

**Audit Committee – 18 June 2018**

**Understanding how the Audit Committee gains Assurance from Management**

**1. Summary of report**

- 1.1 Auditing arrangements require Ernst Young (EY) (our external auditors) to formally update their understanding of management's processes and arrangements annually. As part of their work Ernst Young are required to obtain an understanding of these including in relation to:
- The risk that the financial statements may be materially misstated,
  - Fraud, including identifying and responding to the risks of fraud,
  - Compliance with laws and regulations,
  - Internal control and breaches thereof,
  - Adopting a going concern basis.
- 1.2 EY have written formally to the Audit Committee, the Monitoring Officer (MO), the Chief Finance Officer (CFO) on behalf of Management and the Council's Internal Auditors (Mazars). Responses have been returned to EY and Audit Committee are asked to receive, consider, amend as necessary, and approve the response attached to this report. Additionally EY wrote to council's property valuer in respect of some technical valuation questions.

**2. Recommendations:**

Audit Committee is requested to:

- 2.1 Consider the management responses to the series of questions set out in the attached letters to the CFO (Appendix 2), the MO (Appendix 3), and Internal Audit (Appendix 4) in relation to the draft response attached from Audit Committee, and,
- 2.2 Consider, comment and amend as appropriate the draft response to the letter addressed to the Audit Committee and agree a final version for return to EY (Appendix 1).

**3. Governance**

- 3.1 Each year the council's external auditors, under Accounting Standards, are required, as part of their risk assessment procedures, to obtain an understanding of management processes and the Audit Committee's oversight of the Council's governance arrangements. Our auditors have produced a series of letters setting out a number of questions covering the key areas. Management have provided responses to these.

#### **4. Resource and legal considerations**

- 4.1 The report sets out and responds to a number of questions in relation to management arrangements in respect of laws and regulations and the Audit Committee's oversight of these arrangements.

#### **5. Performance and risk management issues**

- 5.1 Performance and risk management is embedded in the Council's processes. Management arrangements in respect of fraud and the going concern concept are set out in the report.

#### **6. Equality implications**

- 6.1 None directly associated with this report.

#### **7. Consultation**

- 7.1 Management responses have been drafted in discussion with the Chief Finance Officer, Monitoring Officer, the Chief Executive and Corporate Management Team and consultation undertaken with the Chairman of the Audit Committee on the draft responses to the letter addressed to the Committee.

8. **Background papers** – Various working papers.



**Vicky Buckley, Head of Finance**

**6 June 2018**

**Author:**

Vicky Buckley, Head of Finance, ☎ 01922 652326, ✉ [vicky.buckley@walsall.gov.uk](mailto:vicky.buckley@walsall.gov.uk)

# **DRAFT AUDIT COMMITTEE RESPONSE**

## **Appendix 1**

Mr Hassan Rohimun  
Executive Director  
Ernst & Young LLP  
No 1 Colmore Square  
Birmingham  
B4 6HQ

Dear Mr Hassan Rohimun,

### **Understanding how the Audit Committee gains assurance from management**

Thank you for your letter. The remit of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment; and to oversee the financial reporting.

I also refer you to the council's Constitution - Scheme of Delegation for non-executive functions that defines the remit of the Audit Committee together with the powers and functions delegated to it by the Council.

The Audit Committee, through its remit, has oversight of management processes and its work programme supports that remit. The work programme covers oversight, review and approval of:

- Risk management – review of strategic risks and the risk management strategy.
- Internal audit work plan and reporting on internal controls, including No and Limited Assurance reports and Internal Audit's annual report into the overall adequacies of the internal control environment. Internal Audit progress reports are also represented to each meeting of the Committee for their consideration.
- The annual Statement of Accounts (SoA), including consideration of and approval of the SoA and the Annual Governance Statement (AGS).
- Arrangements for the prevention and detection of Fraud and Anti-Corruption and RIPA activity.
- External Auditors work and reports such as the "To Those Charged with Governance" Report on the accounts and the Annual Audit and Inspection Letter.
- Receipt of updates and revisions as appropriate on delegations, finance rules, etc.

In relation to your specific questions:

- 1. How does the Audit Committee, as 'those charged with governance' at the Council, exercise oversight of management's processes in relation to:**
  - **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 Internal Audit plan includes coverage of high risk areas, including in relation to the potential for fraud. The Committee receives assurance from Internal Audit's annual review of core financial systems, which include the risk of fraud, coverage of internal controls; including approvals, segregation of duties, potential for override of controls, etc.

From these the Committee is able to assure itself that key financial, IT and internal control systems are in place and working effectively, and where there are identified control weaknesses, actions are in place to address these. These are routinely followed up and reported back to the Committee as appropriate.

Key procedures are reviewed and kept up to date, and when new systems or policy changes occur, (for example the annual review of treasury management (TM) policy statements and practices) these are reported to and approved by the TM Panel and Audit Committee. Training / briefings are provided on updates.

The Committee also gains assurance from External Audit through the findings of the annual audit of the statement of accounts each year, and the ISO260 report. The CFO and the Chief Executive are also required to provide assurance in the form of the Annual Letter of Representation on matters relating to the financial statements.

Training is provided in key areas of the Statement and changes in accounting policies and their implications on the statements are reported and approved annually by the Committee. The review of the statement of accounts focuses on the suitability of accounting policies and treatments, changes in policy, major areas of judgement such as provisions, and any significant adjustments. Once this has been covered and assurance received, the accounts are approved.

Review of arrangements for counter-fraud and corruption are undertaken, the last being done in April 2017 and reported to Audit Committee in April 2017. Rollout of fraud awareness updates and training is planned for the current year.

Training is provided on key policies and procedures including the Code of Conduct, internal controls, risk, etc and the importance of appropriate segregation of duties being maintained. Training materials are also available via the E-Learning Portal.

- **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, accounts balances, or disclosure for which a risk of fraud is likely to exist.**

The Committee has oversight of Internal Audit's work plan, which covers the main areas of internal control risk. The council's specific fraud risks have been identified in a fraud risk register which maps key fraud risks to internal audit coverage. A further review of the register is planned for 2018.

