AUDIT 2018/19 – REQUEST FOR DECLARATIONS

REPORT OF THE TREASURER

CLEVELAND FIRE AUTHORITY

For Approval

1. PURPOSE OF REPORT

1.1 To inform Members, and seek approval to, a proposed response to the letter received from the Director and Engagement Lead of the Authority's External Auditor, Mazars, regarding processes, arrangements, and compliance with laws and regulations and the prevention and detection of fraud.

2. RECOMMENDATION

2.1 That Members agree the letter at Appendix 1 outlining how the activities of the Committee comply with the International Auditing Standards and authorise the Chair to respond accordingly to the external Auditor.

3. BACKGROUND

3.1 In carrying out the annual accounts audit, Mazars have to demonstrate compliance with International Standards on Auditing (UK and Ireland). The standard requires the external Auditor to gain an understanding, each year, of how the Audit and Governance Committee exercise oversight of management's processes for identifying and responding to the risk of fraud and error and the controls established to mitigate those risks.

3.2 The External Auditor must also gain a general understanding of the legal and regulatory framework applicable to the Authority and how the Authority is complying with that framework. The auditor is required to undertake audit procedures to help identify instances of non-compliance where it may impact on the preparation of the financial statements. These procedures include :

- Enquiring of management whether they have complied with all relevant laws and regulations;
- Obtaining written representation from management that they have disclosed to the auditor all known actual or possible areas of non-compliance; and
- Enquiring of "those charged with governance" whether they are aware of any possible instances of non-compliance.

4. AUDIT AND GOVERNANCE COMMITTEE RESPONSE

4.1 Attached as Appendix 1 is a letter to Mazars from the Chair of the Committee setting out how the committee has complied with the requirements of International Standards of Auditing and fulfilled its Governance role.

CHRIS LITTLE
TREASURER TO THE AUTHORITY

APPENDIX 1

Gavin Barker,
Director,
Mazars
Rivergreen Centre,
Aykley Heads,
Durham,
DH1 5TS.

Dear Gavin,

Further to your request for declarations from those charged with governance we can confirm that the following arrangements are in place to enable the Audit and Governance Committee to exercise oversight of the processes in place to prevent and detect fraud and gain assurance that all relevant laws and regulations are complied with.

1) Questions about arrangements for preventing and detecting fraud

How does the Audit and Governance Committee assess the risk that the financial statements may be materially misstated due to fraud?
As the Audit and Governance Committee we review the Authority's Financial Statements and take advice from both officers' internally and externally regarding the accounting statements and processes in place to ensure they are a true and fair view of the Authority's financial position. A rigorous targeted quality assurance review of the final accounts and financial statements is undertaken by Hartlepool Borough Council's accounting staff who prepare the statements, supported by the Treasurer and the Authority's Finance Team, to ensure that they are not subject to material misstatement. Financial reports are subject to a quarterly review which is scrutinised by the Executive Leadership Team.

Is the Audit and Governance Committee aware of management's process for identifying and responding to the risks of fraud generally and specific risks of misstatement in the financial statements and if so what are these processes?
We are regularly updated in relation to issues regarding potential fraud and review and approve the Authority's Anti-Fraud and Corruption Strategy. As an independent committee of the Authority, the Audit and Governance Committee can at any time seek explanation from any officer of the Authority regarding issues it considers. A rigorous targeted quality assurance review of the final accounts and financial statements is undertaken by Hartlepool Borough Council's accounting staff who prepare the statements, supported by the Authority's Finance Team, to ensure that they are not subject to material misstatement. Financial reports are subject to a quarterly review which is scrutinised by the Executive Leadership Team.

Is the Audit and Governance Committee aware of the arrangements in place for management to report about fraud to the Audit and Governance Committee and if so what are those arrangements?
We considered the Internal Audit Plan for 2018/19 and received regular updates. This allowed members to be kept up to date with the ongoing progress of the Internal Audit section in completing its annual audit plan. These reports allowed the committee to review

the outcomes of all completed internal audit reports and comment upon any areas of concern.

Is the Audit and Governance committee aware of the arrangements management have in place, if any, for communicating with employees, lay members, partners, and stakeholders regarding ethical governance and standards of conduct and behaviour and if so what are these arrangements?
The Authority has strong corporate governance arrangements in place in relation to the risk of fraud. Internal audit has reviewed these arrangements in line with CIPFA and National Fraud Authority guidance to identify and respond to fraud risk areas. This is communicated to staff through an annual training seminar which is jointly run by the Treasurer and Monitoring Officer, with a guidance document available on the intranet and in the staff handbook.

Does the Audit and Governance Committee have knowledge of actual or suspected fraud, and if so is it aware of what actions management is taking to address it?
The Committee does not have knowledge of actual fraud or suspect fraud may be occurring within the Authority and is satisfied that adequate arrangements are in place to tackle suspected fraud.

Are there any classes of transaction, account balances or disclosures for which a risk of fraud is likely to exist?
The Committee considers those posts dealing with all aspects of procurement and cash handling to be high risk in relation to potential fraud. The Committee takes assurance from the fact that risk assessment of posts is undertaken and training is provided to staff and that the Authority has sufficiently skilled and experienced staff to deliver the Authority's objectives.

What arrangements are in place for the Audit and Governance Committee to oversee management arrangements for identifying and responding to the risks of fraud and the establishment of internal control?
The Committee is satisfied that the Authority has adequate governance arrangements in place in relation to its internal control environment and gains assurance from the work of its internal and external auditors.

How does the Audit and Governance committee mitigate the risk of fraud associated with related party relationships and transactions?
The Committee is assured that adequate arrangements are in place for the recording and declaration of any relationships or interests that may raise cause for concern which makes all staff and Members aware of their responsibilities. A periodic check is undertaken.

