a detailed session with all Audit Committee members. Furthermore, performance and financial reports report on major risks and risk management. These are discussed at Cabinet, relevant scrutiny committee meeting 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.

The Corporate Governance Group meets on a quarterly basis and discussions around governance, risk, control and audit are undertaken.

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.

o 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;

An Annual Fraud Report is produced and presented to the Audit Committee every July. This report identifies fraud risk inherent within systems and fraud committed against the Council. The report further confirms the adequacy of processes and controls in place to both identify and formally report on fraud and suspected fraud via the Fraud and Irregularity Panel. Furthermore, fraud updates are reported via the Internal Audit Progress Reports discussed at all Audit Committee meetings. 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.

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 business and discretionary grants, mandate fraud and NFI work on key risk areas. A risk workshop was also held with third sector partners and GM police. Regular risk workshops are delivered by the Head of Internal Audit and Service Managers on key topical areas as directed by the Audit Committee. All Committee Members are invited to attend. The aim of these is to explore in more detail the risks and mitigating actions in place in specific areas of interest to members. Although these were paused during 2020/21 due to covid, arrangements are being made to offer these workshops again in the coming year beginning with an introduction and overview of risk management arrangements throughout the council.

o 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

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.

o communicating to you the processes for identifying and responding to fraud or error.

The Vice Chair and I 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. During the pandemic communication increased and regular updates on changes in the control and risk environments (including fraud risks) were discussed as and when required. This meant that the Vice Chair and I were informed regularly of any issues arising.

In addition, members of 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. 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. 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. This is a key objective for the Committee Members particularly given the significant impact and subsequent changes to council risks (including fraud risks) in the past year. This includes changes to the way the council works and remote working and increased reliance on technology to deliver services that both contain inherent risks around fraud.

The Council's Anti-Fraud, Bribery and Corruption Policy outlines the process for identifying to fraud and error and the responsibilities of staff in relation to fraud. The policy is updated on a regular basis and changes are discussed at Audit Committee.

• 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.

All members of the Audit Committee review and challenge internal audit progress reports that identify fraud risks. Furthermore, the Annual Fraud Report provides a detailed overview of activities and findings in relation to fraud over a 12 month period. We approve the Annual Risk Based Internal Audit Plan that contains a Fraud Sub Plan generated by a fraud risk assessment. This provides assurance that key fraud risk areas are being reviewed.

• 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.

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.

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).

Furthermore, the Annual Governance Statement provides assurances that all relevant laws and regulations have been complied with or if not, what the nature of the non-adherence is. The AGS is developed in line with current CIPFA guidance.

There have been no instances of non-compliance during 2020/21.

Are you aware of any **actual or potential litigation or claims that would affect the financial statements**? If so, please provide details.

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

• 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.

Following discussions with the Council's Section 151 Officer and Head of Internal Audit, I am confident that Stockport MBC is a going concern for the next 12 months.

Appendix 1

Question	Response
Are you aware of any actual, suspected or alleged instances of fraud during the period 1 April 2020– 31 March 2021 (if 'yes', please provide details)?	Details of fraud investigations are discussed at pre audit committee meetings held with the Head of Internal Audit. Further regular updates were made by the Head of Internal Audit at the time of the Covid 19 pandemic. These were undertaken online and by telephone. Summaries are provided in Progress Reports that go to Audit Committee. Further detail is provided in the Annual Fraud Report. The Internal Audit service has been heavily involved in the process for managing Covid 19 related business grants which has ensured robust processes are in place.
Do you suspect fraud may be occurring within the organisation?	I am confident that the Council has robust processes and policies to identify, control and ultimately manage potentially fraudulent activity. This includes the completion of the Annual Fraud Report produced and presented to the committee by the Head of Internal Audit and the role of the Fraud and Irregularity Panel.
Have you identified any specific fraud risks within the Council?	I am provided with an update of the annual Fraud Risk Assessment as part of the annual internal audit planning process. The process helps to identify the current levels of fraud risk, with resources put into those areas

Question	Response
	considered high risk, for example, residential care home and direct payment to blue badges.
Are you satisfied that internal controls, including segregation of duties, exist and work effectively (<i>if 'yes', please provide details</i>)?	<p>Yes. Quarterly pre audit meeting discussions are held with me, the Deputy Chair and the Head of Internal Audit. These were more frequent at the high of the Covid 19 pandemic. Furthermore, the detail within the Progress Reports are robust and sufficient to provide assurance on the adequacy on internal controls tested. The Head of Internal Audit Opinion and Annual Report provides further assurance on internal control systems in operation. Workshops are normally held throughout the year with Audit Committee members including myself and this allows for a greater depth of challenge around the control environments within high risk areas selected by the Committee (e.g. fraud updates, MTFP projects, Highways Investment Programme and health and social care integration).</p> <p>Key performance indicators are regularly reported to the Committee although these were temporarily suspended during the pandemic as the plan was regularly updated and risk assessed to add value to the council.</p> <p>Additionally, all expected key risk 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>
If not where are the risk areas?	See answer 4 above.
How do you encourage staff to report their concerns about fraud?	<p>The Council regularly updates its Anti-Fraud, Bribery and Corruption policy, Whistleblowing policy and Anti Money Laundering Policy.</p> <p>Regular workshops and targeted proactive Counter Fraud reviews, that are undertaken as part of the Annual Audit Plan, help to embed a culture of fraud awareness. In the past 12 months this covered areas such as business grants, ongoing blue badge work and direct payments.</p>
What concerns about fraud are staff expected to	The expectation to report suspected fraud is outlined in the Anti-Fraud,

Question	Response
report?	<p>Bribery and Corruption Policy. The policy specifies who to contact with any concerns. Furthermore, the Whistleblowing and Anti-Money Laundering Policy provide further detail on expectations.</p> <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, to name a few. The Code is part of the staff induction process. Further examples are provided via targeted workshops and training.</p>
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.
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>
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.
Are there particular balances in the accounts where fraud is more likely to occur?	<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.</p> <p>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</p>

Question	Response
	<p>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>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>Could a false accounting entry escape detection? If so, how?</p>	<p>The Head of Internal 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 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>Are there any external fraud risk factors, such as collection of revenues?</p>	<p>As Chair of the Audit Committee I am not aware of any external fraud risk factors.</p>
<p>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>Are you aware of any inappropriate organisational or management pressure being applied, or incentives</p>	<p>I am not aware of any inappropriate organisational or management pressure being applied, or incentives offered, to meet financial or operating</p>

Question	Response
offered, to you or colleagues to meet financial or operating targets?	targets.
What arrangements has the Council put in place in response to the Bribery Act 2010?	<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 every July 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>