

International Standard for Auditing 240 - The auditor's responsibility to consider fraud in an audit of financial statements

1) How does the Committee, in its role as those charged with governance, 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 (including the nature, extent and frequency of these assessments);
- 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 of views on business practice and ethical behaviour (for example by updating, communicating and monitoring against the organisation's code of conduct); and
- communicating to those charged with governance the processes for identifying and responding to fraud or error?

Response

The Council's financial statements are prepared by experienced and professionally qualified accountants who are regulated by the standards of their respective institutes. The financial statements reflect the transactions which have been processed by the Council's financial systems. These systems are protected by internal controls and procedures which are regularly reviewed and tested by internal audit and our external auditors. Consequently although the material misstatement cannot be ruled out, its likelihood is low.

The Audit Committee provides oversight and challenge in relation to the financial statements and seeks assurances from the Chief Officer - Resources that the accounts are not materially misstated. Updates are regularly provided to Audit Committee in key areas of the statement, any changes in accounting policies and their impact on the statements.

The Audit Committee plays a key oversight role in relation to fraud and error identification. The committee receives regular progress reports on anti-fraud activities taking place within the Council.

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 Good Governance.

The Council's Whistleblowing Policy 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 website and intranet.

2) How does the Committee oversee management processes to identify and respond to the risk of fraud and possible breaches of internal control? Is the Committee aware of any breaches of internal control during 2022/23? Please provide details.

Response

It is the responsibility of management to develop and maintain sound systems of risk management, governance and internal control. 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.

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 there is higher risk. A risk-based audit plan is produced annually based on best practice, taking cognisance of the strategic and operational risk registers and engagement with senior managers. The methodology for prioritising audit work is set out in the audit strategy and plan. Findings are reported as Red, Amber or Green which aligns with the Council's risk management strategy. Red and Amber findings are reported to Audit Committee together with management's agreed actions to address these issues.

The Audit Committee receive a range of assurances/reports during the year which touch upon aspects of internal control. Reports in 2022/23 have included:

- Annual Audit Plans from internal and external audit
- Annual Internal Audit Report and Assurance Statement
- Internal Audit progress reports
- Annual Governance Statement
- Accounting policies, Annual Accounts and External audit Annual Report
- Treasury management annual report and updates
- Regular reports on National Fraud Initiative
- Risk management update on Strategic Risk register

Where deemed necessary the Audit Committee will ask that a relevant officer of the Council is present at Audit Committee meetings to respond to questions on a report being presented.

3) Has the Committee knowledge of any actual, suspected or alleged fraud during the period 1 April 2022 – 31 March 2023? Where appropriate please provide details.

Response

A number of suspected/alleged instances of fraud occurred during 2022/23. These are detailed within the regular reports to Audit Committee. Cases included those relating to housing benefit/council tax and misuse of council resources.

4) Has the Committee any suspicion that fraud may be occurring within the organisation? Please provide details.

- Has the Committee identified any specific fraud risks within the organisation? Please provide details.
- Does the Committee have any concerns that there are areas within the organisation that are at risk of fraud? Please provide details.
- Are there particular locations within the organisation where fraud is more likely to occur? Please provide details.

Response

As with any large and complex organisation there are a range of fraud risks and emphasis on reducing fraud risk is continuous. The results of the NFI, internal audit work and reported fraud show some low value frauds.

Management and the Audit Committee is kept up to date with fraud risks through updates on counter fraud arrangements, Internal Audit and other ad hoc reports.

Fraud risks are acknowledged in key areas. Members and officers are aware of these and the risks are managed through established risk management processes.

5) Is the Committee satisfied that internal controls, including segregation of duties, exist and work effectively? Please provide details.

- If not, where are the risk areas?
- What other controls are in place to help prevent, deter or detect fraud?

Response

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. 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.

In overall terms, Internal Audit have concluded that reasonable assurance can be provided on the Council's system of internal control for 2022/23.

6) Is the Committee satisfied that staff are encouraged to report their concerns about fraud, and the types of concerns they are expected to report? Please provide details.

Response

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.

7) From a fraud and corruption perspective, what are considered by the Committee to be high risk posts within the organisation? Please provide details.

- How are the risks relating to these posts identified, assessed and managed?

Response

Fraud and corruption, and associated risks, come in many forms and, consequently, it is not easy to specifically identify specific posts where there are greater risks than others. However there is a general recognition that there is an inherent risk of fraud within an organisation like a Council and the risk of fraud is managed through existing controls and procedures which are in place across the organisation. The Committee takes assurance from the work of internal audit, the established fraud policies in place and ongoing embedding of a culture of fraud awareness through a programme of anti-fraud training and the work of the Council's fraud team. This helps ensure that issues identified as a result of Internal Audit work or fraud investigations, result in recommendations to management to address gaps in control to ensure that risks are properly mitigated to acceptable levels.

