Informing the audit risk assessment Enquiries to management and those charged with governance – Calderdale Council

12

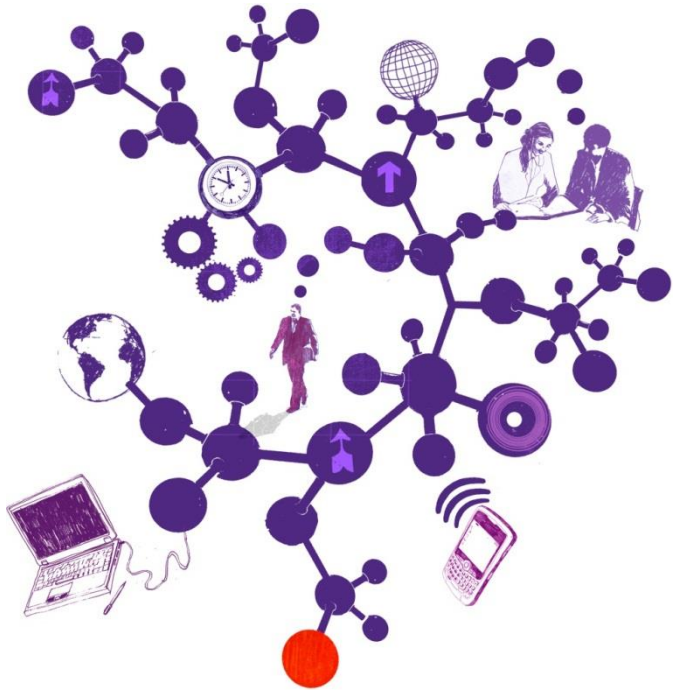
Year ended

31 March 2015

Mark Heap
Engagement Lead
T 0161 234 6375
E mark.r.heap@uk.gt.com

Marianne Dixon
Engagement Manager
T 07780 456 157
E marianne.dixon@uk.gt.com

Tom Mulloy
In Charge Assistant Manager-
T 0113 200 1539
E thomas.mulloy@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

.

Contents

Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern.

This report includes a series of questions on each area with provision for responses from both management and the Audit Committee. We suggest that Management should complete the relevant sections before submitting these responses to the Audit Committee. The Audit Committee should consider whether these responses are consistent with the its understanding, before completing the relevant sections applicable to them.

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.
As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with provision for responses to inform both auditor's and those charged with governance.

Fraud risk assessment

Question	Management response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?	There are continuous audit processes in place which ensure as far as possible that the risk of material misstatements in the financial statements due to fraud is kept to a minimum. Appendix 1 details the Council's Anti-Fraud and Corruption Control Environment in place which is Member approved and is reviewed annually.
What processes does the Council have in place to identify and respond to risks of fraud?	Also see Appendix 1. There are robust anti-fraud governance arrangements in place and which are embedded throughout the Council. These arrangements include for a corporate officer with specific responsibility for ensuring that corporate policy is rolled out to each directorate . Each directorate has a nominated directorate officer responsible for ensuring that corporate policy is embedded throughout their directorate. The Council's constitution also details officer responsibilities with regard to identifying and responding to the risk of fraud.
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	There is a risk register in place for the higher risk elements of Council business. The register is in place to mitigate and reduce the risk in those areas of business determined to be of higher risk. Other risks in council business are dealt with by other determination of risk, including for example the internal audit risk assessment. A Fraud Risk Register has also been recently developed. Further use and reference to the Fraud Risk Register will give the opportunity to identify where resources may be better allocated in order to protect the interests of the Council more widely and effectively.
Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?	Managers are responsible for ensuring that systems in operation include for segregation of duties. They are responsible for ensuring that they also operate. Internal Audit will check as part of their cyclical audits that internal control and internal checks are in place and are operating. Budget cuts have increased the risk that segregation of duties may~~ not always be in place~~ be affected. However there should be a robust risk analysis carried out for all staff cuts to ensure that systems are not compromised and the risk increase.
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)?	There is always potential for heads of service or senior managers to override controls if their management style compromises other staffs position with regard to internal check and control. The bottom line in any organisation is that trust is put in heads of service to act ethically and to set an example in operating the council's business in accordance with the Council's corporate governance arrangements.
Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?	No specific areas identified, however if that were to be the case they would be reported as appropriate i.e. to the Head of Paid Services for example.

