

Appendix 3

Responses to questions raised by Ernst & Young

Table 1: From the Chair of the Audit Committee

No.	Questions for Audit Committee	Response
1	<p data-bbox="300 441 820 544">How does the Audit Committee exercise oversight of management's processes in relation to:</p> <ul data-bbox="347 589 820 1574" style="list-style-type: none"><li data-bbox="347 589 820 835">• 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); <li data-bbox="347 1216 820 1574">• Identifying and responding to risks of fraud in the Council, 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;	<p data-bbox="852 589 1396 1171">The Council has various controls that are put in place to minimise the risk to the financial statements. These include: policies and procedures around the recruitment of staff to key positions with Corporate Finance; separation of duties (e.g., treasury management, preparation of the final accounts); security arrangements over financial systems (Oracle and various feeder systems); approvals hierarchies; annual review of key financial systems (as identified by external audit) by internal audit and annual review by external audit (Ernst & Young).</p> <p data-bbox="852 1216 1396 1753">Internal audit (RSM Tenon) carry out annual reviews across all services. As part of this process, an annual assessment is carried out where services are asked to identify potential risks, including the risk of fraud. The greatest risk of fraud to the Council is the payment of benefits and there is a dedicated Fraud Benefit Team managed by the Head of Corporate Finance and resourced with appropriately qualified and skilled staff. RSM Tenon work closely with the Fraud team to respond to any cases identified.</p> <p data-bbox="852 1798 1396 2045">The Council undertakes checks as part of the National Fraud Initiative, with internal audit acting as the key contact and providing advice and guidance to services as appropriate. Internal audit also carry out random sampling of invoices.</p>

	<ul style="list-style-type: none"> • Communicating to employees its view on business practice and ethical behaviour; • Encouraging employees to report their concerns about fraud; and • Communicating to you the processes for identifying and responding to fraud or error? 	<p>RSM Tenon have specialist contract and IT auditor teams who carry out reviews in these potentially higher risk areas and conduct audit needs assessments with the Council to identify risks.</p> <p>There is a dedicated section of the 'In-Form' intranet for staff relating to the Council's ethical governance framework. This site is also accessible through the Members' section. The front page of the site covers the Council's vision, aims and priorities, as well as setting out the information security policy and compliance arrangements; under the 'Policies' tab staff and Members have access to the Council's Ethical Governance Framework and the Local Code of Governance.</p> <p>There is also a register of gifts/hospitality/interests which requires staff and Members to declare any of these that they receive.</p> <p>There is an ongoing poster campaign regarding the Council's Anti-Fraud and Corruption Strategy and Whistleblowing Policy.</p> <p>There is a requirement for declarations of interest to be made before each Committee/Council meeting.</p> <p>Since 2007 the Council has maintained its Corporate Anti-Fraud and Corruption statement of policy, as well as the Whistleblowing plan. These policies are available to everyone via the intranet/internet. The audit plan makes provision for the updating of all policies periodically ensuring that there is a clear understanding by employees and managers of how to raise concerns in the right way and at an early stage</p>
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		regarding concerns of any impropriety and misconduct. The new 2013 Anti-Fraud and Corruption Policy goes further by complementing the Whistleblowing plan to explain specific areas of fraud risk and how employees can raise their concerns effectively.
2	How does the Audit Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control?	Each meeting of the Committee receives an update on progress against the agreed internal audit plan for the year. Each completed audit is scored against a RAG rating and where there is cause for concern, the relevant Director is required to produce a report setting out steps taken to date and future plans ensure that fraud risks and/or breaches of internal control have been mitigated. Examples during financial year 2012/13 include a review of schools' admissions (that gave a clean bill of health) and a review of redundancy/compromise agreements that required further management action.
3	Is the Committee aware of any: <ul style="list-style-type: none"> • Breaches of, or deficiencies in, internal control; and • Actual, suspected or alleged frauds during 2012/13? 	To the extent that these have been reported to the Audit Committee as detailed in the response to Q2 above.
4	Is the Committee aware of any organisational or management pressure to meet financial or operating targets?	For financial year 2013/14, the Director of Finance & Corporate Governance has highlighted the following issues: <ul style="list-style-type: none"> • Not delivering the planned savings and efficiencies from transformation and new ways of working. • Unforeseen impacts arising from the consequences of welfare reform, in particular the introduction from April 2013 of the Local Council Tax Support Scheme, the Essential Living Fund and the occupancy

