

North East Lincolnshire Council

Joint Management and Audit and Governance Committee (‘Those Charged with Governance’) Response to Mazars Request for Information

Mazars are required to make annual enquiries of Management and the Audit and Governance Committee (representing ‘those charged with governance’) as part of their external audit procedures. International Auditing Standards require auditors to enquire about arrangements the Council has put in place to:

- prevent and detect fraud;
- comply with applicable law and regulations; and
- assess the appropriateness of the going concern assumption.

Key questions for the year ended 31 March 2021 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 Council, 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.**

The Audit and Governance Committee contributes to the achievement of effective oversight by seeking and receiving assurance on systems of risk management, governance and internal control.

The committee play a key role in the approval of the annual statements of accounts on behalf of the Council. The committee consider the content of the external auditor's Annual Governance Report and where appropriate challenge officers and the external auditors on the content of the accounts. Ahead of the formal consideration of the Statement of Accounts, the committee review proposed accounting policies.

The Statement of accounts themselves are subject to detailed Quality Assurance processes and overall review by senior officers. Working papers are prepared for all material balances within the accounts which can be reconciled back to the financial ledger and supporting working papers. Throughout the year, the Audit and Governance Committee receive regular

updates on the annual accounts process, preparation and progress, and have the opportunity to discuss any issues with the external auditor and Head of Internal Audit during and after scheduled meetings.

The Audit and Governance Committee play a key oversight role in relation to fraud and error identification. The committee receive both an interim and annual report on anti-fraud activities taking place within the Council and also approve the Council's Anti-Fraud and Corruption Strategy. The annual report provides assurance in relation to the effectiveness of the Council's anti-fraud and corruption approach as required by its terms of reference.

A risk assessment has been carried out by the fraud team, the outcome of which is referred to in the Annual Fraud Report. The risk assessment helps prioritise the work of both the audit team and fraud team.

The Council has a code of conduct which describes the standards of conduct and practice which all Council employees should follow. The code of conduct is a key component of the Council's code of governance which is part of the Constitution. In particular, core principle A lays out the Council's arrangements for "behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law section".

The code of conduct is designed to:

- a) promote fairness and consistency in the treatment of individuals.
- b) assist in the effective operation of the Council.
- c) establish the required standards of conduct of employees of the Council ; and
- d) maintain satisfactory relationships within the workforce and between the employees and management.

The code is a key element in the employment relationship and an integral part of the contract of employment, forming the basis of an employee's induction. Managers and supervisors are required to ensure that all employees are aware of and understand the code, providing support and guidance where required to meet the code.

The Council operates a Policy for Raising a Concern (Incorporating the Whistleblowing Policy) and enables any individual to register, in confidence, any concerns regarding alleged misconduct and fraudulent or corrupt activity. This can be found on the Council's intranet.

Employees are required to not allow their personal interests to conflict with the Council's requirements in either their official or personal capacity nor use their position to improperly confer an advantage or disadvantage on any person or organisation. Employees are required to declare any potential conflicts of

interest that they have, or a relative, associate or close friend has in connection with the Council.

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 the financial year?

It is the responsibility of management to develop and maintain sound systems of risk management; internal control and governance. This includes the requirement to identify and respond to any identified breaches of internal control.

However it is noted that internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making; human error; control processes being deliberately circumvented by employees and others; management overriding controls and unforeseeable circumstances.

The Council operates the three lines of defence model of assurance as described in both the Code of Governance and the Annual Governance Statement.

In terms of oversight, the Council's internal audit function plays a key role in this regard. Internal audit work is not a substitute for management's responsibilities for the design and operation of these systems, and is not responsible for identifying all significant control failures. However, the internal audit team has an important role in providing assurance on the Council's control environment and providing a view on the council's processes for identifying control failures, and endeavours to plan its work so that work is focused on those areas where the likelihood of a significant control failure is greatest. A risk based audit plan is produced based on best practice, reference to the strategic and operational risk register, and engagement with senior managers. The methodology for prioritising audit work is set out in the audit plan. The Audit and Governance Committee receive a range of assurances/reports during the year which touch upon aspects of internal control. These reports support the committee to discharge its oversight responsibilities. Reports in 2020/21 have included:-

- Audit Plans (internal and external audit)
- Head of Internal Audit Report and internal audit updates
- Annual Governance Statement
- Accounting policies, Annual Accounts and External audit Annual Governance Report
- External Audit Management Letter
- Partnership Governance updates
- Treasury management annual report and updates
- Annual Fraud reports and updates
- Risk management update / Strategic Risk register

We are not aware of any significant breaches of internal control during the 2020/21 financial year.

