

Report of the Director of Finance to the meeting of the Governance and Audit Committee on 26 June 2015

D**Subject: Governance and Audit Committee's Letter of Representation for External Audit****Summary statement:**

This report details the requirements of external audit to seek assurance from the Governance and Audit Committee, that Bradford Council has the required controls in place to support the proper governance of the Council's affairs and that the financial statements are protected from fraud and error. The report includes for the Governance and Audit Committee's consideration, a draft letter of representation which responds to external audit's questions. If approved the letter of representation should be signed by the Chair on behalf of the Committee and sent to external audit

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1.0 Summary

- 1.1 This report details the requirements of external audit to seek assurance from the Governance and Audit Committee, that Bradford Council has the required controls in place to support the proper governance of the Council's affairs and that the financial statements are protected from fraud and error.
- 1.2 The report includes for the Governance and Audit Committee's consideration, a draft letter of representation which responds to external audit's questions. If approved the letter of representation should be signed by the Chair on behalf of the Committee and sent to external audit.

2.0 Background

- 2.1 On the 17th April the Council's External Auditors (Mazars) presented the following report to the Council's Governance and Audit Committee

“ External audit progress report for the 2014/15 audits of City of Bradford Metropolitan District Council and West Yorkshire Pension Fund”

The report updated the Committee on progress with the 2014/15 audits and highlighted key emerging national issues which could be of interest to the Committee.

- 2.2 As part of the audit, External Audit needs to understand how the Governance and Audit Committee, as those charged with governance, gains assurance over management processes and arrangements:

to prevent and detect fraud; and
to comply with applicable law and regulations.

External Audit provided the Committee with a list of questions for the Committee to respond to, by the 30 June 2015. The Committee's response would inform external audit's assessment of the risk of fraud and error within the financial statements, which in turn determines the extent of external audit work that would need to be undertaken.

- 2.3 The questions for the Committee from external audit are detailed below

- 1) How do you 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;
 - identifying and responding to risks of fraud in the authority, please detail any specific risks of fraud which management have identified, and classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
 - communicating to employees its view on business practice and ethical behaviour; and
 - communicating to you the processes for identifying and responding to fraud or error.

- 2) How do you oversee management processes for identifying and responding to possible breaches of internal control? Are you aware of any significant breaches of internal control during 2014/15?
- 3) How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of significant non-compliance during 2014/15?
- 4) Are you aware of any actual or potential litigation or claims that would affect the financial statements?
- 5) Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the authority's ability to continue as a going concern?

2.4 A draft letter of representation has been prepared for the Committee which identifies the Council's policies, procedures and actions which answers the questions set by the external auditors. The draft letter of representation is detailed in Appendix A.

3.0 Financial and Resources appraisal

3.1 There are no direct financial implications arising from this report however the report supports the robustness of the Council's financial statements and provides assurance to external audit of the effectiveness of the internal control environment.

4.0 Risk Management

4.1 The statement supports the Council in demonstrating how it ensures that its resources are used efficiently and effectively and thus securing the achievement of Council objectives.

5.0 Legal appraisal

5.1 The Accounts and Audit Regulations for 2011 require the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control.

6.0 Other Implications

6.1 Equal rights Implications

There are no direct equal rights implications however the letter of representation provides a formal statement of accountability from the Governance and Audit Committee that there has been no significant fraud and irregularity which supports the delivery of services in an equitable manner.

6.2 Sustainability Implications

The letter of representation provides a statement on the Council's future as a going concern.

6.3 Community Safety Implications

There are no direct community safety implications

6.4 Human Rights Act

There are no direct human rights implications.

6.5 Trade Union

There are no direct trade union implications

6.6 Greenhouse Gas Emissions Impacts

None

6.7 Ward Implications

None

7.0 Not for publication documents –

None

8.0 Recommendations

8.1 That the Governance and Audit Committee delegate to the Director of Finance, in consultation with the Chair of Governance and Audit Committee, authority to finalise the wording of the draft letter of representation and to send it to the Council's external auditors on behalf of the Committee.

9.0 Appendix A: Draft Letter of Representation

10.0 Background documents

Accounts and Audit (England) Regulations 2011

City of Bradford MDC

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30th June 2015

Dear Mr Kirkham,

**City of Bradford Metropolitan District Council – Audit of Accounts 2014-15
Understanding how the Governance and Audit Committee gains assurance from
management.**

I am writing in response to your information request of 17th April 2015.

May I first draw your attention to the Council's Annual Governance Statement, incorporated into the financial accounts, which provides an overview of the Authority's governance framework.

The role of the Governance and Audit Committee (GAC) is outlined in Article 9 of the Council's Constitution. In particular and in respect of your enquiry, the Committee has responsibility for:-

- Maintaining an overview of the Council's corporate governance framework, its constitution and partnership arrangements.
- Approving, on the recommendation of the Executive, the annual statement of accounts and related documents.
- Considering the effectiveness of the risk management arrangements, control environment and associated anti-fraud and anti-corruption arrangements.
- Seeking assurances that action is being taken on risk related issues determined and brought to its attention by auditors and inspectors.
- Receiving the annual report of the Head of Internal Audit and Insurance.
- Reviewing the financial statements and External Auditor's opinion.
- Making such recommendations to Executive as deemed necessary in relation to the discharge of its duties.

These responsibilities apply in respect of both the Council and the West Yorkshire Pension Fund.

Dealing with the risk of fraud or error and possible breaches of internal control.

