

## Oversight of Management Processes 2015/16 – Response to External Auditor

Question	Response
<p><b>What processes are in place to:</b></p>	
<ul style="list-style-type: none"> <li>• Undertake 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)?</li> </ul>	<ul style="list-style-type: none"> <li>• The effectiveness of controls and management of risks within key financial systems, such as general ledger, payroll, creditors and debtors, remains a core part of the Internal Audit Plan and are included in the plan annually. Based on the 2015/16 plan, key systems were allocated 2,070 productive hours which represents 24% of the planned hours for Gateshead’s Groups and Services. Audits completed in 2015/16: <ul style="list-style-type: none"> <li>○ Capital programme – Operating Well</li> <li>○ Business Rates and Council Tax – Satisfactory</li> <li>○ AGS Assurances – Operating Well</li> <li>○ Corporate Creditors – Significant Weakness (compliance with controls rather than lack of controls)</li>   <li>○ Treasury Management – Operating Well</li> <li>○ VAT Arrangements – Satisfactory</li> <li>○ Risk Management and Business Continuity – Satisfactory</li> <li>○ Housing Revenue Account – Operating Well</li> <li>○ Council Tax and Housing Benefit – Operating Well</li> </ul> </li> <li>• Managers Assurance Statements first line of defense</li> <li>• Revenue and Capital budget monitoring</li> <li>• Multiple review process within closedown timetable and year-end working papers</li> <li>• Analytical review process</li> </ul>

<ul style="list-style-type: none"> <li>• Identify and respond to the risk of fraud?</li> </ul>	<ul style="list-style-type: none"> <li>• Annual Audit Plan includes allocation for proactive fraud work and reactive investigations</li> <li>• Quarterly update to Audit and Standards Committee on fraud and irregularity investigations</li> <li>• Self-assessment against CIPFA Counter Fraud and Corruption Toolkit</li> <li>• Report to Audit and Standards Committee on outcome of CIPFA Counter Fraud and Corruption Tracker</li> <li>• Internal audit of key financial systems</li> <li>• Chief Internal Auditor attendance on training for Implementing the CIPFA Counter Fraud Code</li> <li>• Service Directors Assurance Statements</li> <li>• National Fraud Initiative (NFI) data matching</li> <li>• Fraud Response Plan</li> <li>• Proactive approach e.g. Single Person Discount use of Datatank</li> <li>• Whistleblowing Policy</li> </ul>
<ul style="list-style-type: none"> <li>• Communicate to employees the Council's views on business practice and ethical behavior (for example by updating, communicating and monitoring against relevant codes of conduct)?</li> </ul>	<ul style="list-style-type: none"> <li>• Employee induction</li> <li>• Regular employee and team briefings</li> <li>• Regular Management and Supervision meetings</li> <li>• Employee Appraisal and Development including corporate values</li> <li>• Employees' Code of Conduct (incorporated into employees' contracts of employment)</li> <li>• Protocol on Councillor / Officer Relations</li> <li>• Employee handbook</li> <li>• KnowledgeNet (source of training and development materials)</li> </ul>

	<ul style="list-style-type: none"> <li>• Corporate bulletins to raise awareness</li> </ul>
<ul style="list-style-type: none"> <li>• Communicate to the Audit and Standards Committee the processes for identifying and responding to fraud or error?</li> </ul>	<ul style="list-style-type: none"> <li>• Annual Audit Plan includes allocation for proactive fraud work and reactive investigations</li> <li>• Quarterly update to Audit and Standards Committee on fraud and irregularity investigations</li> <li>• Self-assessment against CIPFA Counter Fraud and Corruption Toolkit</li> <li>• Report to Audit and Standards Committee on outcome of CIPFA Counter Fraud and Corruption Tracker</li> <li>• Internal audit of key financial systems</li> <li>• Service Directors Assurance Statements</li> <li>• National Fraud Initiative (NFI) data matching</li> <li>• Fraud awareness bulletins (to schools)</li> <li>• Attendance at North East Fraud Forum</li> </ul>
<ul style="list-style-type: none"> <li>• How do management gain assurance that all relevant laws and regulations have been complied with? Have there been any instances of non-compliance during 2015/16?</li> </ul>	<ul style="list-style-type: none"> <li>• Contribution to and compliance with internal assurance processes ie <ul style="list-style-type: none"> <li>○ Service assurance assessment</li> <li>○ Local Code of Governance</li> <li>○ Monitoring Officer's Assurance on the Effectiveness of Internal Control Statement 2015/16 (signed 19-04-16). No significant internal control issues during the financial year 2015/16 that have resulted in: <ul style="list-style-type: none"> <li>▪ A need to take formal reporting action;</li> <li>▪ A need for a full investigation relating to a member's conduct;</li> <li>▪ Significant damage to the reputation of the Council; or</li> <li>▪ An inability by the Council to meet its lawful</li> </ul> </li> </ul> </li> </ul>

