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Appendix B

Date: 26th June 2015
Our ref:
Your ref:

Dear Gavin,

Audit of Sunderland City Council - Financial Statements for the year end 31 March 2015 - Understanding how those charged with governance gain assurance from management.

I am writing with reference to your letter to the Audit Committee on 27 March 2015, in relation to "Assurances from the Audit and Governance Committee as the body charged with Governance", which seeks relevant assurances from those charged with governance required by external auditors under the International Auditing Standards. These assurances are provided below, representing Sunderland City Council's formal response from those charged with governance, which, for the purposes of the financial statements, is the Audit and Governance Committee.

As in previous years, the Audit and Governance Committee have considered the nature and extent of any significant internal and external operational, financial, compliance, fraud or other risks facing the Council which might have an impact on the financial statements. These risks have been addressed in both the planning process for the audit of the financial statements (where officers and auditors have discussed key risks) and, to the extent that it is necessary, in the production of the financial statements. The process for the production of the Annual Governance Statement should also mean that all key risks which would relate to the financial statements have been considered. In response to your letter dated 27 March 2015 please therefore find responses to your questions below and the completed Appendix 1, as requested.

Specific assurances:

1) I exercise oversight of management's processes through receiving reports as the Chair of the Audit and Governance Committee and discussions with key officers. I am aware of the following arrangements:

- ***undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error;***

This responsibility is exercised through the effective functioning of the Audit and Governance Committee, the constitution and operation of which follows CIPFA guidelines.

The Director of Finance (DF) and Head of Assurance, Procurement and Projects (HAPP) attend all meetings of the Audit and Governance Committee to discuss and review findings of Internal and External Audit reviews and the level of adequacy of management's response. The Audit and Governance Committee also consider the Annual Governance Statement and the actions taken and proposed in relation to improving governance and internal controls as necessary.

The Committee also reviews the Internal Audit Strategy and Annual Internal Audit Plan and is able to comment on areas proposed for review. The Council's Corporate

Risks are regularly reported and reviewed by the Committee and the Council's Internal Audit Plan ensures that fraud risk or related concerns are escalated through to the appropriate level or to this committee if appropriate. Ad-hoc meetings between the Chair and the HAPP and/or DF also take place where necessary. Roles and responsibilities of members and officers are clearly set out in Codes of Conduct, the Scheme of Delegation, Anti Fraud and Corruption Policy (including the Fraud Response Plan) and in the Risk Management Policy and Strategy which also describe the relevant registers, declarations and escalation processes to be complied with.

The Audit and Governance Committee is aware of one banking fraud and a number of ongoing suspected fraudulent public liability claims in 2014/2015, however, the scale of these issues would not materially affect the Council in relation to the 2014/15 financial statements.

- ***identifying and responding to risks of fraud in the Council;***

The Council has an Anti Fraud and Corruption Policy which is regularly updated and approved by the committee. The committee reviews the Internal Audit Strategy and Annual Internal Audit Plan, which includes the Counter Fraud Work Programme for the year. The Counter Fraud Work Programme is based on a Fraud Risk Assessment for the effective deployment of resources and includes both reactive and proactive work. The Committee receives regular updates on progress against the Counter Fraud Work Programme with any areas of suspected fraud identified, together with any necessary control measures to be implemented to mitigate the risk of further fraud. Updates are also presented on the implementation of the control improvements.

The system of internal control is a significant part of the Governance framework within the Council and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Internal management control arrangements are in

place which should identify and prevent fraud risks from occurring and detect them if they do occur. The Council engages in numerous fraud prevention and identification activity including corporate processes such as participating in the National Fraud Initiative as well as specific service based fraud identification activity. Should a fraud risk occur then the Council's Fraud Response Plan is followed to ensure concerns are raised at the appropriate level and investigated thoroughly.

