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Please ask for:
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Dear Mr Suter,

Thank you for your letter dated 11 July 2023 regarding the International Standards on Auditing (ISAs) requirement that those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council and how the Audit & Governance Committee gains assurance from management.

Please see below the response to your queries on behalf of the Audit & Governance Committee:

(1) How does the Audit & Governance Committee, as 'those charged with governance' at the Council, exercise oversight of management's processes in relation to:

- *undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud or error (including the nature, extent and frequency of these assessments):*

Key financial systems are subject to review by the Southern Internal Audit Partnership (SIAP), who now provide internal audit services to the Council, as part of their annual plan. A summary of key findings from audits performed is reported to and considered by the Committee. Part of these reviews entails confirming that internal controls exist and are operating effectively. Risk of fraud is also considered, where appropriate. Management also undertake regular independent reconciliations and budgetary monitoring to minimise the risk of, and increase the likelihood of detecting, fraud.

The Committee also receives a presentation on the Council's Accounts on an annual basis, together with the external auditor's report, and considers the actions to be taken in respect of any issues identified. These items are then included in the forward work plan.

- *communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Council's codes of conduct):*

All staff are required to comply with the Officer Code of Conduct (which was updated in 2019), raised as part of their recruitment / induction process. Staff are also required to complete a register of interests form on a periodic basis. Internal (and external) Audit undertake periodic reviews of these arrangements.

Members are also required to comply with a Code of Conduct and make a declaration of interests. These arrangements were emphasised as part of the 'induction' process for all Members following the District Council elections in May 2023 and are overseen by the Council's Standards Committee. Member allowances and compliance with 'related party transaction' disclosure requirements are considered by external audit as part of their annual audit work. All Members were required to undertake appropriate training following the May 2023 District elections as part of their induction processes.

Important communications (e.g. the Bribery Act) will be circulated by management to all staff / Members and posted on the Council's internet and intranet sites.

The Council's published Constitution contains details of the Officer Scheme of Delegation, the Chief Executive's Scheme of Authorisations and Financial Rules / Standing Orders. Following the move to the committee system of governance from May 2021, the Constitution was subject to review and amendment with changes approved by Full Council and further changes, as required, will be raised by the Group Head of Law & Governance for consideration by the Constitution Working Party.

- *encouraging employees to report their concerns about fraud:*

The Council has a published Whistleblowing Policy. The current version was circulated to all staff and a copy is provided to new joiners. This advises of the various mechanisms available for any concerns about fraud to be raised, with arrangements in place to handle cases where staff do not feel able to refer it to their line management.

- *communicating to you the processes for identifying and responding to fraud or error:*

Any fraud (other than benefits and housing tenancy fraud) would be investigated by internal audit and reported to the Audit & Governance Committee as part of the regular quarterly meetings, as well as to appropriate senior management. These responsibilities are contained in the SIAP Internal Audit Charter and the Council's Anti-Fraud, Corruption & Bribery Policy, approved by the Audit & Governance Committee.

The Committee has previously acknowledged the importance to the Council of potential housing tenancy fraud and expressed its support for the Housing Fraud Investigator role. Annual update reports on progress and numbers of properties which have been recovered for re-use by the Council are provided by the Neighbourhood Services Manager to the Committee (most recently in February 2023).

(2) How does the Audit & Governance Committee oversee management processes for identifying and responding to the risk of fraud and the controls established by management to address specific risks of fraud the Council has identified, or that otherwise help prevent, deter and detect fraud:

The Audit & Governance Committee has responsibility for the counter-fraud culture within the Council (as assigned within the Constitution). It meets on a regular scheduled basis, although there is provision within its terms of reference to meet more frequently should it be deemed necessary. On an annual basis, the Committee approves the Annual Internal Audit Plan, which is risk-based and includes consideration of potential fraud risk areas. Relevant information is provided to the Committee on the potential fraud areas in Local Authorities and they will ensure that such risks (and any specific concerns) are considered by Internal Audit for inclusion in the Annual Plan.

At these meetings the Committee receives periodic reports from SIAP in respect of key findings from the audit reviews. These reports provide a summary of the work undertaken and areas where the framework of governance, risk management and control could be improved. If the Committee feels that findings are highly significant and / or the response is inadequate, they have the authority to escalate the issue to require further explanation from senior management.

