

Anne Ockleston
Audit Commission
Unit 5
Isis Business Centre
Horspath Road
Cowley
Oxford OX4 2RD

Councillor Mike Murray
Chairman of the Audit and Governance
Committee

michael.murray@whitehorsedc.gov.uk
Abbey House, Abbey Close
Abingdon OX14 3JE

4 July 2012

Dear Anne

Understanding how the A&G Committee gains assurance from management

Thank you for your letter dated 14 June 2011. In your letter, you have asked about how the body charged with governance, which in this council's case is the Audit and Governance Committee, ensures management controls are effective in combating the risk of fraud and error. As the Chairman of the committee, I have provided answers to your questions below.

1. How does the Audit and Governance Committee oversee management processes to identify and respond to the risk of fraud and the risk of breaches of internal control?

The committee has broad terms of reference and enjoys unfettered scope across all management processes and the whole internal control environment.

The principle mechanism for identifying financial risks (including fraud) and assessing the effectiveness of the internal controls is the internal audit function. The committee has championed Internal Audit and helped to raise its profile in the council. The committee takes a keen interest in the formulation of the internal audit annual plan as well as in the individual reports produced by Internal Audit.

For example, the committee welcomes the inclusion of a fraud-test based audit. This involves the deliberate creation by Internal Audit (sanctioned by the s.151 officer) of spurious transactions, specifically targeting the effectiveness of existing anti-fraud internal controls. The committee challenges management about any control failures, which expose the council to increased risk from fraud.

The auditors enjoy strong support from the committee, and the committee regularly delves into higher risk areas and rejected audit recommendations, usually adding weight to the audit opinion in order to ensure management improves the level of internal control to reduce the likelihood of fraud.

In addition to specific system-based audit reports, the committee annually receives a report from Internal Audit on the adequacy of the internal control environment, as well as the Annual Governance Statement and external audit reports. With each one the Committee usually upholds the auditor's findings and challenges management to explain its approach. The committee has been critical of managers (e.g. the weaknesses with closedown processes, poor reconciliations, brown bin arrears, etc) and has made sure that internal controls were strengthened to reduce the risk of fraud or error.

The council's induction programme makes new employees aware of the council's anti fraud and corruption and whistle blowing policies. Officers periodically remind councillors and officers of the existence of these policies.

2. How the committee oversees management processes for identifying and responding to the risk of fraud and possible breaches of internal control? Is it aware of any breaches of internal control during 2011/12?

The main type of fraud perpetrated against the council continues to be the over-claiming of housing and council tax benefit. The committee receives regular reports on housing benefits including the systems of internal control, effectiveness of anti-fraud measures and record of prosecutions. The committee takes a proactive approach and questions officers without waiting for reports. It has satisfied itself that the council has sought improvements in Capita's performance on processing benefit claims.

The few instances of theft/fraud which have been committed in recent years, (including three recent instances of cheque fraud in 2012/13), were low in value and fully investigated by Internal Audit, resulting in control improvements. No outstanding or unresolved fraud cases currently exist.

In terms of internal or management fraud perpetrated by officers or councillors against the council, I am not aware of any previous, current or suspected cases.

There is a distinct difference between fraud risk and breaches of internal control. Often a breach of internal control arises from an officer's ignorance of the correct procedure or expediency, prioritising speed over due process. Internal Audit has reported several breaches of internal control in various audit reviews during 2011/12, none of which was fraudulent or appeared to be attempted fraud.

The Council's Internal Audit function actively seeks instances of systemic risk (by its very nature deriving from breakdown of internal controls, which may or may not give risk to a potential exposure to fraud) in every audit exercise that it carries out, and reports to every committee any occurrence on a cumulative basis in a consistent manner. This provides the Committee, the Management Team and the Council as a whole comfort that control risks are being actively managed.

3. How does the committee gain assurance that all relevant laws and regulations have been complied with? Is it aware of any instances of non-compliance during 2011-12?

The Internal Audit team follows professional standards and codes of conduct issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA). These include standard audit objectives for all system-based audits, including 'the processes are meeting external codes of practice, professional regulations and compliance with the law'.

Internal Audit reports its findings against this objective which the committee considers. I am not aware of any instances of non-compliance during 2011/12.

4. Is the committee aware of any actual or potential litigation or claims that would affect the financial statements?

Each year the committee is given the opportunity to quiz and challenge the finance officers who compile the financial statements. One area we consider is 'contingent liabilities' as stated in the statements. We consider whether there are any other claims individual committee members are aware of as well as question the officers.

We are not aware of any potential litigations or claims other than those disclosed in the financial statements.

5. Has the committee carried out a preliminary assessment of the going concern assumption and if so has it identified any events which may cast significant doubt on the authority's ability to continue as a going concern?

The committee challenges the s.151 officer and his accountants robustly in asking for explanations of figures in the accounts and in justifying the underlying processes used to compile the accounts. This includes general enquiries about the accuracy of income and expenditure, assets and liabilities, reserves and balances – which enable us to form a general opinion as to the financial health of the organisation. Each year these general enquiries have been satisfactorily answered and we are sufficiently assured to believe the council and its component services continue to operate as a going concern. We are not aware of any events that would affect the going concern assumptions and have had no significant doubts about its going concern to date.

However, I would respectfully remind the external auditor that the committee members, trained as they are to fulfil their role, are laypeople and not professionally qualified accountants. Neither do we have access to the extensive information any one of us would require to form a more comprehensive view of going concern. Indeed, that is one of the assurances we expect to derive from your independent examination of the accounts.

I trust you find these high-level responses informative. If you require more detailed responses or clarification of any point, please do not hesitate to ask.

Yours sincerely

Councillor Mike Murray
Chairman of the Audit and Governance Committee