Internal Audit present frequent reports on their work activity including where suspected fraud has taken place and has been investigated. Members have the opportunity to scrutinise the activity noted within the summary reports. Where significant matters, including fraud, are identified by Internal Audit, these are brought to the attention of the Audit Committee as soon as possible to give assurance that appropriate remedial action has been or is being undertaken. There is also a standing agenda item at each meeting to

provide an opportunity for more regular updates, and therefore increased oversight by the Committee, including on fraud activity.

Internal Audit reports regularly on its audit work, including reporting on audits where No or Limited Assurance audit opinions have been received. Audit Committee does call in officers to explain the reasons for the control weaknesses and the action being taken to address these; and routinely calls in Executive Directors and their accountable managers, if on follow up of a no or limited assurance opinion audit, limited or no progress has been made in addressing control weaknesses identified. This happened during 2017/18.

'Notification of any issues of importance for consideration at a future meeting' is also a standard item on the agenda of each meeting of the Committee which gives a vehicle by which members can be informed of any significant breaches of internal control. Significant breaches of control are reported to the Committee and follow up reports made as appropriate.

There is a robust counter fraud and anti-corruption policy in place and this was updated in 2017. A counter fraud update was received by the Committee on 4 April 2017, and the Committee received and endorsed a refreshed counter fraud policy and anti money laundering policy.

Where fraud or corruption is reported, there are robust mechanisms in place to address these.

The Audit Committee also has a role in influencing and approving, but not directing the internal audit plan, to accommodate areas it feels it needs assurance on.

- **Communicating to employees its views on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Council's code of conduct)?**

Audit Committee has oversight of the Code of Governance and received an update on the Code during its 2017/18 work programme (25<sup>th</sup> September 2017). The Annual Governance Statement (AGS) sets out the Governance framework within the Authority and Audit Committee are responsible for considering and receiving assurance on the findings from the annual review of the effectiveness of the Governance framework. It does this by reviewing the AGS, and seeking assurance on specific matters arising, and ensuring follow up of any key findings. It is also aware of Codes of Conduct, which are reviewed by other Regulatory Committees within the Council.

- **Encouraging employees to report their concerns about fraud**

Audit Committee has oversight of the Code of Governance and approved the latest version. The Committee also receives and endorses updates to counter fraud policies as detailed above. Counter fraud policies and the whistle blowing policy provide clear guidance on reporting arrangements for suspected or actual fraud. The revised policies have been communicated to staff and Internal Audit are currently planning a fraud awareness raising programme during 2018/19.

As stated above, Internal Audit also presents summaries to the Committee on any allegations of fraud and action taken.

- **Communicating to you the processes for identifying and responding to fraud or error?**

Counter fraud policies and updates are received by the Committee. These include the process for identifying and reporting suspected or actual fraud. Updates are provided to the Committee on counter fraud activity and this forms part of the Audit Committee annual work programme. The fraud risk register is further being reviewed and this informs the annual audit plan. In relation to error, Internal Audit planned work covers core financial systems and other key areas of risk in relation to internal control. Additionally, external audit report to Audit Committee via the ISO260 on any significant errors within the Statement of Accounts along with management's responses to address these.

## **2. How does the Audit Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control?**

Please refer to responses on the fraud questions above.

The Audit Committee regularly scrutinise strategic risks and call in risk owners as required for assurance purposes. The Committee has oversight of Internal Audit's work plan, which covers the main areas of internal control risk. There is a robust and recently updated counter fraud / anti corruption policy in place and resources to support this are included in the Committee's work programme. Where fraud or corruption is reported, there are robust mechanisms in place to address these. Internal Audit present regular summary reports on their work activity including where suspected fraud has taken place and has been investigated. Significant breaches of internal control are reported to Audit Committee. Follow up audits are done where there is a No or Limited assurance finding and these are reported to the Committee. The Committee calls in senior managers as appropriate to receive assurance that breaches or significant control weaknesses are being addressed.

## **3. Is the Audit Committee aware of any:**

- **Breaches of, or deficiencies in, internal control;**

Breaches or deficiencies in internal control are detailed in the summary reports to Audit Committee of planned and unplanned audit work. Committee members have the opportunity to ask questions on and receive reports in relation to the activity noted within the report. Officers are called in by the Committee to explain the reasons for the control weaknesses and the action being taken to address these. Any significant breaches are reported to the Committee and included in the Annual Governance Statement (AGS). The AGS in relation to 2017/18 will be considered by the Committee in June 2018 alongside the Internal Audit's Annual Opinion report. This includes an overall opinion on the internal control environment and forms part of the review of the effectiveness of the internal control framework which is considered annually by the Committee prior to approving the AGS.

External Audit is made aware of any significant breaches and has access to all Committee reports.

- **Actual, suspected or alleged frauds during 2017/18?**

Instances of actual, suspected or alleged fraud are detailed in the summary reports to Audit Committee of unplanned audit work. Such matters are shared by Internal Audit with

the external auditor as they arise. Committee members have the opportunity to ask questions on and receive reports in relation to the activity noted within the summary report.

External audit is aware of actual, suspected or alleged fraud in accordance with the counter-fraud and corruption policy and has access to all Committee reports.

No new fraud activity was reported during 2017/18. The Committee is aware of two areas of investigation during 2017/18. Action was taken to report areas of control weakness and disciplinary action was taken following one investigation.

**4. Is the Audit Committee aware of any organisational or management pressure to meet financial or operating targets?**

The Committee receives regular updates on the council's financial performance including financial health indicator performance. Members have an understanding of the service demands within Children's and Adult Social Care in particular and how these are being managed. The Executive Director for Adult Social Care was invited to Audit Committee during 2016/17 to discuss the internal controls that the Director had put in place to manage these demands.

The Committee is not aware of any undue pressure to meet targets.

**5. How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with?**

The Committee gains assurance through various mechanisms, as set out below, however the Committee cannot obtain full assurance, only reasonable assurance, which is gained through its knowledge of the organisation and the controls in place.

