

Draft Audit Committee Response

Appendix 3

Mr Hassan Rohimun
Executive Director
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Dear Mr Hassan Rohimun

Walsall MBC Financial Statements for the year end 31 March 2016: 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.

For assistance, I have also attached an extract from 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 is intended to support 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 the Head of Internal Audit's annual report into the overall adequacies of the internal control environment. Six monthly Internal Audit reports are also represented to 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 ISO260 "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 Walsall Metropolitan Borough 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).**

In relation to the financial statements, Audit Committee seeks assurance from the Chief Finance Officer (CFO) that the accounts are not materially misstated. The Internal Audit plan is mapped against the Fraud Register to ensure high risk areas are appropriately covered within the plan. The Committee receives assurance from Internal Audit’s annual review of key 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.

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.

Additionally, the Committee gains assurance from external audit through the findings of the interim audit (no areas of concern were reported to the Committee in respect of the 2015/16 interim audit), 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 anti-corruption are undertaken, the last being done in 2015. 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 is maintained.

- **Identifying and responding to risks of fraud in the Authority, 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 by Internal Audit in a Fraud Risk Register which maps key fraud risks to internal audit coverage.

Internal Audit present 6 monthly summary 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. For the 2016/17 work plan, Audit Committee have requested a standing agenda item at each meeting on fraud activity to provide an opportunity for more regular updates, and therefore increased oversight by the Committee.

Internal Audit reports regularly on its audit work, including reporting on audits where No or Unlimited 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.

'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 is included on the work programme. A counter fraud update was received by the Committee on 1 September 2015, and the Committee received and endorsed a refreshed counter fraud policy and anti money laundering policy and received the Protecting the English Public Purse (PEPP) 2015 report. 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 Authority's code of conduct)?**

Audit Committee has oversight of the Code of Governance and approved the latest version. It is due to receive an update on the Code in its 2016/2017 work plan. The Annual Governance Statement (AGS) sets out the Governance framework within the Authority and the 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. The latest policy update was received on 1 September 2015 and included a planned training module for all employees to raise awareness of counter fraud arrangements and reporting mechanisms. Counter fraud policies and the whistle blowing policy provide clear guidance on reporting arrangements for suspected or actual fraud. As stated above, Internal Audit summaries to the Committee report on 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 anti fraud activity and this forms part of the Audit Committee annual work plan. The fraud risk register was updated in August 2015 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.

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 also refer to second bullet point under question 1 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 counter fraud / anti corruption policy in place and resources to support this are included on the work programme. Where fraud or corruption is reported, there are robust mechanisms in place to address these. Internal Audit present 6 monthly 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 6 monthly 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 2015/16 will be considered by the Committee in June 2016 alongside the Head of 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.

Audit Committee is aware specifically of breaches and deficiencies in internal control within Money, Home, Job, in relation to Supported Housing – Exempt Accommodation. The Internal Audit report contains agreed actions to improve these and follow up reports on progress will be presented to Audit Committee during 2016/17.

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

- **Actual, suspected or alleged frauds during 2015/16?**

Yes. All instances of actual, suspected or alleged fraud are detailed in the 6 monthly 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 and has access to all Committee reports.

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

The Committee receives quarterly updates on financial performance including financial health indicator performance. Members have an understanding of the service demands within Childrens and Adult Social Care in particular and how these are being managed. 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? Are you aware of any instances of non-compliance during 2015/16?

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. 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), Head of Internal Audit (internal controls), the Chief Executive and Leader (AGS).
- That 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 2015/16?

As reported in the 2014/15 audit risk assessment there has been an instance of non-compliance in respect of Appointeeships in Adult Social Care. The impact was assessed and accounted for in the statement of accounts, with the value not being material. Further work has taken place during 2015/16 to put in place processes to prevent any further issues of non-compliance, with the outcome of this work expected to conclude in 2016/17.

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

None that will not already be 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 Fred Bell
Chairman

On behalf of the Audit Committee

Extract from the Constitution

Remit of the Audit Committee

To exercise the following powers and functions of the Council:

Governance, risk and control

- (1) To review the Council's corporate governance arrangements against a good governance framework and consider annual governance reports and assurances.
- (2) To review the annual governance statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- (3) To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- (4) To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
- (5) To monitor the effective development and operation of risk management in the Council.
- (6) To monitor progress in addressing risk related issues reported to the committee.
- (7) To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- (8) To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
- (9) To monitor the counter fraud strategy, actions and resources.

Internal Audit

- (10) To approve the internal audit charter.
- (11) To commission work from internal audit.
- (12) To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- (13) To prove significant interim changes to the risk-based internal audit planning resource requirements.

- (14) To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.
- (15) To consider reports from the Head of Internal Audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These include:
 - a. Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
 - b. Regular reports on the results of the Quality Assurance and Improvement Programme.
 - c. Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non conformance is significant enough that it must be included in the Annual Governance Statement.
- (16) To consider the Head of Internal Audit's annual report:
 - a. The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note on the results the Quality Assurance and Improvement Programme that supports the statement.
 - b. The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with a summary of the work supporting the opinion.
- (17) To consider summaries a specific internal audit reports as requested.
- (18) To receive reports outlining the action taken with the head of internal auditor has concluded that management has accepted the level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- (19) To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of the internal audit that takes place at least once every five years.
- (20) To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.
- (21) To support the development of effective communication with the Head of Internal Audit.

External audit

- (22) To consider the external auditors annual letter, relevant reports, and the report to those charged with governance.
- (23) To consider specific reports as agreed with the external auditor.

- (24) To comment on the scope and depth of external audit work to ensure it gives value for money.
- (25) To commission work from external audit.
- (26) To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies all relevant bodies.

Financial reporting

- (27) To review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether they ask concerns arising from financial statements from the audit that need to be brought to the attention of the Council.
- (28) To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

- (29) To report to those charged with governance of the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of the governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.
- (30) To report to full Council on a regular basis the committee's performance in relation to the terms of reference and effectiveness of the committee in meeting its purpose.