

Date 8 July 2009
Your Ref MS/JA
Our Ref CF808070911/AB/JEM
Tel No 0121 380 6007
Please ask for Alan Brandon

Dear Mark,

Audit Committee responsibility for preventing and detecting fraud

Thank you for your letter dated 25 June 2009.

Below are the responses to your request for assistance.

How does the Committee assess the risk that the financial statements may be materially misstated due to fraud?

- Sandwell MBC's internal audit section maintains, on behalf of the Fire Service, a Fraud Risk Register. This assesses the likelihood and impact of areas within the Fire Service, susceptible to fraud and rates them as high, medium or low. This includes a risk of: "falsifying the records/accounts/indicators of the WMFS". The risk register lists a number of mitigating actions against this risk, including:
 - The role of internal audit in reviewing key financial systems.
 - The role of external audit in reviewing key financial systems.
 - The role of the Audit Committee in reviewing the Authority's Year end financial accounts prior to them being published.
 - A robust system of internal control as evidenced by the work undertaken by Internal Audit.

The residual risk score for this risk is medium.

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Is the Committee aware of the management's process for identifying and responding to the risks of fraud generally and specific risks of misstatement in the financial statements?

- The Committee is aware that there are Financial Regulations, Standing Orders, an Anti- Fraud & Corruption Policy (which sets how management identifies and responds to fraud) and a Whistleblowing Policy in place in order to respond to the risk of fraud. A full internal audit service is provided by Sandwell MBC's internal auditors, who include detailed reviews on the control framework over, and accuracy of the, Service's key financial systems. The internal auditors work with the Audit Commission on their key financial systems work, and there is a joint working protocol in place.

The internal auditors also provide a full pro-active counter fraud work programme as part of their Annual Internal Audit Plan, which includes maintenance of a fraud risk register on behalf of the Fire Service, targeted testing of areas susceptible to fraud, and the hosting of raising fraud awareness seminars for Fire Service staff, also regular reports and responses to the Audit Committee.

Is the Committee aware of the arrangements in place for management to report about fraud to the Committee?

- The Committee is aware that the Fire Service's Treasurer, through Sandwell MBC's internal audit section, is responsible for investigating potential fraud as laid out in the Service's Anti-Fraud & Corruption Policy. Internal Audit will report to the Audit Committee on any such frauds.

Is the Committee aware of the arrangements management have in place, if any, for communicating with employees, Members', partners and stakeholders regarding ethical governance and standards of conduct and behaviour?

- As far as members conduct and behaviour is concerned this is in the Code of Conduct, a copy of which all members receive and specifically sign up to. The Standards Committee leads on such matters and Minutes go to all members of the Authority and are reported to Authority meetings. The Monitoring Officer attends meetings and from time to time provides specific advice to members. As far as employees are concerned, there are numerous codes/policies, etc. that cover these areas. The last Standards Committee did discuss communicating more widely particularly with the wider community and is looking into some suggestions for doing this. Employees are reminded quarterly of the existence of the Anti-Fraud and Corruption Standing Order.

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Does the Committee have knowledge of actual or suspected fraud, and if so is it aware of what actions management is taking to address it?

- Internal Audit will produce a report, where appropriate, on any investigations into potential fraudulent activity. Part of the auditor's investigation will include a review of the internal control framework, should any weaknesses be identified, these will be brought to the attention of the Audit Committee through the internal auditors' Progress or Annual Report. The Committee also receive a report on all instances of whistleblowing.

What arrangements are in place for the Committee to oversee management arrangements for identifying and responding to the risks of fraud and the establishment of internal control?

- The Fire Service has benchmarked itself against CIPFA's Managing the Risk of Fraud - Actions to Counter Fraud and Corruption (known as "Red Book 2"), a copy of which has been circulated to all Audit Committee members, which is a comprehensive document listing actions that CIPFA's Better Governance Forum believe an organisation need to have in place to effectively counter fraud and corruption. It asks a total of 53 questions under five specific headings, these being adopting the right strategy, accurately identifying the risks, creating and maintaining a strong structure, taking action to tackle the problem and defining success. The results of this exercise were reported to the Audit Committee at its June 2009 meeting, and an Action Plan has been prepared in order to further enhance the framework.

If you have any queries, please do not hesitate to contact me.

Yours sincerely,

Councillor Ken Turner
Chairman of the Audit Committee

Copies to: Deputy Chief Fire Officer
Director Finance and Procurement
Director Corporate Services
Audit Manager

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