

Date: 3rd April 2017
Our Ref:
Ask for: Vince Green
Direct Line: (01282) 661867
E-Mail: vince.green@pendle.gov.uk

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester
FAO: Neil Krajewski

Dear Mr Krajewski,

GAINING MANAGEMENT ASSURANCE
Pendle Borough Council Financial Statements for year ending 31st March 2017

Thank you for your letter dated 21st February 2017, requesting information on how the Council's Accounts and Audit Committee gains assurance from Management on the various areas you have stated. I shall deal with each in turn below. Before I do so, it is worth providing some background on the role of the Accounts and Audit Committee here at Pendle.

The Accounts and Audit Committee is the body charged with the financial aspects of corporate governance (accepting that there is a broader governance role which is discharged not only by the Committee but also by other bodies of the Council, e.g. Executive, Full Council).

The Terms of Reference for the Committee have been provided to you previously and are reviewed periodically by the Committee. The Committee meets at least four times in each financial year. The membership of the Committee was revised in 2015 with a reduced number of councillors (5 rather than 8) supported by the appointment of 2 independent external members each with significant finance and audit experience.

In particular, some of the areas we focus on include:-

- the work of Internal Audit in discharging their responsibility to provide management with assurance that internal controls are being applied effectively in key risk areas across the Council;
- progress in relation to the implementation of the Anti-Fraud, Theft and Corruption Strategy;
- the monitoring of systems for the management of risks and the operation of the corporate governance framework; and

- the work of External Audit.

The work we undertake at each Committee during the financial year supports our role in reviewing and approving the Annual Statement of Accounts when they are presented for approval each year following receipt of your Audit Findings report.

Before turning specifically to matters you raise in your letter (shown at [Appendix A](#)), I have set out in [Appendix B](#) a response to each of the questions raised with additional supporting narrative provided below.

Fraud, Error and Internal Control

In relation to fraud, theft or corruption, I am satisfied that the Council has in place adequate arrangements to prevent, detect and prosecute fraud. The Accounts and Audit Committee has a role to monitor the implementation of the Council's Anti-Fraud, Theft and Corruption Strategy. The Audit and Performance Manager reports regularly to the Committee on the work undertaken to manage fraud at the Council. This includes, for example, Benefit Fraud statistics, an update on the National Fraud Initiative and details of any fraud investigations that have been undertaken by Internal Audit.

As indicated above, in relation to actual, suspected or alleged frauds, at each meeting of the Accounts and Audit Committee, the Audit and Performance Manager has provided a summary of fraud investigations either undertaken or ongoing. It is my understanding that these investigations are conducted in accordance with the Council's Fraud Response Plan. This ensures we are aware of instances of alleged fraud and that appropriate action is being taken to ensure these matters are fully investigated and resolved accordingly.

The Committee also reviews the Annual Governance Statement (AGS). This Statement provides the Committee with a wide range of information on the Council's overall governance framework, how effectively it has operated and what areas need to be improved. For example, included within this Statement are details of how the Council ensures all relevant laws and regulations are complied with. Equally, we are aware that in support of the AGS, each Service Manager within the Council is required annually to provide assurance that the key controls within their Service have operated effectively during the year.

In support of changes to the Council's Management Structure, the Committee reviewed and approved an updated set of Anti-Fraud Policies in January 2015. To ensure Councillors and staff are aware of the Council's arrangements to deal with fraud, and what they too can do to help prevent and detect fraud, information is included on both the Council's internet and intranet sites clearly setting out the Council's policies and procedures. Importantly, information is also provided explaining what to do in the event of alleged fraud, theft or corruption. Annually, the Audit and Performance Manager issues a reminder to all Councillors and staff about these arrangements.

I have focussed here largely on the role of the Accounts and Audit Committee. I mentioned at the beginning of this letter that other parts of the Council contribute to ensuring that the governance framework operating at the Council remains effective. Should you require more details on this, information is provided in the Council's Annual Governance Statement.



In respect of internal control, prior to the start of each financial year, the Committee approves the Annual Internal Audit Plan. This sets out clearly the areas that Internal Audit will review during the year and is, as I understand it, developed from an assessment of the risks inherent within the systems operated within the Council.

We receive regular reports providing details of the progress:-

- that Internal Audit has made implementing the agreed Audit Plan. This includes a statement on the assurance of each auditable area; and
- that Services have made implementing the recommendations agreed following the completion of each audit.

These reports provide the Committee with assurance that Internal Audit is working effectively. To complement this, we also receive a report annually which provides details of a review of the effectiveness of Internal Audit at the Council. We have also received assurance this year that the Internal Audit service conforms to the Public Sector Internal Audit Standards following an external peer review.