- ***communicating to employees its view on business practice and ethical behaviour and communicating to you the processes for identifying and responding to fraud and error;***

Written procedures are in place covering financial and administrative matters which are communicated to staff through the induction process, through management and are available on the Council's intranet site. These documents are regularly updated and set out the standards of conduct that are expected, the policies and procedures which should be followed and what to do if staff have concerns that these arrangements are not being complied with. Internal Audit carries out a programme of work which includes assessing the level of compliance against the Council's key policies and procedures. Key procedures include:

- Codes of conduct;
- Whistle Blowing Policy;
- Anti Fraud and Corruption Policy (including the Fraud Response Plan);
- Corporate Health and Safety Policy;
- Corporate Complaints Policy;
- Corporate Procurement Strategy;
- Code of Practice for Partnerships;
- Treasury Management Strategy;
- Directorate / department budget management schemes.

The Counter Fraud Strategy which supports the delivery of the aims of the Council's Anti Fraud and Corruption Policy was presented to the Audit and Governance Committee in December 2012. This set out in detail a new approach which has been adopted by the Council in tackling fraud across the broad spectrum of the Council and Council funded services.

The key elements of the Strategy include:

In order to effectively tackle fraud it is important that a holistic approach is adopted, focused on preventing fraud occurring in the first place, seeking it out and correcting it where it does exist, and delivering swift and effective punishments to those who attack the Council, whilst deterring others from considering the same course of action.

Under the Integrated Assurance Framework established within the Council, managers are clearly responsible for establishing appropriate controls and for ensuring they are working in practice. The Framework also aims to co-ordinate all assurance activity, including that in relation to fraud and to ensure arrangements are working effectively across the Council. This includes the co-ordination of fraud prevention, detection and investigation arrangements.

The Audit, Risk and Assurance service has the expertise in relation to the design of control systems that aim to manage the risk of fraud. The Risk and Assurance team provides advice and guidance in relation to governance and control matters, including fraud, at the earliest stage to ensure appropriate controls are designed into arrangements as they are being established.

The Internal Audit Team maintains the fraud risk assessment for the Council and undertakes compliance work aimed at detecting fraud and providing assurance on the effectiveness of the controls in place. Internal Audit will also review the effectiveness of management in establishing fraud prevention controls and monitoring compliance with them. This team also undertakes investigations of suspected fraud and corruption.

The service aims to embed a collaborative approach to tackling fraud with an agreed approach to be adopted across the whole Council and its activities and includes counter fraud work undertaken in any service of the Council, schools, partnerships within which the Council is involved, third parties providing services to or on behalf of the Council and other organisations receiving or holding Council funds.

The Audit and Governance Committee met five times during 2014/15 with a quarterly Corporate Assurance Map Update report being submitted to four of the meetings as part of the Integrated Assurance Framework. The Update reports set out the work done to identify fraud and the results of this work and the updated position regarding each risk area identified in the Corporate Assurance Map.

Private meetings are held between the head of internal audit, the External Auditor and members of the Audit and Governance Committee to discuss the detail of any significant investigations into suspected cases of fraud and corruption.

2) I am made aware of management processes for identifying and responding to the risk of fraud and possible breaches of internal control through receiving reports as the Chair of the Audit and Governance Committee and discussions with key officers.

I am aware that arrangements are set out in the Council's Fraud Response Plan, part of the Council's Anti Fraud and Corruption Policy. This sets out how concerns should be reported and who to, what people who suspect fraud should and should not do and what the person who receives the concerns should and should not do. The Fraud Investigation Plan sets out how investigations of concerns should be carried out.

During 2014/15, I was made aware of one breach of control, in relation to a banking fraud that was successfully perpetrated against the Council but this is not considered material for the accounts. Some funds have been recovered and this process is ongoing, although full recovery of the monies is considered unlikely.

3) How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2014-15? If so, please provide details

I am not aware of any actual, suspected or alleged frauds other than the banking fraud and possible fraudulent public liability claims that I have already indicated above. For re-assurance the Committee receives regular reports and updates on the Counter Fraud Work Programme carried out by the Council. The Committee is aware that all Council matters are reviewed for their legality to ensure Council expenditure, services and actions are within the law. As such this Committee has reassurance that legal advice is sought where appropriate and that all reports to Council and members must be reviewed by the legal services section and that legal representation is made at all Council meetings.