The various mechanisms are:

- That the council has robust contract and finance rules and a scheme of delegations in place which are updated on a regular basis. The Committee has oversight of changes to these and also receives reports detailing significant decisions made under officers delegated powers within the financial year, highlighting the key decisions taken within the five directorates and the officer who took the delegated decision.
- Through managements actions and Executive Director assurances.
- Through the work of the internal and external auditors, and the Chief Financial Officer, assessing and reporting on controls and any breaches.
- Through assurances provided by the CFO (Statement of accounts), Internal Audit (internal controls), the Chief Executive and Leader (AGS).
- All reports requiring decision making are required to have been consulted on with Finance and Legal Officers to ensure appropriate advice is given.
- The annual review of the effectiveness of the internal control framework.

**Are you aware of any instances of non-compliance during 2017/18?**

The Committee is not aware of any instances of non-compliance.

**6. Is the Audit Committee aware of any actual or potential litigation or claims that would affect the financial statements?**

None that are not already included within the Statement of Accounts.

**7. How does the Audit Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?**

Going concern is reviewed and reported to the Audit Committee within the Statement of Accounts. The Committee satisfies itself through the assurance gained from the CFO, the responsible officer within the council, for preparing the accounts and providing assurance on their accuracy. Additionally, from the Letter of Representation which is also signed by the Chief Executive, and through a thorough reading and understanding of the financial position of the council and the statement of accounts. Further assurance is provided via the annual external audit of the accounts.

I trust this response provides the information you require, however if you do require further information, please do not hesitate to contact me.

Yours sincerely

Mr Andy Green – Independent Chair

On behalf of the Audit Committee



# **Chief Finance Officer (CFO) Response on behalf of Management**

## **Appendix 2**

Mr Hassan Rohimun  
Executive Director  
Ernst & Young LLP  
No 1 Colmore Square  
Birmingham  
B4 6HQ

Dear Mr Hassan Rohimun

### **Understanding management processes and arrangements**

Thank you for your letter dated 22<sup>nd</sup> January 2018. Please find below the responses in relation to your questions:

- 1. What are the Management processes in relation to:**
  - a. 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)**

An assessment of the key risks to the financial statements is undertaken annually. This covers areas where there is a higher risk of misstatement or potential error and ensures that sufficient controls and checks are in place to mitigate the risk. The assessment includes the review of findings from external audits interim audit of the accounts and internal audits annual review of core financial systems, which includes the risk of fraud, coverage of internal controls including approvals, segregation of duties, potential for override of controls, etc. From these, management are able to gain some assurance that key financial, IT and internal control systems are in place and working effectively. Management also ensure that recommendations arising from audits are actioned promptly.

The nature of the assessment also includes a review and sign off by the CFO of accounting estimates, judgments and decisions, senior finance officer reviews of working papers of the financial statements, appropriate segregations of duties in respect of entries within the accounts, journal controls, and creditor/debtor balance reviews, ensuring that revenue is appropriately recognised in the accounts.

Key procedures are reviewed and kept up to date, and when new systems or policy changes occur (for example the annual review of treasury management (TM) policy statements and practices), training / briefings are provided.

Management processes include a review of results of the external auditors audit of the accounts each year and the ISA260 report to Audit Committee, and ensures follow up of key recommendations.

Recommendations from internal and external audit reports are actioned promptly and management review progress in implementation. The Head of Finance also ensures that any follow up actions from the previous year's audit of the accounts have been fully implemented to ensure reduced risk of misstatement.

The CFO and the Chief Executive are required to provide assurance in the form of the Annual Letter of Representation on matters relating to the financial statements, to which the Monitoring Officer (MO) contributes.

Review of arrangements for counter fraud and anti-corruption are undertaken regularly. The last review was undertaken in 2017 and reported to Audit Committee in April 2017, with revised Counter Fraud and Anti-Money Laundering Policies. Training is provided on key policies and procedures including the Code of Conduct, internal controls, risk, etc and appropriate segregation of duties is maintained.

Training is also provided in key areas of the Statements and changes in accounting policies and their implications on the statements. The review of the statement of accounts focuses on the suitability of accounting policies and treatments, changes in policy, major areas of judgement such as provisions, and any significant adjustments. Once this has been covered and assurance received, the accounts are approved.

Recommendations and actions from internal audit reports are followed up to ensure control weaknesses are mitigated. Follow ups are made on No or Limited Assurance audits to ensure action is being taken to improve internal controls and minimise the risk of fraud or error. Progress is reported to Audit Committee.

- **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, accounts balances, or disclosure for which a risk of fraud is likely to exist**

The council's processes are detailed in the counter fraud policy, containing the fraud and corruption response plan, which was comprehensively updated in 2017. Fraud reporting responsibilities are also detailed in the confidential reporting policy (Whistle Blowing), which is supplemented by an on-line notification tool.

A counter fraud review was undertaken and reported to Audit Committee in April 2017, and the Committee received and endorsed a refreshed counter fraud policy and anti money laundering policy. Where fraud or corruption is reported, there are robust mechanisms in place to address these.

The council has counter fraud resources within internal audit and the benefits service and makes use of NFI. The council also has access to specialist counter fraud knowledge and resource through Mazars specialist fraud team.

The Internal Audit plan covers the main areas of internal control risk. The council's specific fraud risks have been identified in a fraud risk register, which maps key fraud risks to internal audit coverage. Core financial systems are audited each year, each audit testing and reviewing specific areas of internal control and fraud risks, including the testing and appropriateness of controls such as segregation of duties, etc. Any weaknesses are reported and are required to be dealt with promptly.

Internal Audit reports regularly on its audit work, including reporting on audits where No or Limited Assurance audit opinions have been received.

Internal Audit produce reports on their work activity including where suspected fraud has taken place and has been investigated. Members have the opportunity to scrutinise the activity noted within the summary reports. Where significant matters, including fraud, are identified by Internal Audit, these are brought to the attention of the Audit Committee as soon as possible to give assurance that appropriate remedial action has or is being undertaken.

