

REPORT TO: Business Efficiency Board
DATE: 23 September 2020
REPORTING OFFICER: Strategic Director – Enterprise, Community & Resources
PORTFOLIO: Resources
SUBJECT: External Audit Letter to Those Charged With Governance
WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

1.1 To present for information the response provided to the annual letter to the Board from Grant Thornton, the Council’s external auditors, regarding their year-end audit of accounts work.

2.0 RECOMMENDATION: That the response provided to the Council’s external auditors shown in the Appendix, be noted.

3.0 SUPPORTING INFORMATION

3.1 International Auditing Standards require the Council’s external auditors, Grant Thornton, to seek an understanding of how those charged with governance within the Council (ie. the Business Efficiency Board) gain assurance regarding management processes and arrangements, in the context of the year-end audit of accounts.

3.2 The Appendix presents the response provided to a number of questions contained in a letter from Grant Thornton to the Chair of the Board. Grant Thornton will attend the meeting and will be able to discuss the questions further with the Board if required.

4.0 POLICY IMPLICATIONS

4.1 None.

5.0 FINANCIAL IMPLICATIONS

5.1 None.

6.0 IMPLICATIONS FOR THE COUNCIL’S PRIORITIES

- 6.1 **Children and Young People in Halton**
- 6.2 **Employment, Learning and Skills in Halton**
- 6.3 **A Healthy Halton**
- 6.4 **A Safer Halton**
- 6.5 **Halton's Urban Renewal**

There are no implications for any of the Council's priorities listed above.

7.0 RISK ANALYSIS

- 7.1 The responses to the questions in the Appendix set out the arrangements that the Council has in place to manage the risk of fraud and to ensure that the Council complies with relevant laws and regulations.

8.0 EQUALITY AND DIVERSITY ISSUES

- 8.1 None.

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

- 9.1 None under the meaning of the Act.



Councillor Martha Lloyd Jones
Chair of Business Efficiency Board
Halton Borough Council
6th Floor,
Municipal Building,
Kingsway,
Widnes,
Cheshire,
WA8 7QF

21 July 2020

Dear Councillor Jones,

**Halton Borough Council Financial Statements for the year ended 31 March 2020 -
Understanding how the Business Efficiency Board (Audit Committee) gains assurance
from management**

To comply with International Auditing Standards, we need to establish an understanding of how the Governing Body gains assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me in your role as Chair of the Business Efficiency Board, with your responses to the following questions in respect of the financial statements.

- 1 How does the Governing Body oversee management's processes in relation to:
 - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
 - identifying and responding to the risk of breaches of internal control
 - identifying and responding to risks of fraud in the organisation (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)
 - communicating to employees its views on appropriate business practice and ethical behaviour (for example by updating, communicating and monitoring against the codes of conduct)?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does the Governing Body gain assurance that all relevant laws and regulations have been complied with?
- 4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

I have attached a separate schedule which explores these areas in more detail, and this is included as an Appendix. Could you please complete this schedule and return it to me by 31 August 2020.

Yours sincerely

SRNixon

Stephen Nixon
Senior Manager
For Grant Thornton UK LLP
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Appendix

Response from Chair of the Audit and Standards Committee

Fraud risk assessment

Auditor Question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	Yes. Internal Audit regularly review the key systems which provide the material figures within the financial statements.
What are the results of this process?	The risk of material misstatement in the financial statements due to fraud is heavily mitigated by the processes which the Council has in place for identifying and responding to fraud.
What processes does the Council have in place to identify and respond to risks of fraud?	<p>The Council has robust arrangements in place for identifying and responding to the risk of fraud.</p> <p>There is an established risk management process and the risk of fraud is considered as part of the Council's planning processes. The Business Efficiency Board receives regular reports on the Council's corporate risk management arrangements and reviews the Corporate Risk Register. The risk of fraud is specifically acknowledged within the Register, which also details the measures in place to deter fraud. The Business Efficiency Board regularly reviews the robustness of the Council's risk management arrangements.</p> <p>The Business Efficiency Board also has specific responsibilities with regard to monitoring and reviewing the Council's anti-fraud and corruption policies and arrangements. The Board receives an annual report on the measures which the Council has established to counter the risk of fraud.</p> <p>The Council also has a dedicated investigations team whose role is to investigate potential fraud against the Council.</p> <p>Staff responsible for preparing the financial statements are appropriately qualified and experienced and there is a rigorous quality assurance process to ensure the financial statements are free from material error.</p> <p>Internal Audit also undertakes regular reviews of the core systems which provide the information used for the financial statements. This provides assurance that the systems and information contained therein are robust and there is limited risk of misstatement.</p> <p>In addition, the Council has a whistleblowing policy and established arrangements for employees to raise concerns regarding any potential fraud or breach of internal controls. Any such reports would be responded to and fully investigated in accordance with this policy.</p>