Apart from those areas identified by Internal Audit as part of the normal audit process, to the best of my knowledge I am not aware of any breaches of internal control that would have a material impact on the Council's financial statements for 2016/17.

Specifically in relation to fraud, I am not aware of any instances of suspected, alleged or actual fraud other than those which have been reported to the Committee (and which, I believe, you have already been made aware of). Likewise, to the best of my knowledge and on the basis of the information presented to the Committee, I am not aware that there are:-

- any related party relationships or transactions that have given rise to fraud during 2016/17; or
- any entries in the accounting records that I believe or suspect are false.

Laws and Regulations

Part of the role of the Accounts and Audit Committee is to ensure that adequate corporate governance arrangements are in place. This includes arrangements to ensure that the Council complies with relevant laws and regulations.

In particular, the Council has inter alia:-

- an agreed Constitution which sets out the roles and responsibilities of Councillors, employees, the various Committees of the Council alongside the various procedure rules. This is reviewed annually;
- designated the Corporate Director as the Council's Monitoring Officer. As Monitoring Officer, he is responsible for promoting and maintaining high standards of conduct, including financial conduct. Any actual or potential breaches of the law or maladministration must be reported to the full Council and / or the Executive and the post is also responsible for ensuring that procedures for recording and reporting key decisions are operating efficiently;



- designated the Financial Services Manager as the Responsible Financial Officer under Section 151 of the Local Government Act 1972. He is responsible for ensuring the effective management of the Council's finances and fulfilling the Council's statutory requirements in relation to the provision of financial information. He also has responsibility for reporting to the Council and external auditor if the Council or one of its officers has made or is about to make a decision that involves incurring unlawful expenditure or an unlawful action that would result in a loss or deficiency, or is about to make an unlawful entry in the Council's accounts;
- arrangements in place to ensure that reports to Councillors, when taking decisions include, where relevant, appropriate advice on the legality of the actions being proposed.

The full extent of the arrangements in place to ensure compliance with all relevant laws and regulations are reviewed as part of the Accounts and Audit Committee's regular review of the Council's governance arrangements, culminating in the production of the Annual Governance Statement.

To the best of my knowledge, I am not aware, nor have I been informed, of any instances of non-compliance during 2016/17.

Litigation and Claims

I have not been made aware of any potential litigation that would affect the Council's financial statements for 2016/17. The matter disclosed in the equivalent letter last year as a contingent liability (re a housing project funded by the Homes and Communities Agency and managed by Rossendale Borough Council) has been resolved during this year. In my response at Appendix B I make reference to a current investigation by the Health and Safety Executive but am unable to advise further on the likely outcome of this at the present time.

Going Concern

It is my understanding that the 2016/17 financial statements will be prepared adopting the going concern basis. Each year the Committee receives a report from the Financial Services Manager which sets out the rationale for this. For 2016/17, the Committee will be asked to approve the adoption of the going concern basis at its meeting in July prior to formally considering and approving the accounts. This assumption of a going concern basis is made because local authorities are unique insofar as they carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If the Council was in financial difficulty, the prospects are that alternative arrangements would be made by central government, either for the continuation of the services provided, or for assistance with the recovery of a deficit over more than one financial year.

I trust this provides the information you requested. Should you require any further information, please let know.

Yours sincerely,

Councillor Lyle Davy, Chairman, Accounts and Audit Committee



Response from the Accounts and Audit Committee Chairman

Oversight of management processes and arrangements relating to:

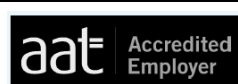
Auditor Question	Response
<p>Has the Authority assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>What are the results of this process?</p>	<p>Yes, however, the process of assessment is not a single piece of work but a series of measures to identify and determine the risks associated with the underlying activities, transactions and related records that form the basis on which the Council’s financial statements are prepared.</p> <p>This includes, for example:-</p> <ul style="list-style-type: none"> • ensuring there are appropriate and robust corporate governance arrangements as set out in the Council’s Annual Governance Statements; • having a Council Constitution that includes procedure rules for financial and contractual matters of the Council; • ensuring systems of Internal Control are in place and are independently reviewed on a regular basis; • having in place arrangements to prevent and detect fraud, theft and corruption including policies and procedures on this and other issues such as bribery and money laundering; • development of a system of risk management including maintenance of the Strategic Risk Register as a means of identifying and mitigating key risks faced by the Council;