Cases of suspected fraud are investigated thoroughly and actions reported to the CFO and to the Audit Committee. Internal Audit ensure that the CFO is advised of all matters in relation to fraud and that appropriate investigations are put in place. Internal Audit liaises with senior officers in the responsible areas to assess the risks and agree any further actions required to mitigate risks.

Alleged, suspected or actual fraud, where identified, have been reported to Audit Committee and made available to External Audit.

- **Communicating to employees its views on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Council's code of conduct)?**

All employees are issued with an employee Code of Conduct on employment and, during induction, the importance of ethical behaviour is made clear. The Code was updated in June 2015. The Code is also referenced in other HR and counter fraud policies and is made available on the intranet. The Code of Governance also sets out responsibilities and expectations in relation to good business practice and ethical behaviour and this was updated and endorsed by Audit Committee on 25<sup>th</sup> September 2017.

- **Encouraging employees to report their concerns about fraud**

As stated, the latest counter fraud policy update was reported to Audit Committee in April 2017. Internal audit are planning a programme to raise employee awareness of counter fraud arrangements and reporting mechanisms in 2018. Counter fraud policies and the whistle blowing policy provide clear guidance on reporting arrangements for suspected or actual fraud. As stated above, internal audit reports to the Committee summarise allegations of fraud, and action taken. The council is clear that it has a zero tolerance approach to fraud corruption and communicates this to employees.

- **Communicating to the Audit Committee (and those charged with governance) the processes for identifying and responding to fraud or error?**

Audit Committee oversees the council's counter fraud arrangements. Counter fraud policies and updates are reported to and endorsed by the Committee. These include the process for identifying and reporting suspected or actual fraud. Updates are provided to the Committee on counter fraud activity and this forms part of the Audit Committee annual work programme. A counter fraud update was reported to Audit Committee in April 2017. In relation to error, internal audit planned work covers core financial systems and other key areas of risk in relation to internal control.

Audit Committee are advised that irregularities may be noted in a number of different ways; during regularity audit reviews; or be reported from a number of sources, including council managers, employees, occasionally via the confidential reporting policy (whistle blowing), and externally. Irrespective of how the allegations are reported, each will be subject to investigation. Some result in little investigatory time having to be spent, others can take longer. Relevant action, where found to be appropriate, will always be taken, i.e. disciplinary, court proceedings, police referral and recovery of losses.

**2. What are Management's views about whether there are areas within the organisation that are at risk of fraud?**

In any organisation the size and complexity of Walsall MBC, there is a risk of fraud and whilst this can be mitigated with an appropriate control framework and effective prevention and deterrence strategies, it cannot be fully eliminated. The council has a fraud risk register which is currently being reviewed. This maps fraud risks to the internal audit plan and areas of high risk are high priority for internal audit activity. These include core financial systems, housing benefit and council tax benefit (council tax reduction), payroll, procurement, schools and contracts.

The council has a comprehensive internal control framework, which includes both proactive and reactive counter fraud activity. The council has a clear policy on counter fraud and money laundering and counter fraud arrangements which are communicated to employees (and stakeholders where appropriate e.g. to contractors via contract documentation). All employees (and members) are made aware of the Code of Conduct.

Internal audit activity focuses on high risk areas in terms of audit planning.

There are sound procedures and process in place for employees or others to report suspected or actual fraud and these are always robustly investigated. The council also participates in NFI data matching.

**3. Does Management have knowledge of any actual or suspected or alleged instances of fraud or fraudulent financial reporting?**

No new fraud activity was reported during 2017/18. Management is aware of two areas of investigation during 2017/18. Action was taken to report areas of control weakness and disciplinary action was taken following one investigation.

As stated above, irregularities may be reported in a number of different ways, and Audit Committee and EY are advised of any suspected fraud activity and ensuring investigations as appropriate. Audit Committee are further advised of the conclusions of any investigation and ensuing actions.

**4. Where the answer to question 3 above is 'yes' what was Management's response to the situation identified?**

Action was taken to report areas of control weakness and follow up action will be taken as appropriate.

**5. Is Management satisfied that internal controls to prevent and detect fraud, including segregation of duties, exist and work effectively?**

Managers are charged with ensuring there are adequate internal controls in place within their services, which are proportionate to the risk of fraud. The organisation has comprehensive governance arrangements in place, including rules of procedure, finance and contract rules, a scheme of delegation which is regularly updated, an authorised signatory list and services are required to have in place appropriate segregation of duties which are in place and enforced. High risk areas in relation to fraud are tested via the internal audit plan. This includes a rolling 5 year schools audit plan.

Audit Committee receives regular updates on planned audit work undertaken. Any audit reports which receive a No or Limited assurance opinion are directly reported to Audit Committee. These audits are subject to early follow up. If at the follow up audit, agreed high priority findings have not been addressed and the assurance opinion remains limited or below, then this is reported to the Audit Committee where accountable managers and their Executive / Assistant Director may be required to attend to give necessary assurances that appropriate corrective action is being taken.

Audit Committee also receive progress reports on unplanned activity undertaken by the Internal Audit service. The Committee may require, and indeed it does require, accountable managers and their Executive / Assistant Director to attend to give necessary assurances that appropriate corrective action is being taken on control issues identified. Internal Audit reports on significant areas of fraud or irregularity are shared with the Council's External Auditor.

The adequacy of controls is reported annually via Internal Audit's Annual Opinion Report on the adequacy of the internal control environment. The report in relation to 2017/18 will be presented to Audit Committee on 18<sup>th</sup> June 2018.

In relation to 2016/17, the following overall opinion was provided: "On the basis of our audit work, we consider that the Council's governance, risk management and internal control arrangements are generally adequate and effective. Certain weaknesses and exceptions were highlighted by our audit work, nine of which were fundamental in nature. These matters have been discussed with management, to whom we have made a number of recommendations. All of these have been, or are in the process of being addressed."

The Annual Effectiveness Review of the System of Internal Control and the Annual Governance Statement 2017/18 to be presented to Audit Committee on 18<sup>th</sup> June 2018 will also report formally on the findings and recommendations of the review of the effectiveness of the council's system of internal control.