objectives.

- Annual Governance Statement

- Officers are required, when preparing reports, to consult the Strategic Directors of Corporate Services and Governance and Corporate Resources on the legal and financial implications of reports (Gateshead Council – Local Code of Governance – “develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based”. - Protocol 3 – Report Formats and Preparing Reports).
  
- Annual ( at least ) review of the Constitution which takes into account legislative changes
  
- The Council’s Financial Regulations, which are part of the Council’s Constitution, provide the framework for managing the Council’s financial affairs.

**13.04 Functions of the Chief Finance Officer**

By law, the Strategic Director, Corporate Resources as Chief Finance Officer, will have the following responsibilities:

**(a) Ensuring lawfulness and financial prudence of decision-making**

After consulting with the Head of Paid Service and the Monitoring Officer, the Chief Finance Officer will report to the council or the executive in relation to an executive function, and

the Council's external auditor, if he or she considers that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency or if the Council is about to enter an item of account unlawfully.

- Legal officers fully trained in accordance with continuing professional development principles, and able to 'horizon scan' through:
  - Legal section subscribe to Westlaw UK, an on-line legislation and research resource including updates
  - Legal section membership of Lawyers in Local Government, a national group (with links to the Law Society) which provides training and special interest groups ( two led by Gateshead lawyers ) along with a topical discussion forum
  - Regular training is provided through the North East legal services framework arrangements
  - All solicitors receive Solicitors' Gazette weekly
  
- Legal officer in attendance at main meetings of the Council including Full Council, Cabinet, OSCs and statutory committees eg Planning, Licensing and Regulatory
  
- Government correspondence on new legislation automatically passed from Chief Executive's office to Monitoring Officer and Deputy Monitoring Officer
  
- Guidance issued to all Directors when new legislation requires changes to Council procedures

	<ul style="list-style-type: none"> <li>Monitoring Officer and Deputy Monitoring Officer are both qualified and experienced solicitors.</li> </ul>
<ul style="list-style-type: none"> <li>Are there any actual or potential litigation or claims that would affect the financial statements?</li> </ul>	Legal staff provide annual (and where required ongoing) updates on litigation and claims which impact on the Contingent Liabilities statement in any given year. These are currently up to date.
<ul style="list-style-type: none"> <li>What controls are in place to: identify; authorise, approve, account for; and disclose related party transactions and relationships? For any related parties please provide a list of them, explain their nature, and whether there have been any transactions with these related parties during the year ended 31 March 2016?</li> </ul>	Guidance issued to all Councillors and Strategic Directors and requirement for signed declarations. Evidence will be available as part of the 2015-16 working papers
<b>Questions in relation to fraud: (Appendix 1)</b>	<b>Response</b>
1. Are you aware of any actual, suspected or alleged instances of fraud during the period 1 April 2015 – 31 March 2016 (if 'yes', please provide details)?	<p>Yes, there were eleven fraud investigations completed during 2015/16, these are as follows:</p> <ul style="list-style-type: none"> <li>Procurement Fraud: 1 investigations</li> <li>Payroll and employee contract fraud: 3 investigations</li> <li>Theft of equipment, cash or data: 5 investigations</li> <li>Other: 2 investigations</li> </ul> <p>Of the eleven investigations, 6 related to employees, and 5 to other parties.</p> <p>Further details are provided in quarterly reports to Audit and Standards Committee</p>

