RESPONSE TO ERNST AND YOUNG ASSURANCE LETTER

Sue Cuerden, Executive Director of Finance and Resources and Section 151 Officer

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<th>Report to</th>
<th>Audit and Accounts Committee</th>
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<td>Ward(s):</td>
<td>All</td>
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<tr>
<td>Key Decision:</td>
<td>No</td>
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<tr>
<td>Appendices:</td>
<td>Appendix 1 - Ernst and Young Assurance Letter</td>
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<td>Papers relied on:</td>
<td>None</td>
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Recommendation to Committee

It is recommended that the committee agrees the response to the Ernst and Young questions as set out in this report.

Background, corporate objectives and priorities

The purpose of this report is to inform the committee of the annual assurance letter received from the council’s external auditors, Ernst and Young, and to agree a response to this from the committee.
1 Annual Assurance Letter

1.1 As part of the external audit process the chairman of this committee receives a letter annually from Ernst and Young requesting information on arrangements that are in place for oversight of management processes. A copy of the letter is attached as appendix 1.

1.2 In summary the letter asks for a response to nine questions which relate to the committee’s oversight of processes related to fraud and error, organisational or management pressure, legal compliance, actual or potential litigation, the going concern basis adopted in preparing financial statements and related party transactions.

1.3 The letter requests a response from the committee by 2 May. However, as the letter was only emailed to the chairman on 4 July 2019, the auditors have agreed that this can be extended to 29 July in order to allow the committee to consider their response at this meeting.

2 Recommended Response

2.1 In consultation with the committee chairman, officers have produced the following recommended response to the Ernst and Young questions:

1. How does the Committee exercise oversight of management’s processes in relation to:

Assessment of the risk that financial statements may be materially misstated due to error or fraud

The Committee receives a report every 6 months from the Chief Internal Auditor on management’s review of the corporate risk register (approved by SLT). Finance/budgets and fraud are two of the risks that are identified in the corporate risk register.

The Committee receives and approves the internal audit annual plan each year. This includes an audit of core financial systems, for example Accounting & Budgetary Control, Payroll and Investment Strategies. An overall opinion is given on the control environment for each audit which is based on the testing of such controls.

The Committee receives an external audit plan and meets with the external auditor.

The Section 151 officer signs the Statement of Accounts, they are externally audited and the committee receives an ISA (International Standard on Auditing) 260 report on any error identified by audit.
Identifying and responding to risks of fraud

The committee receives reports from the Chief Internal Auditor on the outcomes of internal audit reviews. This includes recommendations made to improve the control environment and the progress on the implementation of these recommendations.

The committee also receives two reports relating to fraud each year that highlights the fraud work carried out during the year.

Communicating to employees its view on business practices and ethical behaviour

As highlighted in the fraud report of the 24 June 2019, the committee are aware that each year BDBC takes part in the ‘International Fraud Awareness week’ (November) which includes presentations/workshops to staff to ensure that they are aware of the council’s practices towards fraud and ethical behaviour that is expected. Details are also provided of the anti-fraud policy and the anti-bribery policy plus the Anti-Fraud and Corruption page that can be found on the council’s intranet (Sinbad).

Encouraging employees to report fraud concerns

The fraud report presented to the Audit and Accounts Committee on the 24 June 2019 by the Chief Internal Auditor highlighted the fraud awareness campaign that has been carried out during 2018/19. This campaign covered ‘how to report a concern’.

There is a comprehensive anti-fraud and corruption page on the council’s intranet (Sinbad). This highlights how to report a fraud by using the fraud email and hotline that is in place.

Communicating to the Committee processes for identifying and responding to fraud or error

This is covered in the fraud reports that the committee receives throughout the year. Fraud is also one of the identified risks in the corporate risk register and the committee receives updates on the register every six months. The register identifies the mitigations in place to reduce the risk of fraud.

2. How does the Committee oversee management processes for identifying and responding to risk of fraud and possible breach of control?

This is covered in the internal audit progress reports that the Audit and Accounts committee receive throughout the year and the corporate risk register that is reviewed every six months.

3. Is the Committee aware of any breaches or deficiencies in internal controls?
Yes, the committee receives Internal Audit Progress reports throughout the year. These reports contain a summary report for each audit assignment carried out. Each summary report includes:

- Audit opinion on the control environment
- Recommendations made to improve the control environment
- Responsible officer for the recommendation
- Responsible officers agreed action
- Timescale for implementation

As part of the Internal Audit Progress report the committee are kept informed of the progress on the implementation of the recommendations made.