In any organisation the size and complexity of Walsall MBC, there is a risk of fraud and whilst this can be mitigated with an appropriate control framework and effective prevention and deterrence strategies, it cannot be fully eliminated.

## **6. Are there any deficiencies in internal control?**

Deficiencies in internal control are reported in audit reports and followed up as appropriate, specifically for reports with a No or Limited assurance (see above). Additionally, the Head of Finance follows up all audit reports in respect of core financial systems to ensure high priority actions are being implemented. Audit reports are shared with external audit, along with summaries in respect of unplanned/irregularity activity and any resulting action. Priority 1 (fundamental) deficiencies are identified in response to question 5 and plans are

in place to address these. All will be followed up promptly to ensure they have been corrected.

**7. Are you aware of any instances where controls have been overridden?**

Management are not aware of any instances of controls being overridden.

**8. Is there any organisational or management pressure to meet financial or operating targets?**

Walsall MBC, as any Authority, is under financial pressure from reduced government funding and increases in demand and cost pressures, particularly within Adult Social Care and Children's Services. Managers are expected to deliver services within the approved budget wherever reasonably possible. It is recognised that changes in demand, legislation, etc. may occur once a budget has been set. The council undertakes a comprehensive risk assessment of the budget and has appropriate processes in place to manage these, including an appropriate level of general reserves and contingencies being in place to manage these scenarios. The council has a sound track record in managing areas of pressure, and appropriate financial mechanisms to manage these.

Financial reporting processes are set out in the budget management and control manual, vital skills training for non-financial managers, and are supported by specific procedures and accounting policies.

Accounting arrangements are undertaken in accordance with all relevant Codes of Practice. Comprehensive final accounts guidelines and outturn proformas, along with risk assessments of the financial outturn, senior officer review of reports and the accounts, officer review of provisions, reserves, carry forwards, accruals and liabilities, ensure override of controls or inappropriate influence is minimised. Analytical review of the income and expenditure account and balance sheet adds to this. Major variances between years and in years are reviewed for accuracy.

The Accounts are independently audited.

Management are not aware of any undue pressure to meet operating or financial targets, and none of the council's consultative vehicles have indicated that this is a problem area.

**9. Are there any particular areas of the accounts that are more susceptible to false entries or omission or other forms of manipulation? Are management aware of any such manipulation having occurred?**

The CFO undertakes an assessment of the accounts at least annually and any changes arising from regulations, which could impact. This assessment covers areas of the accounts where entries, omissions or other form of manipulation could take place, including;

- a review of accounting estimates, judgments and decisions used in producing the accounts,
- senior finance officer reviews of working papers of the financial statements to identify errors or omissions,
- review of capitalised expenditure

- ensuring appropriate segregations of duties are in place in respect of entries within the accounts and journal controls, creditor/debtor balance reviews and ensuring that revenue is appropriately recognised in the accounts.

These mitigate any risk of false entries or omission. Management are not aware of any such manipulation having occurred.

#### **10. How does Management gain assurance that all relevant laws and regulations have been complied with?**

The council has a corporate governance framework in place against which elected members and officers are held to account to act in accordance with the law and regulations. The council has appointed a monitoring officer (MO) to ensure that the council acts lawfully and provides the MO with sufficient resources to enable him to carry out his role. In addition, the council has an Internal Audit section to test and report on compliance and performance against the governance framework. The council has an Audit Committee and Standards Committee to oversee issues of governance.

Management gains assurance through various mechanisms, as set out below, however management cannot obtain full assurance, only reasonable assurance, which is gained through its knowledge of the organisation and the controls in place.

The various mechanisms are:

- That the council has robust contract and finance rules and a scheme of delegations in place, which are updated on a regular basis. Audit Committee has oversight of changes to these and also receives reports detailing decisions made under officers delegated powers within the financial year.
- The Chief Executive and other corporate officers set out clear expectations in respect of behaviours and conduct in respect of adherence to statutory and council rules, regulations and procedures, supported by a suite of procedures, guidance manuals and procedures advising how to comply and who can provide support and advice in these matters.
- Through Executive Director, Assistant Director and Head of Service assurances as part of the final accounts process.
- Through the work of the Internal and External Auditors, and the Chief Finance Officer, assessing and reporting on controls and any breaches.
- Through the actions of professional officers across the council complying with the corporate governance framework
- Through committee reporting processes where reports requiring decision-making are required to have been consulted on with Finance and Legal Officers to ensure appropriate advice is given.
- Through the committee reporting process, which provides for legal comment on all reports where the council is exercising functions.
- Through provision of a range of intelligence and updates on legislative changes and their implications including through external means, such as LGA, LGIU, Sigoma, professional bodies, and internal means such as policy briefings.

Please also refer to the Monitoring Officer response to this question.

#### **Have there been any instances of non-compliance during 2017/18?**

Management is not aware of instances of non-compliance.

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

None that will not already be included within the accounts, which are currently being finalised and will be reported to the Audit Committee in July after external audit of the accounts. External Audit have been advised of all actual or potential limitation or claims as they have arisen or become known.

**12. How does Management satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?**

The CFO carries out a 'going concern' assessment. This includes an assessment of net worth, assets and liabilities, regular reporting of cash flow projections, use of ratio analysis and the wider balance sheet position.

The council has agreed and reports monthly on a set of financial health indicators, which forms part of this assessment along with reporting on other key indicators such as Prudential Code indicators, revenue and capital outturn forecasts, the position on general and earmarked reserves, and a constant review and update of the council's medium term financial outlook, alongside future funding, income and cost predictions and forecasts. The assessment does not focus on just the current years but into the foreseeable future. The MTFO is constantly updated to reflect future changes and fluctuation, specifically in terms of funding and income streams, and significant cost pressures such as pension, pay etc.

Additionally, assurance is obtained from the Letter of Representation, which is signed off by the Chief Executive and approved by Audit Committee, and through a thorough understanding of the financial position of the council and the statement of accounts.