		<p>limitations for Housing Benefits.</p> <ul style="list-style-type: none"> • Unforeseen impacts arising from the transfer of public health services from the PCT to the Council in April 2013. • The impact of the localisation of business rates for April 2013 and the consequences of future changes in the total rateable value of businesses located in Thurrock. • Interest rate rises that would reduce the ongoing savings arising from the restructuring of debt carried out in August 2010. • Any liabilities that arise from the assimilation of the Thames Gateway Development Corporation. • Any shortfall against the expected value of assets identified for disposal. • Adequacy of contingency funds to meet demographic and economic pressures.
5	<p>How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with?</p> <p>Are you aware of any instances of non-compliance during 2012-13?</p>	<p>By exception via reports by the Council's external and internal auditors, as well as <i>ad hoc</i> reports from the Monitoring Officer or S151 Officer.</p> <p>No.</p>
6	<p>Is the Audit Committee aware of any actual or potential litigation or claims that would affect the financial statements?</p>	<p>No.</p>
7	<p>How does the Audit Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?</p>	<p>By reviewing the financial statements and levels of reserves against advice and guidance provided by the S151 Officer (the Director of Finance & Corporate Governance).</p>

Table 2: From the Director of Finance & Corporate Governance

No.	Questions for Management	Response
1	<p>What are the management processes at the Council in relation to:</p> <ul style="list-style-type: none"> • 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 Council, 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 its view on business practice and ethical behaviour; • Encouraging employees to report their concerns about fraud; and • Communicating to the Audit Committee (i.e., those charged with governance) the processes for identifying and responding to fraud or error? 	<p>Please see response to Q1 for Audit Committee above.</p> <p>In addition, the Council operates a scheme of delegation, a hierarchical structure of authorisation (e.g., for payments, ordering, write-offs, etc.), an internal control framework that as far as possible ensures appropriate segregation of duties to help prevent, deter and detect instances of fraud.</p>
2	<p>What are Management's views about whether there are areas within the organisation that are at risk of fraud?</p>	<p>Aware of instances of Housing benefit and Tenancy fraud. These are reported annually through the fraud survey process overseen within the Council by senior officers in Corporate Finance and Housing.</p>
3	<p>Does management have knowledge of any actual or suspected or alleged instances of fraud at the Council?</p>	<p>See response to Q2 above.</p>
4	<p>Is management satisfied that internal controls to prevent and detect fraud, including segregation</p>	<p>Yes. See response to Q1 above.</p>

	of duties, exist and work effectively at the Council?	
5	Are there any deficiencies in internal control at the Council?	No.
6	Are you aware of any instances where controls have been overridden at the Council?	Yes. These have been reported to the Committee as identified along with agreed management action to address the issues raised.
7	Is there any organisational or management pressure to meet financial or operating targets?	The Director of Finance & Corporate Governance has outlined these in his S25 report attached to the budget agreed in February 2012. The key issues are summarised in the response to Q4 of the questions for Audit Committee.
8	Are there any particular areas of the accounts that are more susceptible to false entries or omissions or other forms of manipulation? Are management aware of any such manipulation having occurred at the Council?	No. No.
9	How does management gain assurance that all relevant laws and regulations have been complied with? Have there been any instances of non-compliance during 2012/13 at the Council?	By exception via reports by the Council's external and internal auditors, as well as <i>ad hoc</i> reports from the Monitoring Officer or S151 Officer. No.
10	Are there any actual or potential litigation or claims that would affect the financial statements at the Council?	No.
11	How does management satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?	By reviewing the financial statements and levels of reserves against advice and guidance provided by the S151 Officer (the Director of Finance & Corporate Governance).
12	Have there been any relevant matters of non-compliance raised by any regulator or review agency in relation to the Council's operations?	No.