	<ul style="list-style-type: none"> • having appropriate financial reporting arrangements in place to ensure issues that present a risk of fraud are reported to the appropriate body. This includes regular monitoring of budgets and financial indicators, use of performance indicators to monitor key service areas; • robust procedures for the closure of the Council's accounts and the production of the financial statements; • staff recruitment and development processes that seek to ensure staff have the appropriate skills, experience and training to discharge their responsibilities effectively.
<p>What processes does the Council have in place to identify and respond to risks of fraud?</p>	<p>The Council has in place robust arrangements for identifying and responding to the risk of fraud. A number of related Policies and Strategies are in place including, for example:-</p> <ul style="list-style-type: none"> • an Anti-Fraud, Theft and Corruption Policy; • a Whistleblowing Policy • a Bribery Policy • a Money Laundering Policy • a Fraud Response Plan • a procedure for dealing with Benefit Fraud. <p>Details of the Council's work on Fraud, Theft and Corruption, including the outcome of any investigations in allegations of fraud, are reported to the Accounts and Audit Committee on a regular basis which provides challenge on the processes adopted.</p>



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<p>What arrangements has the Authority put in place to assure itself that it is appropriate to adopt the going concern basis to prepare the Authority's financial statements</p>	<p>Please see the information provided in the supporting narrative on this question in my covering letter. An assessment is undertaken annually and reported to the Accounts & Audit Committee.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>The Council recognises there are some areas of Council activity where the risk of fraud is higher and takes action to mitigate these risks. Significant areas include:-</p> <ul style="list-style-type: none"> • Benefits – During the year the Council, via its partnership arrangement with Liberata maintains dedicated staff resource to deal with Council Tax Support claims and liaise with DWP in all benefit fraud related matters. With effect from 1st April 2015 responsibility for the investigation of Benefit Fraud in Pendle transferred to the DWPs Single Fraud Investigation Service (SFIS). The Council makes referrals to the SFIS for them to investigate including NFI matches (see below); <p>The Council participates in the National Fraud Initiative data matching exercises which are undertaken every 2 years. This provides information that facilitates the investigation of potentially fraudulent benefit claims;</p> <p>In support of these arrangements, the Council also signposts routes by which instances of alleged fraud can be reported and subsequently investigated e.g. (click here);</p> <ul style="list-style-type: none"> • Cash Collection – Acknowledging that systems involving cash are susceptible to fraud, the Council's Financial Procedure Rules require that adequate internal controls and a separation of duties are in place in cash-based systems;



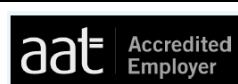
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	<ul style="list-style-type: none"> • Procurement – there is recognition of the potential for fraud in the procurement process. As a consequence, proper arrangements are in place to ensure the scope for fraud in the procurement of goods and services is minimised. <p>Officers are required to comply with Financial and Contract Procedure Rules, appropriate separation of duties is put in place between procurement and payment for goods and services and authorisation limits have been established which are consistent with each Officers level of responsibility.</p> <p>As indicated earlier, underpinning the Council’s activities for the prevention and detection of fraud are a range of policies and procedures. Details of these are set out above.</p> <p>Also, given the Council’s risk-based approach to Strategic Audit Planning, the development of the Council’s Internal Audit Plan recognises areas of significant risk by targeting audit resources accordingly. This ensures that our limited audit resources are focused in the areas of most significant risk.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively?</p>	<p>Fundamentally, it is management’s responsibility to ensure that adequate internal controls are in place.</p> <p>The Council’s internal control processes are reviewed throughout the year as part of work undertaken by Internal Audit.</p> <p>Internal Audit work is guided by the Internal Audit Strategy and 3-Year Strategic Internal Audit Plan. The Plan is developed using a risk-based approach to ensure that audit resources are targeted to areas where there is considered to be the greatest risk to the breach in those controls.</p>



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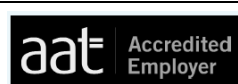
	<p>The current 3-Year Strategic Internal Audit Plan covers the period to March 2017. A new plan covering the period from 2017/18 to 2019/20 will be considered by the Accounts and Audit Committee in March 2017.</p> <p>Although at the time of writing, the Annual Internal Audit Report for 2016/17 had yet to be drafted, the Council's Audit and Performance Manager has indicated that, in his professional opinion, there are no material internal control issues that have arisen during the conduct of internal audit during the year. There have been no audit subject areas assigned an assurance level of 'limited' or 'none'.</p> <p>A review of the effectiveness of the Council's system of Internal Control is undertaken by the Accounts and Audit Committee on an annual basis. This review is informed by a report from the Financial Services Manager which provides various forms of assurance which enables to the Committee to undertake the review.</p> <p>Details of the most recent assessment of the effectiveness of the Council's system of Internal Audit were reported to the Accounts and Audit Committee in July 2016. A further review will be undertaken and reported to the Accounts and Audit Committee in July.</p> <p>In summary whilst it is not possible to provide absolute assurance about the effectiveness of internal controls, on the basis of audit work undertaken in 2016/17, no material areas of concern in this regard have been identified.</p>
<p>If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>As indicated above, the Council has in place robust arrangements for identifying and responding to the risk of fraud.</p>



