

Mr A Mack
District Auditor
Audit Commission
16 South Park
SEVENOAKS
Kent
TN13 1AN

10 September 2012

Re: Compliance with International Auditing Standards

Dear Mr Mack

Thank you for requesting my assistance with your current work on the 2011/12 accounts.

The Governance and Audit Committee, which was formed in 2006, has a comprehensive and varied remit which includes oversight of the council's governance and risk management processes, internal audit findings and other matters, such as the council's Treasury Management Strategy and Anti-Fraud and Corruption Policy. Within the detailed Terms of Reference assurance is given that the Committee will follow the CIPFA best practice model.

In order to adequately discharge their role to ensure that the processes are not only adequate but are complied with and weaknesses remedied in a timely fashion, Members are provided regular training on all of the key areas that fall within the Committee's responsibilities. This is seen as being of such importance that the agenda for many if not most of the Committee meetings has been adapted to enable the first half hour of every meeting to be devoted to training time, with additional training sessions having been organised to deal with particularly complex topics, such as the Statement of Accounts and treasury management. Matters relating to the process of identifying and reporting the risk of fraud and possible breaches of internal control regularly feature as part of these sessions and all Committee members are regularly reminded of the council's Whistleblowing Policy.

The specific work that the Committee considered at its meetings during 2011/12 which relate to the points that you raise within your report, included:

- approving the council's Local Code of Corporate Governance and Governance Framework;
- approving the council's Risk Management Strategy and Process, and discussing emerging key business risks;
- approving the council's Anti-Fraud and Corruption Policy, which includes the Whistleblowing Code;



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Thanet District Council
PO Box 9
Cecil Street
Margate
Kent,
CT9 1XZ

01843 577000
www.thanet.gov.uk

- discussing the Internal Audit Manager's Annual Audit report, and agreeing to the Annual Audit Plan, ensuring that high-risk areas and measures to ensure ethical behaviour are adequately covered;
- reviewing reports on progress against the Audit Plan and implementation of agreed Internal Audit recommendations;
- discussion as to how internal audit work is undertaken, and in particular how key risks are managed; and
- considering the action plan to address matters of concern arising from the Annual Governance Statement.

Management have put in place measures to assess the risk that the financial statements may be materially misstated due to fraud that includes the operation of a robust key control framework within the council's financial procedures that has met with favourable internal audit reports, which gives sufficient assurance that the risk is negligible. The key control framework includes adequate segregation of duties within the Accountancy team, and an active personal development plan which means that sufficient members of the section are adequately skilled to not only perform the functions of their role, but be alert to any anomalies that could indicate a misstatement due to fraud. A devolved budget management system is operated which means that managers at all levels have sight of financial transactions being passed through the Income and Expenditure Accounts, which will minimise any rogue payments going un-noticed. Senior management reviews of the draft financial statements are also undertaken which would aid with the identification of any material inconsistencies.

Over and above the controls built into the financial procedures, further assurance can be gained from the thorough review programme undertaken by Internal Audit, who offer a proactive, independent and effective scrutiny of the council's financial processes. The Head of Internal Audit has access to me as the Chair of Governance and Audit at all times, to further strengthen their freedom to report any suspicions of fraud.

The commitment of members and management to dealing with fraud and strengthening internal control is reflected in the commitment given to governance and risk control generally. Dedicated staff resource has been built into the organisational structure to promote good governance and risk management.

In terms of communicating to staff and members the commitment to good governance and anti-fraud principles, a number of different media are used including the Thanet Online Matters [TOM] Intranet site; the Managers' Exchanges and formal staff and member development sessions. Issues relating to the process of identifying and reporting the risk of fraud, possible breaches of internal control and other business proactive and ethical behaviour regularly feature as part of these.

In reply to your question about reported frauds within the financial year in question; to my knowledge there have been no actual, suspected or alleged frauds reported.

I can confirm that as Chair of the Governance and Audit Committee through making enquiries of relevant officers I have gained assurance that the relevant laws and regulations have been complied with by having regard to:

- an experienced, well-resourced in-house legal team with a budget to commission specialist advice as and when required;
- legal implications of key decisions and actions being included in reports wherever necessary, with draft reports being considered by the legal team and Senior Management Team prior to being published;

- the council having comprehensive Financial Regulations and Contract Procedure Rules in place to ensure that they meet best practice standards. These documents, along with the Scheme of Delegation, set the framework for ensuring that transactions are undertaken and decisions are made in accordance with statutory requirements.

Finally, I can confirm that those charged with governance are not on notice of any possible or actual instances of non-compliance with such laws and regulations which should be considered in compilation of the financial statements.

Please find the completed questions on fraud attached as Appendix 1 to this letter.

Should you need any further assurance please do not hesitate to contact me.

Yours sincerely,

Councillor Worrow
Chair of the Governance and Audit Committee

Appendix 1

No.	Questions for those charged with governance.	Those charged with governance response
1	Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2011 – 31 March 2012?	No
2	<p>Do you suspect fraud may be occurring within the Authority?</p> <ul style="list-style-type: none"> ➤ Have you identified any specific fraud risks within the Authority? ➤ Do you have any concerns that there are areas within your Authority that are at risk of fraud? ➤ Are there particular locations within the Authority where fraud is more likely to occur? 	<p>We do not suspect that fraud may be occurring, however, we are aware that the possibility of fraud could be higher in the current economic climate and are therefore making sure that adequate controls are in place to both minimise the risk of fraud and detect any that may be occurring. The possibility of fraud is probably higher within benefits and therefore specialised staff are employed in this area to deal with this.</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>The Internal Audit plan looks at the key internal controls on a regular basis and the results of these audits show that the Council has good control measures in place. Managers are aware of the need for segregation of duties and these are in place wherever resources allow. The authorise signatory forms limit access to systems and certain processes dependent on the nature of an individual's role, thus preventing someone from having inappropriate access to the financial systems. Staff receive regular briefings on being alert to fraud.</p>
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>The Council's whistleblowing policy is widely publicised and officers feel comfortable at raising concerns where appropriate. Staff are expected to raise concerns whenever they suspect something untoward is going on.</p>
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within your Authority?</p> <ul style="list-style-type: none"> • How are the risks relating to these posts identified, assessed and managed? 	<p>Those posts with responsibility for dealing with large sums of money are considered to be high risk posts (e.g, Treasury Management Officer, Creditors Officer, Income Officer). All treasury transactions require a second authoriser and all cheque runs/BACS runs are authorised by a manager. There are segregation of duties controls between the income and creditors sections. Leave must be taken as appropriate which ensures that such officers don't have total control over these areas.</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>Members are expected to disclose any transactions they have entered into of a related party nature. There is one current police investigation involving a member. With regard to EK Housing, they have their own governance arrangements which are subject to Internal Audit scrutiny.</p>
7	<p>Are you aware of any entries made in the accounting records of the Authority 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 Authority? ➤ 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>I am not aware of any false or intentionally misleading entries within the accounting records, nor any assets, liabilities or transactions that were improperly included or omitted from the accounts. System controls and segregation of duties should ensure that false accounting entries do not escape detection. Revenues and Benefits are the area where the risk of fraud is highest but staff specialising in fraud are employed in this area.</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>I am not aware of any such issues</p>