**Is the Committee aware of any actual, suspected or alleged frauds during 2018/19?**

The committee receives two fraud related reports each year from the Chief Internal Auditor. The latest report presented to the committee on 24 June 2019 detailed the re-active fraud work carried out during 2018/19.

**4. Is the Committee aware of organisational or management pressure to meet financial or operating targets?**

The committee is aware that the council faces challenging times with cuts in grant funding and other financial pressures. The council is also constantly striving to improve efficiency and deliver value for money. This means that there is pressure to meet financial and operating targets and performance in achieving targets and standards of service is monitored by this committee and also through the Performance Panel and Scrutiny Committees. This Committee is not aware of any undue pressure to achieve targets.

**5. How does the Committee gain assurance that relevant laws and regulations are complied with? Are you aware of any non-compliance in 2018-19?**

The Committee is aware that all decision reports include a section on legal implications to ensure that laws and regulations are complied with and that these are reviewed by management. In addition the council has a Monitoring Officer with statutory responsibilities and training policies to ensure staff are aware of latest regulations and laws e.g. information management and data protection. The committee is not aware of any non-compliance in 2018-19.

**6. Is the Committee aware of actual or potential litigation or claims?**

The Committee is aware through the latest Statement of Accounts, that the council currently had no contingent liabilities in 2017/18. In respect of 2018/19 the committee is aware that no contingent liabilities are included in the draft accounts which are subject to audit. The Committee is also aware that the council has an insurance officer who deals with claims received by the
council. In addition any control deficiencies that could lead to claims are covered in audit reports.

7. **How does the Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?**

The Council produces an annual report of the Medium Term Financial Strategy and the Council has a Chief Finance Officer (Section 151 Officer) who reports on the robustness of the budget and adequacy of financial reserves when the Council sets a budget for the forthcoming year. In addition the Committee receives a report on the final accounts from external auditors.

8. **What does the Committee consider to be the related parties that are significant to the Council and what is its understanding of the relationships?**

The Committee is aware from the draft Statement of Accounts that related parties are bodies or individual that have the potential to have significant influence over the council. The committee considers that related parties satisfying these criteria are:

- central government due to their responsibility for the statutory and regulatory framework which governs the council’s operations and due to their provision of grant funding;

- Members of the council who have direct control over the council’s finances, policies and decision making;

- Chief Officers who have the ability to influence decision making at the council through powers delegated to them under the council’s constitution.

- Manydown Gardens Community LLP which was set up during 2018/19 and is a joint partnership with Hampshire County Council to work together with a private developer to deliver new homes on the Manydown Land.

9. **Does the Committee have any concerns regarding relationships and transactions with related parties?**

The committee has no concerns regarding relationships and transactions with related parties. As stated in the draft Statement of Accounts, the Committee is aware that there were no material transactions between the council and council members during 2018/19 and any declarations of interest are recorded in the Register of Members Interests which is open to public inspection. The Committee is also aware that other than the Senior Employees Renumeration which is shown in the Statement of Accounts, there were no related party transactions between the council and Chief Officers.
3 Corporate Implications

3.1 There are no financial, human resources, equality or legal implications in this report.

4 Consultation and communication

4.1 There is no requirement for consultation.

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<td>Decision taken by: Audit and Accounts Committee</td>
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<th>Lead officer</th>
<th>Sue Cuerden, Executive Director of Finance and Resources and Section 151 Officer</th>
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<tr>
<td>Report author</td>
<td>Head of Financial Services – Phillip Hood 01256 845660 Email <a href="mailto:phillip.hood@basingstoke.gov.uk">phillip.hood@basingstoke.gov.uk</a>)</td>
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<td>Chief Internal Auditor – Paul Gundry 01256 845242 Email <a href="mailto:paul.gundry@basingstoke.gov.uk">paul.gundry@basingstoke.gov.uk</a> )</td>
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<td>Version</td>
<td>Final</td>
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<td>Dated</td>
<td>05 July 2019</td>
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<tr>
<td>Status</td>
<td>Open</td>
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<tr>
<td>Confidentiality</td>
<td>It is considered that this report and appendices do not contain exempt information under the meaning of Schedule 12A of the Local Government Act 1972, as amended, and therefore can be made public.</td>
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