Going concern is reviewed and reported to the Audit Committee within the statement of accounts. The council's balance sheet shows a negative balance. This is largely due to the net pension liability, however this liability is to be paid over many years and would not be due for payment immediately as the balance sheet suggests. In addition, it is planned for the pension liability to decrease and achieve a breakeven position in 22 years, and contribution rates have been set for the next year on this premise. Taking these into account, the underlying balance sheet is sound.

The CFO is satisfied that it is appropriate to adopt the going concern basis for the foreseeable future.

Yours sincerely

James T. Walsh – Chief Finance Officer (On behalf of Management)



# Monitoring Officer Response

## Appendix 3

Mr Hassan Rohimun  
Executive Director  
Ernst & Young LLP  
No 1 Colmore Square  
Birmingham  
B4 6HQ

Dear Mr Hassan Rohimun,

I write as follows in response to your letter of the 22nd January 2018. In addition to the questions raised I have covered the Elected Member code of conduct because as a political organisation elected members have a key role in governance and probity.

**1. How do you, as Monitoring Officer, gain assurance that all relevant laws and regulations have been complied with?**

The council has a corporate governance framework in place against which elected members and officers are held to account to act in accordance with the law and regulations. The council has a designated monitoring officer (MO) to ensure that the council acts lawfully, and by law has to provide the MO with sufficient resources to enable him to carry out his role. In addition the council has an Internal Audit section to test and report on compliance and performance against the governance framework. The Council has an Audit Committee and Standards Committee to oversee issues of governance.

To assist the MO in his function the council has a fully staffed internal legal services department that is responsible for ensuring that the council acts lawfully. Where there is a deficiency in capacity or expertise to deal with legal matters the council is a member of EM Lawshare which is an EU compliant procured external provider of Legal Services that the Monitoring Officer or other legal officers can call upon to assist with matters. These officers report through a line management structure to the Head of Legal and Democratic Services (and designated Monitoring Officer). A standing item on the monthly management team agenda is entitled "Issues for the Monitoring Officer". This allows management team members across Legal and Democratic Services to raise any issues of governance, and actual or potential unlawfulness.

The Monitoring Officer attends Chief Officers Management Team on a weekly basis which allows him to provide legal and governance advice on strategic issues under consideration by the council.

There are arrangements in place for legal screening of all decisions coming before the Council, Executive or Committees of the same for a decision, which is incorporated in the report writing protocol. Lawyers attend all decision-making meetings to advise on the law and procedure. The Democratic Services function also reports to the Head of Legal Services, and the Head of Democratic Services is part of the Legal Services management team which provides additional scrutiny and certainty around the council's application of law and regulation, policy and procedure.

The Council legal department subscribes to Lexis Nexis an online supplier of legal intelligence which includes access to the Lexis law library and Lexis PSL. Lexis Nexis also provide regular updates in relation to proposed and actual changes in legislation. All fee earners in the legal service have online access to this service. In addition the Council subscribes relevance legal periodicals which also ensure that the Council is aware of all relevant laws and regulations that affect its operations.

The Monitoring Officer meets with other Monitoring Officer's on a quarterly basis across the Black Country to review various aspects of governance that impact upon local government, including the application of legislation. Local Authorities have worked together collaboratively to implement changes in legislation such as changes to the Elected Member, Standards Regime under the Localism Act 2011. There is also a peer-review and shared learning in respect of how each authority is implementing various pieces of legislation.

Decision-making across the Council is open and transparent as required under the Access to Information Procedure Rules, and subsequent legislation. All decisions and reports of committees of the Council are publicly available on the Council's website under the Committee Management Information System (CMIS), as is the council's constitution. The council's constitution contains all the relevant rules, regulations, and protocols that govern the operation and lawfulness of decision-making. This openness and transparency provides assurance that any decision or action taken by the Council can be subject to challenge. The council's constitution also contains the Code of the Conduct for Elected Members and employees.

The Monitoring of Officer protocol is contained at Part 12 which sets out working arrangements between the Monitoring Officer, the Council and its Officers and Members in relation to providing assurance that all relevant laws and regulations have been complied with.

The Monitoring Officer now has formalised regular statutory officer meetings with the Chief Executive and the Chief Finance Officer where any governance issues can be raised and discussed.

In addition the MO, officers from Democratic Services, and HRD play a key role in delivering training in relation to various aspects of governance as part of the organisational development programme to both officers and elected members. The training offering for elected members is being reviewed and refreshed this coming year to ensure that all elected members are updated in law and governance of the council as required to enable them to function properly in their role.

**2. How, as Monitoring Officer, do you exercise oversight over those charged with governance and Management and their arrangements in relation to:**

**a. assessing and responding to either changes in the legal framework were identified or potential breaches of relevance legal provisions.**

As above the council has a fully staffed internal legal services department that is responsible for ensuring that the council acts lawfully. Where there is a deficiency in capacity or expertise to deal with legal matters the council is a member of EM Lawshare which is an EU compliant procured external provider of Legal Services that the Monitoring Officer or other legal officers can call upon to assist with matters. These officers report

through a line management structure to the Head of Legal and Democratic Services. A standing item on the monthly management team agenda is entitled "Issues for the Monitoring Officer". This allows management team members across Legal and Democratic Services to raise any issues of governance, and actual or potential unlawfulness. This is a complex and vast undertaking as the DCLG identified council as having 1294 statutory duties as of March 2011 ([https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/7541/1934356.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/7541/1934356.pdf))

The Monitoring Officer attends Chief Officers Management Team on a weekly basis which allows him to comment on strategic issues under consideration by the council, including policy and procedure, in respect of governance and legal matters.

There are arrangements in place for legal screening of all decisions coming before the Council, Executive or Committees of the same for a decision, which is incorporated in the report writing protocol. Lawyers attend all decision-making meetings to advise on the law and procedure. The Democratic Services function also reports to the Head of Legal Services, and the Head of Democratic Services is part of the Legal Services management team which provides additional scrutiny and certainty around the council's application of law and regulation, policy and procedure. These actions flow through all of the questions posed by this letter.