Question	Management response
What arrangements are in place to report fraud issues and risks to the Audit Committee?	Reports are presented to the Audit Committee twice per year which includes brief details on frauds that have occurred. Fuller details are provided at the meetings as required by Members. Serious issues relating to fraud would always be referred to the Audit Committee for their information and consideration. At the January Audit Committee a report was presented to Members outlining the steps taken by the council to protect the public purse. The Audit Committee will be kept informed of the outcomes of any additional work carried out.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	The Council has in place a Code of Conduct for staff which refers to ethical behaviour. Professional and qualified staff have also to comply with their professional body code of professional ethics. The Council also has detailed within its constitution contract procedure rules which detail ethical requirements to contractors.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	See Appendix 1 for details which include a staff fraud telephone hotline, leaflets targeted to staff and managers etc.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	If party relationships come to the attention of internal audit risks would be reviewed and management encouraged to include additional control mechanisms to ensure that any risk of collusion were eliminated completely.
Are you aware of any instances of actual, suspected or alleged, fraud, within the Council since 1 April 2014?	Yes. These are centrally recorded by the Council's corporate anti-fraud and corruption officer and progress with regard to investigations is regularly discussed with the Head of Internal Audit. All such cases are minor in nature and value and are reported to the Audit Committee at least twice a year in the half yearly and annual progress reports on the work of internal audit.

Fraud risk assessment

Question	Audit Committee response
How does the Audit Committee oversee management's processes for: • 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 organisation (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) • communicating to employees its views on appropriate business practice and ethical behaviour (for example by updating, communicating and monitoring against the codes of conduct)?	The outcome of reviews are reported to the Audit Committee on a regular basis via reports on the Internal Control matters. The Members of the Audit Committee select a sample of Internal Audit Reports to be presented to each meeting.
Is the Audit Committee aware of any actual, suspected or alleged fraud? If so please provide details.	Yes. Issues relating to specific frauds are highlighted to the Audit Committee at the agreed stage in the process as set out by management above.
Has the Audit Committee considered the risk of material misstatements (misreporting) by management?	Yes. The Audit Committee consider the Draft Annual Statement of Accounts prior to the external audit and then the post-audited accounts prior to final approval and publication, which includes consideration of external audit findings.
What is the Audit Committee's assessment of the impact of misappropriation on the statements?	No identified misappropriation at this time.

Laws and regulations

Issue
Matters in relation to laws and regulations ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements. Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements. As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements. Risk assessment questions have been set out below together with provision for management's response to inform both auditor's and those charged with governance.

Impact of Laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations (incl accounting standards and corporate governance requirements?	The Council's Constitution, together with its Contract Procedure Rules and Section 151 Standards contain specific provisions applicable to all officers dealing with the implementation of Council policies and decisions. All contracts are required to be signed or sealed by officers within Legal Services who ensure that appropriate authorisation is in place as well as ensuring compliance with all applicable legislation.
How does management gain assurance that all relevant laws, regulations and standards have been complied with?	Through the supervision in place throughout all directorates and through, in addition to the matters dealt with above, the requirement that all proposed executive decisions are approved for legality by the Council's Head of Democratic & Partnership Services – its chief legal officer.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2014, or earlier with an on-going impact on the 2014/15 financial statements?	Yes, the operation of Traffic Regulation Orders (in one instance since 2008) which were discovered in September/October 2014 to be unlawful resulting in the need to make provision for the reimbursement of parking payments or penalty charge payments where proof could be provided together with the subsequent loss of income until corrective orders could be put in place.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	All potential litigation claims must be notified either to Legal Services or to Insurance Services or to both where advice will be provided on the merits of the potential litigation, its possible value and the course of conduct required to deal with it.
Is there any actual or potential litigation or claims that would affect the financial statements?	None not already identified.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.
How is the Audit Committee provided with assurance that all relevant laws, standards, requirements and regulations have been complied with?	Audit Committee considers internal reports dealing with the full range of matters affecting the Council. Should any non-compliance with laws or regulations be identified it would be reported to Audit Committee together with the comments of the Head of Democratic & Partnership Services .

Question	Audit Committee response
Is the Audit Committee aware of any non-compliance with relevant laws, standards, requirements and regulations?	The Audit Committee was made aware of the issues with regards to the operation of Traffic Regulation Orders (in one instance since 2008) which were discovered in September/October 2014 to be unlawful.
If there have been instances of non-compliance, what oversight has the Audit Committee had to ensure that actions are taken by management to address any gaps in control?	A report into the Review of the Traffic Regulation Orders was presented to Audit Committee in March 2015. Progress on the implementation of the recommendations made in that report are being monitored by the Audit Committee.
Is the Audit Committee aware of any actual or potential litigation or claims that would affect the financial statements?	The Audit Committee have been made aware of how the net cost of the Parking TRO issue has been addressed by the Council in the accounts for the year. There have been no other issues brought to the attention of the Audit Committee.