Cabinet reports are vetted by or on behalf of the monitoring officer to ensure compliance with legal requirements and there is legal representation at Cabinet meetings. In addition, the monitoring officer and senior members of Legal Services also have access to reports which are considered by the Executive Management Team. As part of their job description, solicitors are required to keep up to date with new and emerging legislation which affects local government. To assist in this role, the team subscribe to an electronic legal update service and various legal publications and regularly attend relevant training courses. As a member of the Association of Council Secretaries and Solicitors and Northern Secretaries Group, information is shared with other local authorities both regarding new legislation and case law and the approach and application of existing legal requirements.

In respect of new legislation or developments in case law, briefing notes or reports are prepared as appropriate and policies and procedures developed in conjunction with officers from the relevant Council departments.

Regular team meetings are held within Legal Services both at "service area" level and senior management team level, at which any concerns regarding the Council's compliance with legal requirements could be raised and addressed.

The Council's Internal Audit Team carries out audits of the Council's corporate legality arrangements, with the objective of providing assurance that the Council has arrangements in place to ensure that it remains within the law as it carries out its business, paying due regard to relevant legislation, statutory requirements and case law. The last review carried out in 2012 reported that there were no issues or concerns raised and the audit gave full assurance regarding the Council's arrangements to ensure legality. The audit concluded that the controls evaluated were well designed, appropriate in scope and applied consistently and effectively.

In addition I am further reassured by the fact that the Council's Head of Law and Governance and Monitoring Officer carries out a self assessment of the legal service which covers the Council's corporate legality arrangements that informs the

Annual Governance Statement and has confirmed that there were no issues to raise and this provides me with the assurance that the Council has arrangements in place to ensure that it remains within the law as it carries out its business, paying due regard to relevant legislation, statutory requirements and case law. Furthermore the Executive Director of Commercial Development has also confirmed in her Controls and Assurance Statement that there were no issues or concerns to raise in this area and as such has given full assurance regarding the Council's arrangements to ensure legality.

4) Are you aware of any actual or potential litigation or claims that would affect the financial statements? If so, please provide details.

On behalf of the Audit and Governance Committee I declare that it has no knowledge of and is not on notice of any non-compliance with laws and regulations that could impact on the 2014/15 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 Council's ability to continue as a going concern? If so, please provide details.

The Council by its very nature is a going concern and the Committee has no reason to believe that any events would impact on this position. The fact the Council shows a net worth of almost £390m and assets worth over £1,094m, with cash backed reserves of over £190m would support our view. The Council is also extremely well managed and prudent in its approach to all financial matters which is reflected in the strong Balance Sheet presented to this Committee as part of the Statement of Accounts for 2014/15.

Yours sincerely,

Geoff Cook
Chairman of the Audit and Governance Committee

Appendix 1

No.	Questions for management	Those charged with governance response
1	<p>Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2014 – 31 March 2015?</p>	<p>There was one breach of control in respect of a banking fraud perpetrated against the Council. This is not material to the accounts and actions are ongoing to recover the monies involved, although full recovery is unlikely. There are also a number of suspected fraudulent public liability claims which are also not considered material in nature.</p>
2	<p>Do you suspect fraud may be occurring within the Council?</p> <ul style="list-style-type: none"> ➤ Have you identified any specific fraud risks within the Council? ➤ Do you have any concerns that there are areas within your Council that are at risk of fraud? ➤ Are there particular locations within the Council where fraud is more likely to occur? 	<p>A fraud risk assessment is in place and is regularly updated which covers all appropriate parts of the Council. This covers areas of fraud risks, sets out the individual risks, a score for the risks and tests that are carried out to identify potential fraud taking place. A programme of proactive counter fraud work is undertaken every year by Internal Audit which did not identify any areas of concern.</p> <p>The Council also takes part in the Audit Commission's NFI programme which also has not identified any areas of concern.</p>
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> ➤ If not where are the risk areas? ➤ What other controls are in place to help prevent, deter or detect fraud? 	<p>Internal controls regarding segregation of duties are in place and the results of Internal Audit work have not highlighted any material concerns. An adequate opinion on the system of internal control has been reported to the Audit and Governance Committee for the year. The Council has an Anti Fraud and Corruption policy and supporting documents in place which is available to all staff on the Council intranet and is included in the induction process. Other controls in place include a robust budget management framework which includes detailed support for Financial Resources, verification checks in key systems such as payroll, BACS payments, Accounts Payable which are aimed at identifying fraud or errors, the majority of Council payments are through the Supplier Relationship Management system which ensures authorisation of payments by an approved authorised officer. There has been a significant</p>