The MO carries out an annual review of the council's constitution in conjunction with the Directorate Management Teams. This addresses changes in legislation throughout the year and this is reported to the Audit Committee before being submitted to Annual council for approval on the 21<sup>st</sup> May 2018.

The Monitoring Officer has unrestricted access to the Chief Executive and Chief Finance Officer to deal with any issues that may arise in relation to changes in legal provisions, or actual or potential breaches in law.

- b. ensuring that joint working arrangements and other such similar arrangements operate in a manner consistent with the entity as a single body in respect of law and regulation and do not pose a risk, either operational, reputational or financial;**

The legal department advises on joint working arrangements as and when instructed which ensures that such arrangements do not pose a risk, operationally, reputationally, or financially. There are provisions within the council's constitution under Part 4.7 of the financial rules that ensure that uniform standards are employed to joint working arrangements. These are set out from 9. External arrangements onwards. In addition the council's code of conduct for employees still applies where the employee is working as part of a partnership arrangement where the council remains the employer. If councillors are appointed by the council to represent it as part of a joint working arrangement the elected member code of conduct applies to their behaviour.

- c. 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);**

This is not a function of the role of the Monitoring Officer and is covered in other responses to Ernst and Young submitted by Walsall MBC.

**d. identifying and responding to risks of fraud in the organisation, including any specific risks of fraud which have been identified or that have been brought to either those charged with governance's or Management's attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;**

The council's processes are detailed in the Counter fraud policy, containing the fraud and corruption response plan. Fraud reporting responsibilities are also detailed in the confidential reporting policy (Whistle Blowing), which is supplemented by an on-line notification tool. A counter fraud review was undertaken and reported to Audit Committee on 24 April 2017, and the Committee received and endorsed a refreshed counter fraud policy and anti money laundering policy. Where fraud or corruption is reported, there are robust mechanisms in place to address these.

The council has counter fraud resources within audit and the benefits service and makes use of NFI.

The Internal Audit plan covers the main areas of internal control risk and this informs the Internal Audit Annual plan. Core financial systems are audited each year, each audit resting and reviewing specific areas of internal control and fraud risks, including the testing and appropriateness of controls such as segregation of duties, etc. Any weaknesses are reported and required to be dealt with promptly.

Internal Audit produce reports on their work activity including where suspected fraud has taken place and has been investigated. Members have the opportunity to scrutinise the activity noted within the summary reports. Where significant matters, including fraud, are identified by Internal Audit, these are brought to the attention of the Audit Committee as soon as possible to give assurance that appropriate remedial action has or is being undertaken.

Internal Audit reports regularly on its audit work, including reporting on audits where No or Limited Assurance audit opinions have been received.

Cases of suspected fraud are investigated thoroughly and actions reported to the CFO and to the Audit Committee. The Head of Internal Audit ensures the CFO is advised of all matters in relation to fraud and that appropriate investigations are put in place. The Head of Internal Audit liaises with senior officers in the responsible areas to assess the risks and agree any further actions required to mitigate risks.

**e. identifying and responding to potential or actual unlawful acts which have been identified or that have been brought to either those charged with governance's or Management's attention;**

The MO has the personal responsibility under the Local Government and Housing Act 1989 for identifying and responding to potential or actual unlawful acts. These may come to the MO's attention through the corporate complaints process internally, or through the office of the Local Government Ombudsman, legal challenge through the court, or self reporting by evaluating actions taken against corporate governance. If the council has acted unlawfully this has to be reported to either full council or cabinet by the Monitoring Officer in accordance with statutory requirement under the LGHA 1989. This requires the Council or Executive to respond to the Monitoring Officer to explain how unlawfulness has

been or is being rectified. There have been no major or potential unlawful acts that have been brought to the attention of the MO in the previous 12 months that would affect the integrity of the organisation.

**f. communicating to employees their views on business practice and ethical behaviour (for example by updating, communicating and monitoring against the organisation's code of conduct);**

All employees are issued with an employee Code of Conduct on commencing their employment and, during induction, the importance of ethical behaviour is made clear. The Code was last updated in June 2015. The Code is also referenced in other HR and counter fraud policies and is made available on the intranet. The Code of Governance, which was updated and endorsed by Audit Committee on 25<sup>th</sup> September 2017, also sets out responsibilities and expectations in relation to good business practice and ethical behaviour.

In addition the Council has a corporate induction programme which is delivered via e-Learning and classroom based modules. Information on the programme can be found on HR's intranet pages for learning and development. A manager will need to discuss and agree with a new employee which modules they need to complete to assist in them in fulfilling their role in accordance with the standards of governance adopted by the council.

This will depend on their previous experience and job role. Some modules are mandatory for all new starters. Once agreed, the modules would be included in the workplace induction programme and will be monitored through the employee performance appraisal system adopted by the council.

All new staff invited to attend a Welcome to Walsall session. The sessions are held monthly and last for three hours. Attendance is not compulsory but new employees are encouraged to attend. The session includes: an opportunity to meet the Chief Executive, an overview of the Council, information on SARC, the corporate induction programme, an introduction to e-Learning and 'Inside Walsall' and information on what staff should expect from their manager in respect of workplace induction. This will enable them to understand of HR procedures; the code of conduct; use of the intranet and an explanation of the IT policy.

There are a number and variety of communication channels for employees such as Team Spirit; all Staff Weekly Bulletin; Chief Executive's Core Brief; home page of the intranet and directorate/service specific methods of communication, by which such information is distributed.

As a political organisation it is also a requirement under s27 Localism Act 2011 that the council promotes and maintains high ethical standards of conduct for elected members. As a consequence the council has adopted a Code of Conduct for Elected Members which is contained within the council's constitution. The code and arrangements for dealing with complaints is set out on the internet and council's intranet. Elected Members undergo an induction after accepting the office of councillor. They receive ongoing training annually both compulsorily and voluntary on key aspects of the code. They are required to attend compulsory training on planning and employment law prior to sitting on relevant committees. There is also an Officer/Member protocol that regulates and advises on appropriate relationships between officers and elected members which is contained in the procedures in the council's constitution. This is at Part 5.3 of the Constitution. The training

offering for elected members has been refreshed in the past 12 months in consultation with elected members.