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 the financial year?

The Council is subject to a range of legal and regulatory frameworks. Regular monitoring of compliance with laws and regulations is undertaken by the Council's Monitoring officer. All cabinet and council reports are subject to legal, financial and HR review and comment to ensure key issues are identified.

Key risks in relation to compliance with laws and regulations are captured within the Council's risk register. Further information is detailed within the Council constitution which is available on the Council's website. As part of the compilation of the Annual Governance Statement the Monitoring Officer is asked to provide assurance as to whether he is aware of any significant material legalities in year.

We are not aware of any instances of significant non-compliance during the financial year.

4) Are you aware of any actual or potential litigation or claims that would affect the financial statements?

We are not aware of any significant litigation or claims against the Council. All material issues would be reported within financial statements in the form of either provisions or contingent liability note. As part of the closedown processes, managers across the Council are consulted as to whether they are aware of any actual or potential litigation or claims affecting the accounts. Furthermore, there is ongoing review of any emerging financial risks through the Assurance Board.

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 Council's ability to continue as a going concern?

Going concern has been assessed as part of Council's budget setting process in February 2021. The budget setting process requires the Council's S151 Officer (Director of Resources and Governance) to provide a view on the robustness of estimates and the adequacy of reserves.

No issues in relation to going concern were highlighted as part of the report presented alongside the financial accounts to Audit and Governance Committee in November 2020.

Over the past 18 months, the Council's operations have been significantly impacted by the worldwide COVID-19 pandemic. This has affected all aspects of the Council's activities, its cash flows, transformation plans and ways of working. Income has been impaired and additional costs incurred as part of the Council's response. Additional grant has been received from Government to offset the impacts and there is ongoing engagement with MHCLG regarding the future funding model for Local Government. As part of the forthcoming budget setting process for 2022/23, a review of the impacts of Coronavirus are being considered.

Further questions relating specifically to fraud to inform the external auditor's assessment of the risk of fraud and error within the financial statements

1. Are you aware of any actual, suspected or alleged instances of fraud during the period 1 April 2020 -31 March 2021?

A number of suspected / alleged instances of fraud occurred during 2020/21. These detailed within the Council's Annual Fraud Report for 2020/21. Cases included those related to housing benefit/council tax and blue badges. No material frauds to report.

2. Do you suspect fraud may be occurring within the organisation?

As detailed above, instances of fraud have been identified during 2020/21. However these examples are isolated in nature and have been identified through the Council's internal control and fraud response mechanisms.

3. Have you identified any specific fraud risks within the Council?

The key fraud risks within the Council include :-

- Council tax supports and discounts
- Housing benefits
- False or exaggerated insurance claims.
- Misuse of Council assets.

As additional challenge has arisen since the onset of COVID19 with a number of fraudulent applications related to various government support schemes. However these applications have been limited in number and not material in any way.

4. Are you satisfied that internal controls, including segregation of duties, exist and work effectively (if 'yes', please provide details)? If not where are the risk areas?

The Council had adopted the three lines of defence model of assurance. Based upon the Audit and Governance Committee's work programme and reviews undertaken by internal audit, satisfactory assurance has been obtained that there is a sound system of internal control in place. Key controls such as the segregation of duties, management review and supervision and authorisation and approval are evident in each of the Council's core systems. In overall terms, internal audit have concluded that controls are effective.

Where appropriate other sources of assurance, such as work by other inspectorates and peer reviews, or internal reviews carried out within the Council has been relied upon by the audit and governance committee.

It is acknowledged that maintaining an effective control environment is challenging in a time of reducing resources and a changing operating environment. For this reason, internal audit will have a continued role in supporting the council in ensuring that an adequate but appropriate control environment is in place.

5. How do you encourage staff to report their concerns about fraud?

The Council promotes a zero tolerance toward fraud and promotes a culture that enables individuals to identify potential fraud and empowers them to report their concerns in a safe and secure manner to the appropriate people at the right time.

The means by which employees can report fraud are publicised on the Council's intranet.. Fraud issues are widely communicated both internally and externally to provides a deterrent to fraudsters by highlighting the Council's commitment to identify fraud and take proactive action to pursue fraudsters.

6. What concerns about fraud are staff expected to report?

The Council's Anti-Fraud and Corruption Strategy requires managers to ensure all employees are aware of their responsibilities under the anti-fraud and anti-corruption framework and ensure employees are aware of the process for reporting allegations of fraud.