Going Concern

Issue
Matters in relation to Going Concern ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements. The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. The code of practice on local authority accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Council is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Council's financial resilience. As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Council's financial and operating performance. Going concern considerations have been set out below with provision for management's response to inform both auditor's and those charged with governance.

Going Concern Considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	Regular revenue and capital monitoring is undertaken by directorates and through Cabinet and Scrutiny Panels to ensure early detection and corrective action of deviation from plans. Progress against savings targets is also monitored through financial review groups involving the Leader of the Council, the relevant portfolio holder, the Chief Executive and the relevant director. The Council can raise tax to cover net expenditure, and has ready access to cash through money markets, and to longer term funding through the PWLB.
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	The biggest threat would seem to come from Central Government reductions in grant funding through the austerity measures and statutory changes to functions. We keep aware of developments and factor an assessment of these and scenario planning into our MTFS as far as possible. The MTFS also takes a view on any other potential liabilities or uncertainties/risks facing the Council. The Council continues to plan and produce budgets over a three year period in order to improve the opportunity to plan for any unforeseen events or conditions.
Are arrangements in place to report the going concern assessment to the Audit Committee?	As above, arrangements are in place to monitor the Council's financial performance during the course of the year through Cabinet and Scrutiny Panels.
Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Business Plan and the financial information provided to throughout the year?	Such reports are not presented to Audit Committee. The MTFS presented to Cabinet and Council is based on prudent expectations of future levels of income and costs. The budget agreed by Council each year includes a report from the Head of Finance on the robustness of the budget estimates and the adequacy of financial reserves.
Are the implications of statutory or policy changes appropriately reflected in the Business Plans, financial forecasts and report on going concern?	The financial implications of statutory or policy changes are reflected in the MTFS each year. Each report taken to Cabinet during the course of the year includes consideration of the financial implications by the Head of Finance.

Going Concern Considerations

Question	Management response
Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	Nothing has been raised to threaten the Council's existence as a going concern. The annual audit letter for year ending 31 March 2014 stated that the Council is responding well to the challenges of reductions in local government funding and that the MTFS is considered sound.
Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	No. Cashflows are managed daily as part of treasury management operations. Borrowings are low compared to long term assets. Current assets comfortably cover current liabilities. Audit Committee receives annual and mid term reports on the performance of the Council's treasury management functions.
Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	Yes the Council has sufficient staff in post at this stage.

Question	Audit Committee response
How does the Audit Committee satisfy itself that it is appropriate to adopt the going concern basis in the preparation of the financial statements?	By reviewing the draft Statement of Accounts which are reported to the Audit Committee. This includes a full set of statements including the Notes to the Accounts, which include the assumptions to support the production of the statements.

grant-thornton.co.uk

THE ANTI-FRAUD AND CORRUPTION CONTROL ENVIRONMENT

DETAILS ROLES AND RESPONSIBILITIES AND MAIN FEATURES WHICH SHOULD BE IN PLACE

THE COUNCIL'S CONSTITUTION

(Part 4 – Rules of Procedure : Financial Procedure Rules)

POLICY FRAMEWORK

AIDS TO DETECTION

COMPLIMENTARY POLICIES TO AID PREVENTION/ DETECTION

ANTI-FRAUD AND CORRUPTION STRATEGY

HOUSING BENEFITS COUNTER FRAUD STRATEGY

HOUSING BENEFITS PROCECUTION POLICY

SURVEILLANCE STANDARD

WHISTLEBLOWING POLICY

ANTI-BRIBERY POLICY

EMPLOYEE FRAUD HOTLINE

FRAUD AND DISHONESTY LEAFLETS & POSTERS

ADVICE AND GUIDANCE TO MANAGERS AND STAFF

HOUSING BENEFITS FRAUD HOTLINE

POLICE LIAISON

INTERNAL AUDIT FRAUD INVESTIGATION MANUAL

RIPA GUIDANCE AND PROCEDURE DOCUMENT

NATIONAL FRAUD INITIATIVE (NFI)

SECTION 151 STANDARDS

CODE OF CONDUCT FOR STAFF

CODE OF CONDUCT FOR MEMBERS

DISCIPLINARY PROCEDURES

INTERNAL AUDIT RISK ASSESSMENT MANUAL

RECRUITMENT & SELECTION OF STAFF

ANTI-MONEY LAUNDERING POLICY