

Report of	Meeting	Date
Head of Shared Assurance Services	Audit Committee	30 th June 2010

COMPLIANCE WITH INTERNATIONAL AUDITING STANDARDS

PURPOSE OF REPORT

1. The purpose of this report is to enable 'those charged with governance' and 'management/section 151 officer' to provide the assurances being sought by the Audit Commission as part of their audit of the Council's 2009/10 accounts. The specific assurances being sought by the Audit Commission are set out in the two letters appended to this report.

RECOMMENDATION

2. That, subject to consideration by the Committee, the Chairman of the Audit Committee and the Director Transformation (Section 151 statutory chief finance officer) be authorised to sign the assurance letters requested by the Audit Commission.

EXECUTIVE SUMMARY OF REPORT

3. In February 2010, the Audit Commission wrote to the Director Transformation, via the Internal Audit Manager (Appendix 1) and the Chair of the Audit Committee (Appendix 2) requesting information to assist with their audit of the Council's 2009/10 financial statements. Given the assurances requested were similar to the evidence being collated by Internal Audit to support the Annual Governance Statement (AGS), (also on the agenda for this meeting) and in the interests of transparency, it was agreed with the Audit Commission that responses to their letters would be provided following consideration at this meeting.

Having reviewed the specific information being sought, Internal Audit is satisfied that the Council's arrangements are such that positive assurances can be given in response to the Audit Commission. Principally, this conclusion is arrived at through the:

- comprehensive assurance and evidence gathered in compiling the AGS;
- ongoing work of the Audit Committee and Internal Audit scrutinising and challenging the Council's arrangements;
- work of the Section 151 Officer and the Head of Shared Financial Services, the financial arrangements and controls, including financial procedure rules, that have been adopted; and
- work of the Monitoring Officer and the Legal Team.

Further detailed information to support Internal Audit's review and conclusions can be found in the tables at Appendices 3 and 4.

CORPORATE PRIORITIES

4. This report relates to the following Strategic Objectives:

Strengthen Chorley's economic position in the central Lancashire sub region		Develop local solutions to climate change	
Improving equality of opportunity and life chance		Develop the character and feel of Chorley as a great place to live	
Involving people in their Communities		Ensure Chorley is a consistently top performing organisation	✓

18th February 2009

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Dear Clare

Audit of Chorley Borough Council Financial Statements - Compliance with International Auditing Standards

In order to comply with a number of International Standards on Auditing (ISA (UK&I) 240, 250 and 501) we are required to obtain an understanding of the management processes with regard to fraud and internal control, laws and regulations and potential for litigation and claims affecting the financial statements.

ISA+ 240 focuses on management processes in place in relation to:

- Undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
- Identifying and responding to risks of fraud in the organisation;
- Communication to employees of views on business practice and ethical behavior; and
- Communication to those charged with governance the processes for identifying and responding to fraud.
- Awareness of any actual or alleged instances of fraud.

ISA+ 250 requires that auditors understand how management gain assurance that all relevant laws and regulations have been complied with.

ISA+ 501 requires that auditors obtain confirmation from management around the potential for litigation and claims that would affect the financial statements.

A brief response by email to the above issues and how they are addressed either by management or by yourself in your capacity as s.151 officer will suffice.

Please call me if you wish to discuss anything in relation to this request.

Yours sincerely

Michael Green
Audit Manager



2nd February 2010

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Chair of the Audit Committee
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Dear Anthony

**Audit of Chorley Borough Council 2009/10 Financial Statements -
Compliance with International Auditing Standards**

This is a request for your assistance as Chair of the Audit Committee with our current work on the Council's accounts for 2009/10. In your role as Chair of the Council's Audit Committee ("those charged with governance") I am required to obtain your views on the following issues as part of our planning for the 2009/10 financial statements audit:

1) Oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council

In order to comply with International Standards on Auditing we are required to obtain an understanding of how "those charged with governance" exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council.

I would be grateful if you would confirm:

- how the Audit Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control in the Council?;
- whether you have knowledge of any actual, suspected or alleged frauds affecting the Council?;
- whether the Audit Committee is satisfied that it has sufficient assurance that internal controls, including segregation of duties, exist and work effectively?; and
- whether you have any knowledge of any actual, suspected or alleged breaches of internal control?.

2) Assurance that all relevant laws and regulations have been complied with

I would be grateful if you would explain:

- how the Audit Committee gains assurance that all relevant laws and regulations have been complied with?; and

- whether you have knowledge of any actual, suspected or alleged breaches of relevant laws and/ or regulations by the Council?

3) Going concern – how the Audit Committee satisfies itself as to whether it is appropriate for the Council to adopt the going concern basis in preparing the financial statements

I would be grateful if you would explain:

- How the Audit Committee satisfies itself as to whether it is appropriate for the Council to adopt the going concern basis in preparing the financial statements?

4) Financial Reporting

I would be grateful if you would explain:

- How the Audit Committee considers any significant items in the accounting records which are vulnerable to manipulation such as estimates based on judgement and unusual or highly complex transactions?;
- Whether you are aware of any entries made in the accounting records of the organisation that you believe or suspect are false or intentionally mis-leading?; and
- Whether you are aware of any non-financial management involvement in the selection of accounting policies and estimation techniques?