<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>Housing Benefit and Council Tax Reduction Scheme claims are considered to be most susceptible to fraud. This is a national issue and not unique to Halton.</p> <p>Other areas at risk of fraud include:</p> <ul style="list-style-type: none"> • Insurance claims against the Council • Procurement • Supplier invoices • Council Tax – Single Person Discounts • Council Tax Reduction Scheme • Business Rates • Payroll & Pensions • Recruitment • Electoral fraud • School admission application fraud • Direct Payments • Adult Social Care – Financial Assessments • Financial abuse of vulnerable persons • Grants to individuals or organisations • Development control • Cash handling • Expenses • Blue badges and concessionary travel <p>There are also various new fraud risks resulting from the COVID-19 pandemic.</p> <p>Systems of internal control are operated within each of these areas in order to mitigate the risk of fraud.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively?</p>	<p>The Council’s internal control processes are considered to be robust and operating effectively. Internal Audit assesses the adequacy and operation of internal controls plus the risk of fraud, as part of each audit review. Action plans are put in place to address any significant internal control weaknesses identified through the work of Internal Audit, External Audit or any other assurance providers.</p> <p>The results of each Internal Audit review and follow-up reviews are reported to the Business Efficiency Board.</p> <p>An Annual Internal Audit report is presented to the Business Efficiency Board that provides an overall opinion on the Council’s risk management, control and governance processes. The 2019/20 report was presented in July 2020 and concluded that the Council’s arrangements continue to be robust.</p> <p>The Business Efficiency Board also reviews and approves the Council’s Annual Governance Statement, which considers assurances from various sources with regard to the Council’s internal control framework.</p>
<p>If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>N/A</p>

<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>No.</p>
<p>Are there any areas where there is a potential for misreporting?</p>	<p>No.</p>
<p>How does the Governing Body exercise oversight over management's processes for identifying and responding to risks of fraud?</p>	<p>The Internal Audit Plan approved by the Business Efficiency Board each year is risk based and focuses upon those systems and areas where it is considered there may be a greater risk of fraud.</p> <p>The risk of fraud is included within the Corporate Risk Register and sets out the actions which management has put in place to mitigate such risks.</p> <p>These include confidential fraud reporting arrangements, for both employees and members of the public to raise any concerns.</p> <p>The Council's specialist fraud investigators are located within the Audit & Investigations Team. These posts provide fraud investigation resources covering all aspects of Council business.</p>
<p>What arrangements are in place to report fraud issues and risks to the Governing Body?</p>	<p>The Business Efficiency Board receives an annual report on the Council's counter fraud arrangements and activity.</p> <p>In addition, the results of each Internal Audit review and follow-up review are reported to the Business Efficiency Board.</p> <p>The Business Efficiency Board also reviews and approves the Council's Annual Governance Statement, which considers assurances from various sources with regard to the Council's internal control framework.</p> <p>The Council has a whistleblowing policy and established arrangements for employees to raise concerns regarding any potential breach of internal controls. Any such reports would be responded to and fully investigated in accordance with this policy.</p>
<p>How does the Council communicate and encourage ethical behaviour of its staff and contractors?</p>	<p>Internal Audit undertakes periodic initiatives to raise fraud awareness amongst employees and Members. The Council has an established Anti-Fraud & Corruption Strategy, Fraud Response Plan and Confidential Reporting Code. These documents form part of the Council Constitution and were reviewed and by the Business Efficiency Board during the past year. In addition a Prosecutions Policy was previously approved and is now being applied in practice.</p> <p>The Local Code of Corporate Governance also sets out the Council's arrangements and expectations with regard to conduct and ethical behaviour.</p> <p>Communications on appropriate business practice are made via staff briefings, e-mails to all staff on specific</p>

	topics and provision of e-learning on issues such as information governance.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	The Council has a well-established whistle blowing procedure (the Confidential Reporting Code) and has arrangements in place to deal with any complaints received. All complaints received under the Code are investigated. The Business Efficiency Board receives information regarding whistle blowing as part of the annual Fraud and Corruption report, but is not aware of any other such instances.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	No.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2019?	The Board has received information during the year regarding identified frauds within the annual Fraud and Corruption report, but is not aware of any other such instances.

Laws and Regulations

Auditor Question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	Senior Officers, the Legal Department and Finance Officers are responsible for ensuring compliance with relevant laws and regulations. Internal Audit reviews such arrangements as part of its annual plan of work and report on any non-compliance. The Business Efficiency Board considers the Annual Governance Statement which provides various assessments of compliance. The Council also operates whistleblowing arrangements which provide for the safe reporting of any non-compliance with laws and regulations.
How does management gain assurance that all relevant laws and regulations have been complied with?	Through assurances provided by the Council's statutory Section 151 Officer and Monitoring Officer and from the Council's Annual Governance Statement.
How is the Governing Body provided with assurance that all relevant laws and regulations have been complied with?	Through assurances provided by the Council's statutory Section 151 Officer and Monitoring Officer and from the Council's Annual Governance Statement.
Have there been any instances of non-compliance or suspected non-compliance with laws and regulations since 1 April 2019?	No.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Senior Officers, the Legal Department and Finance Officers are requested on an annual basis to consider potential litigation and claims. Regular financial reporting and budget monitoring also help with the identification process. Assessments are undertaken by the Revenues & Financial Management Division and decisions taken on how to account for claims in line with accounting standards and the CIPFA Code of Practice. A reserve is set for all insurance claims, in order to quantify the full potential cost of all outstanding claims.

	Regular meetings take place with service providers that will highlight these events.
Is there any actual or potential litigation or claims that would affect the financial statements?	Only for those where it is possible the liability is with the Council or there is uncertainty over the amounts. These are covered within the contingent liabilities note.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	No.