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Dear Maria

**Re: Compliance with international auditing standards**

Thank you for your letter dated 28 June 2010. In your letter you have asked about how the body charged with governance, which in this council's case is the Audit and Corporate Governance Committee, ensures management controls are effective in combating the risk of fraud and error. As the Chairman of the committee I have provided answers to your questions below.

**1. How does the Audit and Corporate Governance Committee oversee management processes to identify and respond to the risk of fraud and the risk of breaches of internal control ?**

The committee has broad terms of reference and enjoys unfettered scope across all management processes and the whole internal control environment.

The principle mechanism for identifying financial risks (including fraud) and assessing the effectiveness of the internal controls is the internal audit function. The committee has championed Internal Audit and helped to raise its profile in the council. The committee takes a keen interest in the formulation of the internal audit annual plan as well as in the individual reports produced by Internal Audit.

For example, the committee welcomed the inclusion of a fraud-test based audit for the first time this year. This involved the deliberate creation by Internal Audit (sanctioned by the s.151 officer) of spurious transactions, specifically targeting the effectiveness of existing anti-fraud internal controls. The committee will challenge management about any control failures which expose the council to increased risk from fraud.

The auditors enjoy strong support from the committee, and the committee regularly delves into higher risk areas and rejected audit recommendations, usually adding weight to the audit opinion in order to ensure management improves the level of internal control to reduce the likelihood of fraud.

In addition to specific system-based audit reports, the committee annually receives a report from Internal Audit on the adequacy of the internal control environment, as well as the Annual Governance Statement and external audit reports. With each one the Committee upholds the auditor's findings and challenges management to explain its approach. The committee has been critical of managers (e.g. the weaknesses with closedown processes, poor reconciliations, brown bin arrears, etc) and has made sure that internal controls were strengthened to reduce the risk of fraud or error.

2. Whether the Chairman has any knowledge of any actual, suspected or alleged frauds affecting the Council ?

The main type of fraud perpetrated against the council is the over-claiming of housing and council tax benefit. The committee receives regular reports on housing benefits including the systems of internal control, effectiveness of anti-fraud measures and record of prosecutions. The committee takes a proactive approach and questions officers without waiting for reports. E.g. at the March 2010 meeting the committee spent significant time questioning Capita and council officers on benefit overpayments and fraud.

In terms of internal or management fraud perpetrated by officers or councillors against the council, I am not aware of any previous, current or suspected cases.

I trust you find these high level responses informative. If you require more detailed responses or clarification of any point, please do not hesitate to ask.

Yours sincerely

**Patrick Greene**  
**Chairman of Audit and Corporate Governance Committee**