5) Misappropriation of Assets

I would be grateful if you would explain:

- How the Audit Committee satisfies itself that the Council has adequate controls over assets susceptible to theft?

A brief response either verbally or by e-mail will suffice. I would be grateful if you could provide a response at or before the Audit Committee 30th June 2010. Please call me if you wish to discuss anything in relation to this request.

Yours sincerely

Fiona Blatcher
Senior Audit Manager

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Issue	How management demonstrates that it secures the relevant assurances
<ul style="list-style-type: none"> Assessment of the risk that the financial statements may be materially mis-stated due to fraud; 	<ul style="list-style-type: none"> Risk-based Internal Audit Plan Review of key financial systems on an annual basis Provision of controls assurance ratings in each Internal Audit report Quarterly monitoring reports to Audit Committee
<ul style="list-style-type: none"> Identifying and responding to risks of fraud in the organisation; 	<ul style="list-style-type: none"> The Corporate Risk Management Framework / operational risk registers Whistleblowing Policy Anti-fraud and Corruption Strategy Annual Governance Statement National Fraud Initiative Use of IDEA (data interrogation software)
<ul style="list-style-type: none"> Communication to employees of views on business practice and ethical behavior; 	<ul style="list-style-type: none"> Annual Governance Statement (AGS) and Service Assurance Statement (SAS) Employee Survey Council's Values Competency Framework Code of Conduct for Employees
<ul style="list-style-type: none"> Communicating to those charged with governance the processes for identifying and responding to fraud. 	<ul style="list-style-type: none"> New or revised governance policies e.g., the Whistleblowing Policy, Anti-Fraud & Corruption Strategy presented to Audit Committee
<ul style="list-style-type: none"> Awareness of any actual or alleged instances of fraud 	<ul style="list-style-type: none"> Detailed reports by Internal Audit following any investigation activity BEU publicise all successful prosecutions internally and externally
<ul style="list-style-type: none"> Law and regulations - focusing on whether the council complies with the relevant laws and regulations 	<ul style="list-style-type: none"> Annual Governance Statement Completion of Service Assurance Statement by senior management Role of the Monitoring Officer Team of qualified lawyers to advise officers
<ul style="list-style-type: none"> Potential for litigation and claims affecting the financial statements 	<ul style="list-style-type: none"> Provision of appropriate insurance covers (fidelity guarantee, officials indemnity, professional negligence)

Issue	How 'those charged with governance' demonstrate that they secure the relevant assurances
<p>An oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council:</p> <ul style="list-style-type: none"> • How 'those charged with governance' oversee management processes to identify and respond to the risk of fraud and possible breaches of internal control in the Council; • Whether 'those charged with governance' have knowledge of actual, suspected or alleged frauds affecting the Council; • Whether 'those charged with governance' are satisfied that they have sufficient assurance that internal controls, including segregation of duties, exist and work effectively and • Whether 'those charged with governance' have any knowledge of actual, suspected or alleged breaches of internal control. 	<ul style="list-style-type: none"> • Receipt of new and revised corporate policies relating to governance, e.g. Whistle-Blowing, Anti-Fraud & Corruption Strategy and Proceeds of Crime Act (Anti Money Laundering). • Recent 'Fraud Management Review' reported to Audit Committee. • Internal Audit reports following investigations. • Risk based Internal Audit Plan • Internal Audit reports to Audit Committee quarterly.
<p>Assurance that all relevant laws and regulations have been complied with:</p> <ul style="list-style-type: none"> • How 'those charge with governance gain assurance that all relevant laws and regulations have been complied with and • Whether they have knowledge of actual, suspected or alleged breaches of relevant laws and / or regulations by the Council. 	<ul style="list-style-type: none"> • The Annual Governance Statement (AGS) and Service Assurance Statements (SAS). • Internal Audit reports to Audit Committee quarterly. • Role of Monitoring Officer.
<p>Going concern:</p> <ul style="list-style-type: none"> • how do 'those charged with governance' satisfy themselves as to whether it is appropriate for the council to adopt the going concern basis in preparing the financial statements: 	<ul style="list-style-type: none"> • Council setting a legal and balanced budget • Consideration of statutory financial statements and in year monitoring reports
<p>Financial reporting:</p> <ul style="list-style-type: none"> • how do 'those charged with governance' consider significant items in the accounting records which are vulnerable to manipulation, e.g., estimates based on judgement and unusual or highly complex transactions; 	<ul style="list-style-type: none"> • The Audit Committee considers significant items in the accounting records when they consider the Statement of Accounts prior to and post audit.

<ul style="list-style-type: none"> • are 'those charged with governance' aware of any entries made in the accounting records of the organisation that they believe or suspect are false or intentionally mis-leading and • are they aware of any non-financial management involvement in the selection of accounting policies and estimation techniques. 	<ul style="list-style-type: none"> • The Statement of Accounts is presented to the committee and members are able to ask questions of the Statutory Finance Officer. • The committee also receives all external reports that review the accounts so they are aware of any entries made in the accounting records that are believed or suspected to be false or intentionally misleading. Accounting policies are determined by the Statutory Finance Officer.
<p>Misappropriation of Assets:</p> <ul style="list-style-type: none"> • how 'those charged with governance' satisfy themselves that the Council has adequate controls over assets susceptible to theft. 	<ul style="list-style-type: none"> • Risk based Audit Plan • Internal Audit reports following investigations into theft of assets.