Managing the risk of fraud and corruption is the responsibility of management throughout the Council. In order to ensure that the culture and tone of the organisation is one of honesty and opposition to fraud and corruption, the Council has adopted a Corporate Anti-Fraud Strategy Statement. The primary purpose of the anti-fraud strategy is to promote awareness of the Council's stance and approach amongst all employees and Members, to remind managers of their responsibilities in respect of prevention measures and to help ensure that all allegations of financial irregularities are properly investigated. This strategy supplements the Authority's Standing Orders, Contracts Standing Orders, Financial Regulations, and general internal control framework. It is the responsibility of departmental management to ensure that all appropriate staff are aware of these documents and that they are complied with in full and at all times. The Code of Conduct for Employees provides further support to the maintenance of ethical standards across the Council.

The Council has established a Corporate Fraud Unit within the Department of Finance. Whilst the possibility that fraud is occurring cannot be ruled out, this risk is mitigated by operations of the Corporate Fraud Unit and the Anti-Fraud Strategy.

In addition, and in support of the Strategic Directors' Letter of Representation, all Assistant Directors have been required to complete a fraud risk self-assessment. This has revealed a generally sound understanding of the risk of fraud and of the controls and procedures designed to prevent it.

The Accounts and Audit Regulations 2011 require the Authority to "*maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices*". Internal Audit is one of the cornerstones of effective governance. It is a key element of the Council's internal control environment. Internal Audit undertakes an annual review of effectiveness which is reported to the GAC in the Internal Audit Annual Report.

Internal Audit reviews and reports to the GAC, on the adequacy of the control environment through the annual audit opinion and the half year monitoring report. In addition Internal Audit follow up the implementation of audit recommendations with Strategic Directors to confirm agreed actions have been delivered. The Corporate Fraud Unit updates the GAC of any significant individual frauds or general levels and types of fraudulent activity against the Council.

Financial Regulation 3 requires:-

- that any officer suspecting or knowing of any losses or irregularities concerning cash, stores, property or other financial matters must inform the Corporate Fraud Unit immediately. The Director of Finance must report serious losses and irregularities to the Governance and Audit Committee.
- The Director of Finance to monitor, review and report on how far assets, resources and interests are accounted for and safeguarded from losses due to fraudulent offences, waste, extravagance and inefficiency.

The Council's systems, therefore, have preventative measures built in, particularly control mechanisms designed to prevent theft, fraud and corruption and provide indicators of fraudulent activity. These measures are supported by:-

- Codes of conduct for Members and employees
- The Confidential Reporting Code which promotes openness probity and accountability provides a framework within which employees can raise serious concerns including any in respect of suspected fraud or corruption.
- The fraud hot line.
- The trained investigation team of the Corporate Fraud Unit,
- The availability of a fraud awareness training package designed to enhance awareness by identifying what staff can do to prevent fraud and what to do if they encounter it.

To improve the quality control of the financial statements the Council has introduced a range of measures:-

- Staff from financial services have been tasked with ensuring consistency of information, and accuracy of casting;
- the Director of Finance and Strategic Finance Manager have ensured that the financial statements reflect the activity of the Council.

We do not consider there to be a significant risk of material misstatement.

Assurance of compliance with relevant laws and regulations.

All Strategic Directors, the Chief Executive and West Yorkshire Pension Fund are required to undertake annually a key control self-assessment as specified in a three year rolling programme of key control systems, including an explanation of non-compliance with any relevant controls. The self-assessment is based on Internal Audit's six Key Control Books as below:-

<u>Key Control System</u>	<u>Self Assessment Programme</u>
• Inventories and equipment	2014-15
• Information security	2014-15
• Human resources and payroll	2015-16
• SAP accounts receivable	2015-16
• Collection and banking of income	2016-17
• Procure to pay	2016-17

Where Directors have specific concerns on particular systems or services or where there has been significant management change Directors are to require a full self assessment process to be followed. If required, this should focus on high risk areas.

This procedure is designed to support the requirement for each Strategic Director, the Chief Executive and West Yorkshire Pension Fund to provide a year-end Letter of Representation in respect of the annual financial statements including certification that all relevant laws and regulations have been complied with and that there have been no significant instances of known irregularities, including fraud, other than those already disclosed. It also supports the annual review of the Council's governance framework and informs the preparation of the Annual Governance Statement.

Potential litigation or claims that would affect the financial statements.

In 2013/14 the Council reported on a claim lodged by a contractor in respect of the costs of removing asbestos waste from BSF phase 1 and BSF 2 schools. The claim is still currently being contested. The claim is included in the contingent liabilities which have been recognised and disclosed in the notes to the financial statements as any potential liability, if any, is unknown at this time.

The Council operates an Insurance Fund and externally insures substantial risks which should further limit the impact on the Council, if any successful claims are made.

Going concern.

The preparation of the Council's financial statements on the "going concern" basis is supported by:-

- Realistic and regularly reviewed asset valuations
- A prudent level of reserves
- An annually updated treasury management strategy which aims to minimise the risk from changes in interest rates and funding regimes
- Strong financial management and controls ensuring that the Council can always meet its outstanding liabilities as they become due
- A capital and expenditure budget which is based on a robust prioritisation process and confirmed funding
- A requirement that all executives of the Council should ensure that expenditure is contained within the overall approved budget
- Confirmed and continuing financial support from central government

Conclusion

In 2014-15 neither I nor the Committee have been made aware by the Officers who attend the Governance and Audit committee on a regular basis of any significant breaches of internal control, actual or potential litigation, non compliance with statute or fraud and error within the Council or the West Yorkshire Pension Fund which could have a material impact on the financial statements.

If you require any further details or have any queries please contact either myself or the Head of Internal Audit and Insurance on 01274 432888

Yours sincerely

Councillor Lynne Smith
Chair of Governance and Audit Committee
City of Bradford Metropolitan District Council