

Helen Thompson  
Director  
Ernst & Young LLP  
Wessex House  
19 Threefield Lane  
Southampton  
Hampshire  
SO14 3QB

26<sup>th</sup> June 2015

Dear Helen

### **Understanding how the Audit Committee gains assurance from management**

The Audit Committee oversees management processes for identifying and reporting the risk of fraud or error and possible breaches of internal control within the Council. In response to your questions;

1) In line with the Committee's Terms of Reference this oversight is achieved through receiving and appraising reports as to the effectiveness of internal control arrangements, through internal and external audits' annual audit report and opinion, the risk scored audit plan and annual governance review, through assessing the Financial Statements and reviewing the Annual Governance Statement. Audit progress reports are presented by the Internal Audit Manager throughout the year.

The Committee is not aware of any significant risks facing the Council which might have an effect on the 2014/15 financial statements or of the likelihood of those risks occurring, which are not already recorded within your Audit Plan report.

The Council maintains within its Constitution Codes of Conduct for Officers and Members, as well as the relationship between the Leader the Chief Executive. The Constitution is regularly updated and as part of the AGS action plan for 2014/15 received a further update. The Council also developed a campaign during the year; "RESPECT", as a result of findings from the employee survey. This campaign addresses expected behaviours across the Council. In addition the Committee is aware of the HR induction process. Internal Audit has carried out reviews of Officer awareness of these codes.

Internal Audit identified that some areas of the Council were not familiar with the Whistleblowing policy and other fraud related policies. As a result a new e-learning package has been developed and made available to all officers and Councillors, a new incident reporting tool is on the Council's intranet page, and for those officers who do not use computers, internal audit has attended service days to raise awareness of Whistleblowing and ways to report a fraud. Internal Audit, Management and this Committee are fully supportive of further development of the Council's fraud prevention and detection arrangements and have approved additional time within the 2015/16 risk based audit plan to ensure this can be achieved.

Any significant issues on key financial system controls are reported to the Committee by Internal Audit. The Committee receives details on reports such as the Accounts Payable system and the weaknesses identified with updates to the implementation of recommendations made. This was area of concern during 2014/15 due to access rights within the system, which has since been resolved.

The Committee receives the Internal Audit annual report which includes the Internal Audit Manager's opinion on the adequacy and effectiveness of the Council's control environment.

2) Management processes and internal controls are reviewed by both Internal and External Audit. These professional opinions together with any breaches are reported to Committee.

3) No significant breaches of internal control have been reported to Committee which aren't being addressed by management.

The Committee receives progress reports from the Internal Audit Manager, where assurance opinions are provided together with the number of recommendations made in each audit. If high priority recommendations are not agreed, or if there is an overdue high priority recommendation, then the details are reported to Committee. The Committee can request a copy of any Internal Audit report, or request additional information from the Audit team if required.

There have been a number of high priority audit recommendations which are overdue. The Audit Committee is monitoring progress around these including compliance with the Payment Card Industry Data Security Standards (PCI DSS) which could leave the Council exposed to the risk of fraud. The Internal Audit Manager has access to the Chair if there were any serious concerns to report immediately.

Actual, suspected or alleged frauds affecting the Council, are made known through audit reports and the Annual Governance Statement.

The Committee has received fraud training from the Internal Audit team in the past. During the year the Internal Audit Manager reported that a new E-learning tool is now available to officers and Councillors.

4) The general economic climate brings financial pressures to all Government bodies. The Council has agreed a balanced budget (not requiring the use of reserves) for 2015/16 whilst maintaining a freeze to Council Tax. There may be further deeper cuts and potential changes to Business Rates legislation although this is not yet known. There are further pressures as a result of the economic climate, such as Housing needs as we are seeing higher levels of homelessness applications. (Which are currently resulting in higher bed and breakfast payments). There are pressures on officers to achieve agreed operational targets however none are driven by performance related pay.

5) In respect of complying with all relevant laws and regulations, assurance is gained through the Monitoring Officer, who works closely with the Committee. The Monitoring Officer can advise Committee before decisions are taken if there are legal or regulatory implications. All Executive Management Team and Committee reports are administered through the Legal and Democratic Services.

6) There is one long outstanding national claim for Land Charge searches which is close to settlement. A provision has been made in the accounts. When the final decision is made, Officers will provide you with the details and update the accounts if required. There are no further claims that the Committee is aware of.

7) There are no events which may cast significant doubt on the Council's ability to continue as a going concern. A balanced budget has been set for 2015/16. There is already work in progress, led by EMT, to identify and deliver further savings in accordance with the Council's Medium Term Financial Plans. The Council has also created "Fit for Future" projects to support the MTFP with customer and people lead strands.

Yours sincerely

Cllr A O'Sullivan  
Chair of the Audit Committee  
on behalf of New Forest District Council