8) Is the Committee aware of any related party relationships or transactions that could give rise to instances of fraud? Please provide details.

- How are the risks associated with fraud related to such relationships and transactions mitigated?

Response

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

Disclosure of significant related party relationships is required for both members and officers in positions of influence.

9) Is the Committee aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading? Please provide details.

- Are there particular balances where fraud is more likely to occur? Please provide details.
- Is the Committee aware of any assets, liabilities or transactions that it believes were improperly included or omitted from the accounts of the organisation? Please provide details.
- Could a false accounting entry escape detection? If so, how?
- Are there any external fraud risk factors which are high risk of fraud? Please provide details.

Response

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.

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.

The Council is a complex multidisciplinary organisation so there is a risk that management is unaware that there is some potential false accounting occurring however this is unlikely given the controls in place for processing transactions. An added control in this area is the review by the external audit team who provide added assurance for transactions which are in excess of the materiality value.

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.

10) Is the Committee aware of any organisational, or management pressure to meet financial or operating targets? Please provide details.

- Is the Committee aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets? Please provide details.

Response

The Committee understands that the Council has financial and operating targets to meet and these are delivered and met through normal management arrangements. However we are not aware of any organisational or management pressure to meet financial or operating targets.

Monthly budget monitoring is conducted with Chief Officers and service managers and reconciliations of key balances are conducted monthly, and significant variances are investigated. There is regular reporting on Budgetary Control to relevant committees.

International Standard for Auditing 250 – Consideration of laws and regulations in an audit of financial statements

11) How does the Committee gain assurance that all relevant laws and regulations have been complied with. For example:

- Is the Committee aware of the process management has in place for identifying and responding to changes in laws and regulations? Please provide details.
- What arrangements are in place for the Committee to oversee this process?
- Is the Committee aware of the arrangements management have in place, for communicating with employees, non-executive directors, partners and stakeholders regarding the relevant laws and regulations that need to be followed? Please provide details.

- Does the Committee have knowledge of actual or suspected instances where appropriate laws and regulations have not been complied with, and if so is it aware of what actions management is taking to address it? Please provide details.

Response

The Council is subject to a range of legal and regulatory frameworks. The Council has a Local Code of Good Governance and has appointed a Monitoring Officer (Head of Regulatory and Regeneration) to ensure that the Council acts lawfully. All committee reports are subject to legal review and comment to ensure key issues are identified.

The Council's Head of Regulatory and Regeneration is a member of the CMT and is sighted on any new strategic projects or initiatives with the Council's Legal Services having specialist officers who provide legal advice and support to particular service areas. As required, training is provided to officers on particular legal issues, some of it being mandatory, for example around data protection and equalities.

Accepting that there will be minor operational instances of non-compliance, we are not aware of any instances of significant non-compliance during the financial year. This is supported by the annual review of the Local Code of Good Governance.

International Standard for Auditing 501 – Specific consideration of the potential for, and actual, litigation and claims affecting the financial statements

12) Is the Committee aware of any actual or potential litigation or claims that would affect the financial statements? Please provide details.

Response

The Council's financial statements disclose contingent liabilities and any provisions for legal claims. The Council's S95 Officer engages with members of the Council's Senior Management Team, including the Head of Regulatory and Regeneration Service (Council's Monitoring Officer) as part of the annual accounts preparation process to identify any ongoing or potential cases which require disclosure in the financial statements.

International Standard for Auditing 570 – Consideration of the going concern assumption in an audit of financial statements

13) How has the Committee assessed and satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

Response

Going concern has been assessed as part of Council's budget setting process in March 2023. The budget setting process requires the Council's s95 Officer (Chief Officer - Resources) 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 the Council in November 2022.

14) Has the Committee identified any events or conditions since the assessment was undertaken which may cast significant doubt on the organisation's ability to continue as a going concern? Please provide details.

Response

The Council agreed a balanced 2023/24 budget on 1 March 2023 and that report presented future budget gaps that will need to be closed in subsequent years. This is consistent with all Scottish local authorities and reflects the financial climate local authorities are operating in with ongoing real terms funding reductions. The Council delivers a number of non-statutory services which, if required could be reduced or stopped in the event that insufficient funding is made available. Therefore, whilst the Council does have future budget gaps, there are viable options available to close the gap meaning there is risk to the Council's ability to continue as a going concern.