		amount of work undertaken across the Council to raise awareness of Information Governance issues and encourage staff to keep information secure.
4	<p>How do you encourage staff to report their concerns about fraud?</p> <ul style="list-style-type: none"> ➤ What concerns about fraud are staff expected to report? 	<p>This is undertaken by officers of the Council. A Whistle Blowing policy is in place and is on the Council's intranet which gives details of how staff can raise concerns. Publicity campaigns have also taken place where posters have been placed around Council buildings encouraging staff to act on any concerns they may have. Staff are encouraged to raise concerns about any areas where controls are not being complied with, where there is significant non-compliance with policies and procedures or where there are concerns regarding corruption or potential financial loss.</p>
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within your Council?</p> <ul style="list-style-type: none"> ➤ How are the risks relating to these posts identified, assessed and managed? 	<p>The Internal Audit Fraud Risk Assessments identifies potential fraud risks in specific areas which would cover any specific risks in relation to individual posts. Counter fraud checks would be designed to test these risks to identify any potential fraudulent activity.</p>
6	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> ➤ How do you mitigate the risks associated with fraud related to related party relationships and transactions? 	<p>No</p> <p>The Council has robust procedures in place to ensure all related party transactions are identified and then where appropriate are fully disclosed in the Statement of Accounts. The Council has an established Code of Practice for Partnerships and maintains and updates its Partnership Register regularly. Internal practices and processes carried out as part of the closing of accounts timetable also has specific tasks and detailed analysis of all member and chief officer interests and related party transactions which are reviewed and collated to form notes in the statement of accounts. All member interests are also documented and held by democratic services for scrutiny and also help to inform the process. The procedures for the identification and assessment of group accounts process also helps to inform this area in addition to the other processes and policies in place. Reviews by senior management also help inform</p>

		the control process.
No.	Questions for management	Those charged with governance response
7	<p>Are you aware of any entries made in the accounting records of the Council that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> ➤ Are there particular balances where fraud is more likely to occur? ➤ Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the Council? ➤ Could a false accounting entry escape detection? If so, how? ➤ Are there any external fraud risk factors, such as benefits payments or collection of tax revenues, which are high risk of fraud? 	<p>No</p> <p>Internal controls and internal check mitigate the risk as does appropriately qualified and experienced staff involved in compiling the accounts.</p> <p>All areas are subject to a risk review and reports from internal and external audit help identify and report their findings in areas where risk is high. The SAP system makes false accounting unlikely because of the way it is designed and is fed by the bank reconciliation and feeder systems that have separate controls and reconciliation processes in place to maintain the integrity of the financial system. Monthly bank reconciliations are carried out and reviewed by senior management along with balance sheet and suspense account reviews. Strong and robust budgetary control and financial practices are in place across the Council</p> <p>Areas that are identified as high risk are reviewed more regularly by internal audit as part of their risk based approach to auditing.</p> <p>Legal and financial review is carried out across the whole Council spectrum of activity.</p>
8	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> ➤ 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? 	<p>No – The Medium Term Financial Plan, the budget planning process and the Annual budget along with agreed cash limits approach is reviewed and monitored during the year to review achievement and adherence to agreed budget levels agreed by members and executive directors within the Council. Actual performance and any actions necessary are reviewed by management and reported to members who receive formal Cabinet quarterly reports during the year.</p> <p>As a consequence there are no inappropriate pressures or incentives being applied.</p>