<p>2. Do you suspect fraud may be occurring within the organisation?</p>	<p>Whilst we cannot provide 100% assurance that fraud is not occurring within the Council all reasonable steps and controls are in place, reviewed and any suspicions investigated to reduce the risk of any fraudulent activity.</p>
<p>3. Have you identified any specific fraud risks within the Council?</p>	<p>No, although the main fraud risk areas for local authorities are highlighted in the CIPFA's Counter Fraud and Corruption Tracker, including a Gateshead specific report. CIPFA's new Code of Practice on Managing the Risk of Fraud and Corruption Guidance toolkit self-assessment has been used to prepare an action plan. These will be used as the focus for proactive counter fraud work with time allocated in the 2016/17 audit plan.</p>
<p>4. Are you satisfied that internal controls, including segregation of duties, exist and work effectively (if 'yes', please provide details)?</p>	<p>Yes, controls in place include e.g.</p> <ul style="list-style-type: none"> <li>• Internal Audit assurance, in particular annual key systems audits</li> <li>• Service Directors Assurance Statement</li> <li>• Functionality of systems, including Agresso and online banking</li> </ul>
<p>5. If not where are the risk areas?</p>	
<p>6. How do you encourage staff to report their concerns about fraud?</p>	<p>Employees are made aware of their roles and responsibilities with regards to reporting any suspected frauds and the Council policies regarding anti-fraud and corruption are made available to all employees via the intranet. Link to documents on Council website and Intranet, including the Council's Whistleblowing Policy</p>
<p>7. What concerns about fraud are staff expected to report?</p>	<p>Employees are expected to report any concerns regarding suspected fraud, details of which are provided in the employee guidance regarding anti-fraud and corruption. Specific policies include:</p> <ul style="list-style-type: none"> <li>• Whistleblowing policy</li> <li>• Code of Conduct</li> <li>• Counter fraud and corruption</li> <li>• Statement on Prevention of Bribery</li> </ul>

8. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?	No, see signed declarations and Related Party Transaction note in Statement of Accounts (by exception) and working papers
9. How do you mitigate the risks associated with fraud related to related party relationships and transactions?	<ul style="list-style-type: none"> <li>• All Members and Senior Officers complete related parties disclosures annually.</li> <li>• Register of Interests</li> <li>• Internal Audit declarations of Independence</li> </ul>
10. Are you aware of any entries made in the accounting records that you believe or suspect are false or intentionally misleading?	Given the size and complexity of transactions reflected in the Council's accounting records there is always the potential for error or false accounting that could escape detection. However, internal controls and assurance on their effectiveness provides reasonable, but not absolute, assurance that any such error would not be material.
11. Are there particular balances in the accounts where fraud is more likely to occur?	Yes, those areas highlighted in the CIPFA Counter Fraud and Corruption Tracker
12. Are you aware of any assets, liabilities or transactions that you believe have been improperly included or omitted from the accounts of the organisation?	No. Items are only excluded on the grounds of materiality. Reliance on 3 <sup>rd</sup> party data e.g. Actuarial calculations for pensions
13. Could a false accounting entry escape detection? If so, how?	All reasonable checks are put in place to prevent a false accounting entry and to aid detection of any e.g. monthly budget monitoring
14. Are there any external fraud risk factors, such as collection of revenues?	Yes, however internal controls such as employee awareness and segregation of duties reduce the risk of a fraudulent activity succeeding. NFI data matches investigated and proactive approach in respect of Single Person Discount using Datatank
15. Are you aware of any organisational or management pressure to meet financial or operating targets?	All services are expected to manage their budgets and performance targets within the challenging financial environment whilst continuing to maintain high standards of service delivery with reduced resources.



<p>16. Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?</p>	<p>No</p>
<p>17. What arrangements has the Council put in place in response to the Bribery Act 2010?</p>	<p>Employee anti-fraud and corruption guidance has been updated to reflect the Bribery Act 2010, this is made available to all employees via the intranet. A Bribery Act 2010 training module has been updated, an a request for all employees to complete the training module was included within the Counter Fraud bulletin.</p>