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<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The external audit plan contains a statement each year referring to a presumption under audit standards (ISA 240) that the risk of management override is present in all entities.</p> <p>Potential areas could include management judgement and estimates used in preparing the financial statements and assessment of the requirement for Group Accounts.</p> <p>The level of risk is assessed as low as there is not the same profit/target driven culture in public sector entities.</p>
<p>Are there any areas where there is a potential for misreporting?</p>	<p>As above, there must be the potential for misreporting but again the risk is considered low for similar reasons and the ethical framework operating within the Council.</p>
<p>How does the Authority exercise oversight over management's processes for identifying and responding to risks of fraud?</p>	<p>The Accounts and Audit Committee is the committee charged with governance at the Council.</p> <p>The Committee receives reports and assurance from Internal Audit on management processes as well as having oversight of the framework leading to the production of the Annual Governance Statement each year.</p> <p>Internal Audit adopts a risk based approach to their work which is independent of service management having full access to senior management and councillors.</p>
<p>What arrangements are in place to report fraud issues and risks to the Authority?</p>	<p>Answers provided to previous questions above outline elements of the Council's arrangements for reporting fraud.</p> <p>The Council has a suite of policies and implements measures each year to promote awareness of the policies.</p> <p>Details are publicly accessible on the Council's website and internal reminders are issued to staff on a regular basis.</p>



	<p>Risks to the Authority can take a variety of forms including service specific risks or wider corporate / strategic risks.</p> <p>We have an established risk management framework supported by a Risk Management Working Group which reports to Management Team. This is in addition to periodic reports on risk to the Accounts and Audit Committee.</p>
<p>How does the Authority communicate and encourage ethical behaviour of its staff and contractors?</p>	<p>The Council has a culture of zero tolerance of fraud.</p> <p>All staff and councillors are expected to abide by their respective Code of Conduct.</p> <p>Senior leaders promote an organisational culture and set of values which emphasise openness, honesty and integrity.</p> <p>A number of related Policies and Strategies are in place including, for example:-</p> <ul style="list-style-type: none"> • an Anti-Fraud, Theft and Corruption Policy; • a Whistleblowing Policy • a Bribery Policy • a Money Laundering Policy • a Fraud Response Plan • a procedure for dealing with Benefit Fraud. <p>Details of these Policies/Procedures are reported and approved by the Accounts and Audit Committee and published on the Council's website and intranet.</p> <p>The Council's Audit and Performance Manager issues periodic reminders on the policies to all staff to ensure there is awareness of the policies, including the standards of behaviour expected, and the mechanisms for reporting any alleged instances of malpractice.</p>



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	<p>Every 3 years, the Council undertakes a survey of staff to test their awareness of the Council's Policies and Procedures on these matters.</p> <p>Formal arrangements apply to contractors linked to compliance with various requirements and standards in the procurement of goods and services.</p>
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	The first question is covered in responses given to previous questions above. No significant issues have been reported in 2016/17.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	No
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2016?	No – based on information reported to the Accounts and Audit Committee on a quarterly basis.
What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?	Please see the information provided in the supporting narrative on this question in my covering letter.
How does management gain assurance that all relevant laws and regulations have been complied with?	Please see the information provided in the supporting narrative on this question in my covering letter.
How is the Authority provided with assurance that all relevant laws and regulations have been complied with?	Please see the information provided in the supporting narrative on this question in my covering letter. In addition all senior managers are required to provide statements of assurance in respect of their own service areas.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2016?	I am not aware of any instances of non-compliance in 2016/17.
What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	The statutory officers have oversight of these matters supported by the Council's Legal team. Any potential litigation or claims would be subject to internal assessment and evaluation including consideration of disclosure or other requirements linked to the production of the Council's accounts.
Is there any actual or potential litigation or claims that would affect the financial statements?	Please see the information provided in the supporting narrative on this question in my covering letter together with the response below.



Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?

I am aware of an investigation currently being carried out by the Health and Safety Executive (HSE) in to the circumstances resulting in an employee sustaining serious injuries in the course of their employment. The investigation has not concluded and at this stage we cannot advise on what action may be taken by the HSE against the Council.