Are there any related party relationships or transactions which could create a conflict of interests?
The Committee is not aware of any related party relationships or transactions that could create a conflict of interest or give rise to instances of fraud.

How does the Audit and Governance Committee encourage staff to report any concerns about fraud or misconduct?
The Authority has a well-established and publicised Whistleblowing Policy in place as well as an up to date Anti-Fraud and Corruption policy detailing our stance and response in

relation to fraud, and expectations regarding behaviour of officers. Staff are expected to report all instance of suspected fraud and corruption and are encouraged to do so.

Is the Audit and Governance Committee aware of any entries made in the accounting records that you believe or suspect are false or intentionally misleading?

The Committee is not aware of any entries made in the accounting records of the Authority that we believe or suspect are false or intentionally misleading. We do not believe any assets, liabilities or transactions have been improperly included or omitted from the accounts of the Authority. The Committee takes assurance from both its internal and external audit coverage of the Authority's accounting records and is satisfied that sufficient checks and balances are in place.

2) Questions about arrangements for complying with law and regulations responsibilities

Has management provided a clear statement which confirms its consideration of relevant laws and regulations and its compliance with them?

The Authority's Legal Adviser and Monitoring Officer monitors all current and new legislation, ensuring adequate arrangements are in place to enable compliance. The Authority has in place a robust management performance and reporting regime which helps monitor the achievement of objectives including compliance with laws and regulations. There is also a comprehensive internal audit regime which provides independent assurance.

How does the Audit and Governance Committee satisfy itself that all relevant laws and regulations are being complied with?

The Audit and Governance Committee considered the Internal Audit Plan 2018/19 updates. Four of these reports were reviewed by the committee during the year which allowed members to be kept up to date with the ongoing progress of the Internal Audit section in completing its annual audit plan. These reports allowed the committee to review the outcomes of all completed internal audit reports and comment upon any areas of concern. The Committee also receives assurance via the work of the Authority's Legal Adviser and Monitoring Officer through regular update reports. These reports, along with other updates from senior officers at the Authority, provide satisfactory assurance that all relevant laws and regulations are being complied with.

Is the Audit and Governance Committee aware of any instances of non-compliance with laws or regulations?

Members of the Audit and Governance Committee are active in other areas of Authority activity and bring that knowledge and experience to the Audit and Governance Committee in relation to the Authority's operation. The Audit and Governance Committee reviews performance and risk management arrangements in place through the work of Internal Audit and other reports received and is not aware of any non-compliance with relevant laws or regulations during 2018/19.

Has management provided a list of litigation and claims?

The Committee is not aware of any significant litigation or claims that would affect the financial statements.

Has an assessment been made of the outcome of the litigation or claim and its estimate of the financial implications, including costs involved? Has the reasonableness of management's assessments been considered and additional information provided to the auditor where necessary?
The Committee is not aware of any significant litigation or claims that would affect the financial statements.

Has a report been received from management forming a view on going concern?
Reports and information have been provided to the Committee over the course of the year, including reviewing the Authority's Financial Statements and Annual Governance Statement.

Are the assumptions in that report (e.g. future levels of income and expenditure) consistent with the strategic business plan and the financial information provided to the Audit and Governance Committee throughout the year? If not does the report contain a clear explanation, with supporting evidence, for the assumptions used, and are those assumptions appropriate? This should include written evidence of agreed income and expenditure for major funding streams.
The Committee has no significant doubt as to the Authority's ability to continue as a going concern. In 2018/19 we maintained spending within budget and have sufficient reserves to cover known risks to the budgeted position for the year ahead. The Treasury Management Strategy 2019/20 was reported to the Audit and Governance Committee to consider the proposals prior to the strategy being referred to the full Authority for approval in February 2019, and is consistent with the Service Plan and Community Integrated Risk Management Plan.

Are the implications of statutory or policy changes appropriately reflected in the business plan, financial forecasts and report on going concern?
The Authority's Legal Adviser and Monitoring Officer monitors all current and new legislation, ensuring adequate arrangements are in place to enable compliance. The Authority has in place a robust management performance and reporting regime which helps monitor the achievement of objectives including compliance with laws and regulations. There is also a comprehensive internal audit regime which provides independent assurance.

Have there been any significant issues raised with the Audit and Governance Committee during the year (e.g. adverse comments raised by internal or external audit regarding financial performance or significant weaknesses in systems of financial control, or significant variances to activity levels compared to those planned), which could cast doubts on the assumptions made?
There have been no significant issues raised with the Audit and Governance Committee during the year that cast doubt on financial assumptions made when forming a view on the going concern assumption. There is also a comprehensive internal and external audit regime which provides independent assurance.

Has an analysis been undertaken of the Authority's projected or actual performance against its financial plan? If so, is it robust and does it identify any areas of potential concern? Where there are potential concerns what action is being taken to address those areas of potential weakness?
The Treasury Management Strategy 2019/20 was reported to the Audit and Governance Committee to consider the proposals prior to the strategy being referred to the full Authority for approval in February 2019. Financial reports are subject to a quarterly review comparing actual performance against financial plans which are also scrutinised by the Executive Leadership Team. These reports are designed to highlight any potential areas of concern and planned remedial action.

Does the organisation have sufficient staff in post, with the appropriate skills and experience, particularly at senior management level, to ensure the delivery of the organisation's objectives? If not, what action is being taken to obtain those skills?
The organisation has sufficiently skilled and experienced staff to deliver the Authority's objectives, supported by Hartlepool Borough Councils accounting staff. A risk assessment of posts is undertaken, a robust recruitment process is in place, and appropriate training is provided.

Yours Faithfully,

Chris Little
Chair, Audit and Governance Committee — Treasurer to the Authority