Employees are expected to have an understanding of expected behaviour and of their responsibility to report suspected fraud or corruption and the appropriate methods to do so. The Council has a zero tolerance attitude towards fraud and promotes a culture whereby they are able to recognise fraud and abuse and know how and where to report.

The fraud response plan lays out the reporting mechanisms and how any subsequent investigations will be carried out

7. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?

We are not aware of any related party relationships or transactions that could give rise to instances of fraud.

8. How do you mitigate the risks associated with fraud related to related party relationships and transactions?

Disclosure of significant related party relationships is required for both members and officers in positions of influence. Any allegations involving employees are dealt with through the council discipline procedure and where cases are proven appropriate sanctions issued which may include dismissal.

9. Are you aware of any entries made in the accounting records that you believe or suspect are false or intentionally misleading?

We are not aware of any accounting entries which are suspected to be false or intentionally misleading. Should management become aware of any suspect accounting entries, these would be subject to immediate investigation through internal audit.

10. Are there particular balances in the accounts where fraud is more likely to occur?

Investigations mainly relate to allegations of fraud in respect of false claims for Council Tax discounts and support and into abuses of the Disabled persons Blue Badge Scheme. In response the Council undertakes periodic reviews of eligibility.

11. Are you aware of any assets, liabilities or transactions that you believe have been improperly included or omitted from the accounts of the organisation?

We are not aware of any assets, liabilities or transactions that have been improperly included or omitted from the Council's accounts. Should any issues arise it is expected that these would be identified through review and approvals processes.

12. Could a false accounting entry escape detection? If so, how?

Although all allegations are investigated and pursued, there is an underlying risk that some instances of potential fraud, corruption and misconduct may not be identified and thus brought to the attention of those with the responsibility of investigating allegations. For example, whilst it has been concluded that there is a sound system of internal control in place, there is always the risk that individuals could collude in order to avoid detection. In mitigation, the Council undertake a proactive work programme including substantive testing of areas identified as high risk.

13. Are there any external fraud risk factors?

All public bodies are at risk from fraud in one form or another, acknowledging this fact is vital in developing an effective anti-fraud response. Individual services need to understand where the risk of fraud lies and the consequences of those frauds (whether that be financial, reputation or other consequence) to enable them to develop an appropriate risk based response.

Current and emerging risks are identified from a number of sources including the National Anti-Fraud Network (NAFN) and other law enforcement agencies. These are disseminated to relevant Council teams to raise awareness. Examples of fraud risk continue to be shared in the 'risk roundup' publication that is publicised on the Council's internal network.

We have also publicised specific fraud threats that are targeted at our residents to help keep them safe. This included the recent threat from fraudsters purporting to be from the Council offering residents a refund on their Council tax. A warning was sent to all staff, publicised on the website and through our various social media outlets.

14. Are you aware of any organisational or management pressure to meet financial or operating targets?

Despite continued financial challenges within the Local Government sector, we are not aware of any organisational or management pressure to meet financial or operating targets.

15. 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?

Further to the response above, we are not aware of any inappropriate organisational or management pressure being applied, or incentives offered, to meet financial or operating targets.

16. What arrangements has the Council put in place in response to the Bribery Act 2010?

The Council has a published Anti Bribery and Corruption Policy which applies to all activities and employees. Employees include but are not limited to those who are directly employed, agency staff, contractors, non-executives, agents, Members (including independent members), volunteers and consultants.

For partners and suppliers, we will seek to promote the adoption of policies consistent with the principles set out in this policy. Both Cabinet and Senior Leadership Team are committed to preventing bribery by persons associated with the council. The Policy states that the Council will not offer bribes or any other improper inducements to anyone for any purpose, nor will they accept bribes or improper inducements.

The Council has a strong Counter Fraud Strategy that is reviewed as a minimum bi-annually and approved by the Audit Committee. It contains a clear and unambiguous message that the council will not tolerate fraud and corruption. The Council regularly assesses the nature and extent of its exposure to potential external and internal risks of bribery on a periodic basis. It is assessed on both financial risk and reputation risk.

The Council seeks to ensure that its bribery prevention policies and procedures are embedded and understood throughout the council through internal and external communication, including training and e-learning that is proportionate to the risks it faces.

17. Please detail any other areas of concern in relation to management processes and arrangements you wish to raise with us.

No other areas of concern have been noted.