The Committee receives and considers an annual Counter-Fraud Report (summarising the work performed by the Council in relation to fraud during the year) and also the results of any specific fraud-related audit work. These reports include consideration of the key risk areas appropriate to the Council, as advised by external bodies (e.g. the Cabinet Office, CIPFA, etc.), such as housing tenancy, Council Tax discounts and procurement. The Committee is aware that there is ongoing work to monitor activity in these areas and specific future work will be agreed by the Committee when considering the Annual Internal Audit Plan.

The Council's Anti-Fraud, Corruption & Bribery Policy (which includes the provisions of the Bribery Act 2010) was updated in 2019 and approved by the Committee, prior to adoption by Full Council. In view of its importance, the adoption of the revised Policy was communicated to all Council staff and Members, and the document is posted on the Council's website.

The Council takes part in the National Fraud Initiative (NFI) exercise now managed by the Cabinet Office.

As part of the Government's transparency requirements, details of payments over £500 made to suppliers and other external bodies are published on the Council's web site. From February 2015, the publication requirements were extended and some additional information relating to e.g. counter-fraud and procurement is also now published.

The Committee is also advised of any serious breaches of the Authority's Financial Standing Orders and the action taken in response to the breach.

Within the parameters under which the Audit & Governance Committee operates it has the power / authority to initiate investigations (e.g. by means of working parties).

The Committee also has oversight responsibility for governance and risk management processes within the Council and will approve the Council's Annual Governance Statement (which is presented to the Committee and published with the annual Accounts) and also for the review and update of the Council's:-

- Risk Management Framework
- Corporate Risk Register.

These were reviewed, updated and presented to the Committee in November 2022 and corporate risk register updates will be included at each meeting of the Committee.

As part of the agreed plan, a SIAP review of the Council's Fraud Framework is in progress and the results of this and recommendations for improvement will be provided to Council management and the Committee in due course.

(3) Is the Committee aware of any:

- **breaches of, or deficiencies in, internal control;**
- **any instances of management override of controls and the nature and circumstances of such overrides; and**
- **actual, suspected or alleged frauds during 2022/23:**

Apart from the items raised as part of internal audit reviews and / or other reports presented, the Committee is unaware of any breaches of internal control or management override of controls in 2022/23. Although there is ongoing fraud-related work, there are currently no investigations into actual, suspected or alleged frauds advised as being progressed by internal audit.

The Committee is aware that there will have been ongoing investigations / legal action in respect of a number of cases involving housing tenancy issues. A summary of the number of cases is included in the annual Counter Fraud Report presented to the Committee.

However, Committee Members may also become aware of internal control issues through membership other Committees, Working Groups and reports to Full Council.

(4) Is the Committee aware of any allegations regarding the Council's financial reporting (including those received through a whistleblower program)? If so, what are the Committee's responses to such allegations:

The Committee is not aware of any allegations regarding the Council's financial reporting.

(5) Is the Committee aware of any matters from the procedures implemented for the receipt, retention and treatment of allegations (including whistleblowers) regarding accounting, internal accounting controls or auditing matters? Such procedures include those for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and the response to such allegations:

The Council operates an approved Whistleblowing Policy and complies with the Public Interest Disclosure legislation. Details are published on the Council's website, for staff, contractors and members of the public.

The Council maintains a "hotline" to enable staff and / or members of the public to report suspected fraud, or other concerns. Separate arrangements are in place within Revenues & Benefits for the reporting and investigation of suspected benefits fraud cases (although responsibility for benefits fraud has now passed to the DWP's Single Fraud Investigation Service).

The Committee has not been made aware of any matters regarding accounting, internal accounting controls or auditing matters in 2022/23.

(6) Is the Audit and Governance Committee aware of any organisational or management pressure to meet financial or operating targets:

The Council regularly considers its priorities / Corporate Plan and Budget / Financial Prospects and reports are presented to senior management and Members.

While there will be significant organisational / management pressures in the current economic climate, the Committee is not aware of any that are 'inappropriate'. Should any such occurrences be identified by, or advised to, the Committee they would be referred for investigation.