**g. encouraging employees to report their concerns about fraud or potential illegal acts;**

Counter fraud policies and the whistle blowing policy provide clear guidance on reporting arrangements for suspected or actual fraud. As stated above, internal audit reports to the Committee summarise allegations of fraud, and action taken. The council is clear that it has a zero tolerance approach to fraud corruption and communicates this to employees.

The Council also has a confidential reporting “whistle-blowing” policy which plays a key part in maintaining the highest standards of openness, honesty and accountability by requiring everyone to report appropriate concerns. This policy is reviewed as and when appropriate and is available on the intranet.

**h. communicating the processes for identifying and responding to fraud or error; and**

See the response to f above, and the response given by the CFO, and the role of internal audit and audit committee.

**i. compliance with internal control arrangements and due process?**

See the response to f above, and the response given by the CFO, and the role of internal audit and audit committee.

**3. Are you aware of any:**

**a. breaches of, or deficiencies in, internal control in respect of fraud or compliance with relevant legal provisions that could have a significant effect on the entity or a material impact on the financial statements;**

No.

**b. actual, suspected or alleged frauds or breaches of legislative requirements during 2017/18;**

No.

**c. excessive or undue pressure to meet financial or operating targets that may unduly influence the actions of either those charged with governance or Management;**

Walsall MBC, as any Authority, is under financial pressure from reduced government funding and increases in demand and cost pressures, particularly within Adult Social Care and Children’s Services. Managers are expected to deliver to agreed service targets and delivery requirements within the approved budget wherever reasonably possible. It is recognised that changes in demand, legislation, etc may occur once a budget has been set.

The council undertakes a comprehensive risk assessment of the budget and has appropriate processes in place to manage these – including an appropriate level of general

reserves and contingencies in place to manage these scenarios. This includes complying with its statutory duty under s147 of the Equalities Act 2010 in completing Equality Impact Assessments where it is proposed to reduce budgets.

Management are not aware of any undue pressure to meet operating or financial targets. Financial reporting processes are set out in the budget management and control manual, vital skills training for non-financial managers, and are supported by specific procedures and accounting policies.

Accounting arrangements are undertaken in accordance with all relevant Codes of Practice. Comprehensive final accounts guidelines and outturn proformas, along with risk assessments of the financial outturn, senior officer review of reports and the accounts, officer review of provisions, reserves, carry forwards, accruals and liabilities, ensure override of controls or inappropriate influence is minimised.

Analytical review of the income and expenditure account and balance sheet adds to this. Major variances between years and in years are reviewed for accuracy.

The Accounts are independently audited.

**d. actual or potential litigation or claims that would have a significant effect on the entity or a material impact on the financial statements;**

None that will not already be included within the accounts, which are currently being finalised and will be reported to the Audit Committee in July following external audit of the accounts. External audit have been advised of all actual or potential limitation or claims are they have arisen or become known.

**e. circumstances that would call into question the preparation of the financial statements on a going concern basis?**

The CFO carries out a 'going concern' assessment. This includes an assessment of net worth, assets and liabilities, use of ratio analysis and the wider balance sheet position. The council has agreed and reports monthly on a set of financial health indicators, which forms part of this assessment along with reporting on other key indicators such as Prudential Code indicators, revenue and capital outturn forecasts, the position on general and earmarked reserves, and a constant review and update of the council's medium term financial outlook, alongside future funding, income and cost predictions and forecasts. The assessment does not focus on just the current years but into the foreseeable future. The MTFO is constantly updated to reflect future changes and fluctuation, specifically in terms of funding and income streams, and significant cost pressures such as pension, pay etc. Additionally, assurance is obtained from the Letter of Representation which is signed off by the Chief Executive and approved by Audit Committee, and through a thorough understanding of the financial position of the council and the statement of accounts.

Going concern is reviewed and reported to the Audit Committee within the statement of accounts.

I trust that this response provide the information you require, however if you do require any further information please not hesitate to contact me.

Yours sincerely

Tony Cox  
Head of Legal and Democratic Services



# Internal Audit Response

## Appendix 4

### **1. Do you have knowledge of any actual, suspected or alleged fraud affecting the Council?**

We have not identified any specific areas of fraud as a result of our internal audit work.

### **2. What are your views about the risks of fraud at the Council?**

Ongoing budget savings at the Council can have an impact on the internal control environment where staff members leave and are not replaced, leading to controls no longer being operational. In addition, those members of staff who remain may have seen their workload increase and may feel more inclined to defraud the Authority as a result of not feeling valued. The current economic climate exacerbates these risks; however, we have not seen any evidence of these risks materialising to date.

### **3. Are there any areas within the Council that are at greater risk of fraud?**

We believe that the traditional areas where fraud is most prevalent will remain functions performed at outlying sites, including schools, but with the risk increased as a result of the potential for the internal control environment to be weakened as a result of the issues identified in question 2. The key financial systems and procurement processes are therefore most at risk as they offer the potential for the highest gain and therefore it is essential that the scheme of delegation/authorised signatory list remains up to date and appropriate segregation of duties are enforced.

### **4. What procedures, if any, are performed by internal auditors to detect fraud?**

Our internal audit work reviews the operation of controls designed to detect and prevent fraud. However, it is not the role of internal audit to detect fraud since our role is more about prevention and the enabling of management to detect fraud through the use of an effective internal control system. That said, it is possible that fraud will be detected as a result of our internal audit work at which point we would liaise with senior management to take the matter forward.

### **5. Are you satisfied with management's responses to any findings resulting from those procedures?**

In terms of management responses to our individual audit reports, we are satisfied with the responses received to date and we believe that we have formed a positive relationship with management at the Council. We have also been present at Audit Committee meetings where the work of internal audit is reported and scrutinised by the members of the Committee. Management appear to take the issue of fraud seriously.