The Council's Vision 2022-2026 is in place, along with revised corporate performance measures in support of this. As part of this, the Council will consider the provision of essential services in the future and requirements for maximising income / substantially reducing costs going forwards. Lack of funding / reduction in resources in the future will lead to an increase in management pressure and this will be kept in view.

(7) How does the Audit & Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2022/23:

As advised in previous years, it would not be possible for the Committee to provide a categorical assurance to the above. Rather, based on its own knowledge of the Council's activities, supported by the reports received by the various committees (in particular the Audit & Governance Committee and the Standards Committee), it is felt more appropriate to state "to the best of our knowledge and belief, all relevant laws and regulations are being complied with."

The Council's Monitoring Officer attends Full Council and appropriate Committee meetings to ensure that the Council acts in an appropriate and legal manner.

(8) Is the Audit & Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements:

The Committee is currently unaware of any litigation or claims that would specifically affect the financial statements (but understand a separate management response is to be provided by the Group Head of Finance, in consultation with Legal Services, covering this). However, Members are aware that there will always be ongoing litigation and claims within the Council e.g. involving Planning appeals. Some members of the Audit & Governance Committee also sit on other Council committees and will thus be aware of these cases. As part of the presentation / approval of the Annual Accounts, Finance staff provide explanations as to provisions, one-off charges / receipts, etc. that are relevant.

(9) How does the Audit & Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements:

On an annual basis, the Audit & Governance Committee is provided with a detailed walkthrough of the Accounts by the Group Head of Finance and/or Financial Services Manager. The Committee also receives a report to provide its 'Approval of the Accounting Policies' and resolved in February 2023 that these were valid and could be applied to the Statement of Accounts for 2022/23.

The Council maintains significant reserves and has, in the past, been debt-free. However, as at 28 March 2012, the Council was required to borrow a substantial sum (£70.9M) in respect of the Government changes to the Housing Revenue Account (HRA) regime. This

debt is being financed at special rates with staged repayment and is ring-fenced, so the general fund is unaffected. Requirements and options for the borrowing were advised by appropriate Officers / external consultants to the Audit & Governance Committee and to Full Council, who approved the borrowing and the necessary changes to the Council's Treasury Management Strategy. This borrowing was a Government requirement, applied to all affected Councils and was supported by a Housing Revenue Account (HRA) Business Plan, which is subject to annual review.

The Committee is also aware that there may be a need for further future borrowing by the Council (e.g. in respect of future Bognor Regis regeneration requirements and the Council's plans to increase its housing stock). This situation will be monitored to ensure that the risks are known by Members prior to approval by Full Council.

As such, it remains the understanding of the Committee that the current 'going concern assumption' of the Council is not affected. However, all Members are aware from the Budget presentation to Full Council in March 2023 that a contribution from reserves was required for the Council's Budget for 2023/24 and that a deficit is expected in future years (unless additional income or costs savings are achieved). The Committee will continue to receive updates and reports on treasury management activity and will have an ongoing oversight of the Council's 'going concern' position.

(10) What does the Audit & Governance Committee consider to be the related parties that are significant to the Council and what is its understanding of the relationships and transactions with those related parties:

The Committee considers the Council's Annual Accounts which include information on Related Parties (defined as bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council) and any material transactions that have taken place during the financial year.

Apart from:-

- Central Government, which provides funding for the Council in the form of grants, etc. to which conditions may be attached and enacts legislation directing the Council in how it should act in certain of its relationships with residents (e.g. in respect of Council Tax, benefits payments, etc.)
- Other public bodies, which the Council is required to collect and submit precepts and levies for but has no controlling influence over,

the Committee is unaware of any parties or transactions of significance to the Council within the definition.

(11) Does the Audit & Governance Committee have concerns regarding relationships or transactions with related parties and, if so, what is the substance of those concerns:

The Committee has no concerns regarding relationships or transactions with related parties. (but understands a separate management response is to be provided by the Group Head of Finance covering this).

(12) Is the Audit & Governance Committee aware if the Council has entered into any significant unusual transaction? If so, please provide details:

The Committee is unaware of any such transaction (but again understands a separate management response is to be provided by the Group Head of Finance covering this).

Yours sincerely

A handwritten signature in black ink, appearing to read 'James Walsh', written in a cursive style. The signature is positioned above a horizontal line that extends to the right.

Cllr Dr James Walsh,
Chair, Audit & Governance Committee