

Report of	Meeting	Date
Head of Shared Assurance Services	Audit Committee	30 June 2011

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 2010/11 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 enabled to sign the assurance letters requested by the Audit Commission.

REASONS FOR RECOMMENDATION (If the recommendation is accepted)

3. To facilitate the external audit of the 2010/11 financial statements.

ALTERNATIVE OPTIONS CONSIDERED & REJECTED

4. Not applicable to this report

EXECUTIVE SUMMARY OF REPORT

5. In May 2011, the Audit Commission wrote to the Director Transformation (Appendix 1) and the Chair of the Audit Committee (Appendix 2) requesting information to assist with their audit of the Council's 2010/11 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.
6. **Similar requests for assurance were made in respect of the 2009/10 financial statements and therefore the information provided in this year's responses is in effect an update of the information which was supplied last year.**

7. 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.
8. Further detailed information to support Internal Audit's review and conclusions can be found in the tables at Appendices 3 and 4.

CORPORATE PRIORITIES

9. This report relates to the following Strategic Objectives:

Strong Family Support		Education and Jobs	
Being Healthy		Pride in Quality Homes and Clean Neighborhoods	
Safe Respectful Communities		Quality Community Services and Spaces	
Vibrant Local Economy		Thriving Town Centre, Local Attractions and Villages	
A Council that is a consistently Top Performing Organisation and Delivers Excellent Value for Money			x

IMPLICATIONS OF REPORT

10. The matters raised in the report are cross cutting and impact upon the authority as a whole.

GARRY BARCLAY
HEAD OF SHARED ASSURANCE SERVICES

Background Papers			
Document	Date	File	Place of Inspection
International Auditing Standards	2009	Shared Assurance Services	Civic Centre South Ribble BC
Report Authors	Ext	Date	Doc ID
Garry Barclay Clare Ware	01772 625272 01772 625249	16 th June 2011	ISA Report for AC

Rec: 3115



25 May 2011

Mr G Hall
 Assistant Chief Executive (Business Transformation)
 Chorley Borough Council
 Town Hall
 Market Street
 Chorley
 PR7 1DP

Direct line 0844 798 7001
Email t-hough@audit-commission.gov.uk

Dear Gary

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

In order to comply with a number of International Standards on Auditing I am required to obtain an understanding of the following:

1) Management: processes and outcomes 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, including how you encourage staff to report their concerns about fraud; and
- communication to those charged with governance the processes for identifying and responding to fraud.

In relation to the above, please provide your latest assessment of fraud risk within the organisation and how any specific risks identified are being addressed.

2) Whether management has identified any high risk posts from a fraud and corruption perspective and how such risks are identified, assessed and managed.

3) Whether management is aware of any related party relationships or transactions which could give rise to instances of fraud and how any such risks are mitigated.

4) Management's view on the adequacy and effectiveness of internal controls including segregation of duties. (Please provide details about any areas of internal control you consider to be a risk and what action is taken to mitigate those risks.)

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5) Management's awareness of any actual or alleged instances of fraud during 2010/11, (Please provide details of any such instances or, if more appropriate, briefly refer to those you have already made us aware of via discussions with Internal Audit or briefings to the Audit Committees).

6) How management gain assurance that all relevant laws and regulations have been complied with. (Please provide a summary of instances of non-compliance which have been identified).

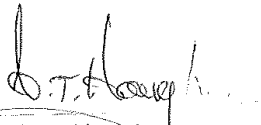
7) Whether there is any potential or actual litigation or claims that would affect the financial statements.

A brief response by email to the above issues and how they are addressed either by management or by yourself in your capacity as the Chief Executive and s151 officer will suffice. I made a similar request last year and you may find it helpful to simply update your response from last year but please note that I have asked some more detailed questions this year to ensure full coverage of the IAS requirements.

I am sending a similar letter to the Chair of the Audit Committee to understand how the Audit Committee exercises oversight over these issues and its awareness of any specific issues arising as a result of that oversight.

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

Yours sincerely



Tony Hough
Audit Manager



25 May 2011

Cllr A Gee
Chair of the Audit Committee
Chorley Borough Council
Town Hall
Market Street
Chorley
PR7 1DP

Direct line 0844 798 7001
Email t-hough@audit-
commission.gov.uk

Dear Councillor Gee

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

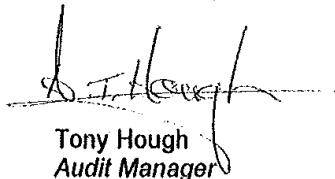
This is our annual request for your assistance as Chair of the Audit Committee with our current work on the Council's accounts for 2010/11. In your role as Chair of the Audit Committee ("those charged with governance") I am required to obtain your views on the following issues as part of our planning for the 2010/11 financial statements audit:

- 1) How those charged with governance exercise oversight of management's processes 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.
- 2) How the Audit Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control.
- 3) Whether you have knowledge of any actual, suspected or alleged frauds.
- 4) How you gain assurance that all relevant laws and regulations have been complied with.

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A brief response by letter or e-mail will suffice. Please feel free to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tony Hough', written over a horizontal line.

Tony Hough
Audit Manager

30th June 2011

Tony Hough
Audit Manager
Audit Commission
2nd Floor
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Aspinall Close
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Horwich
Bolton
BL6 6QQ

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Dear Tony

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

With reference to your letter dated 24th May 2011 in respect of the above, I have now commissioned a review of the management processes that are in place within the Council which address the specific questions you raised.

These are contained in the attached table which was formally reported to and discussed by the Audit Committee on 30th June 2011. I trust that this provides you with the necessary assurances that the Council's arrangements are effective and that there are no specific concerns or issues to report.

Yours sincerely

Gary Hall
Director Transformation
Chorley Borough Council
Town Hall
Market Street
Chorley
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Issue	Management Assurances
Assessment of the risk that the financial statements may be materially mis-stated due to fraud	<ul style="list-style-type: none"> • Review of key financial systems on an annual basis.
Identifying & responding to risks of fraud within the organisation	<ul style="list-style-type: none"> • Undertaking the Annual Governance Review, including Service Assurance Statements. • Implementation of actions following the 'Fraud Risk Management Review'. • Internal Audit has undertaken two investigations into potential irregularities neither of which identified evidence of fraud.
Communication to employees of views on business practice & ethical behaviour including how you encourage staff to report their concerns about fraud	<ul style="list-style-type: none"> • Ongoing promotion of core values. • Adherence to Codes of Conduct. • Promoting participation in the on-line fraud awareness survey. • Compliance with corporate policies relating to Whistle-Blowing, Anti-Fraud & Corruption & Anti-Money Laundering. • Internal Audit also publishes "Fraud Awareness" bulletins through the intranet.
Communication to the Audit Committee the process for identifying and responding to fraud	<ul style="list-style-type: none"> • Compliance with corporate policies relating to Whistle-Blowing, Anti-Fraud & Corruption & Anti-Money Laundering.
Assessment of fraud risk within the organisation and how any specific risks identified are being addressed	<ul style="list-style-type: none"> • Undertaking the Annual Governance Review, including Service Assurance Statements. • Implementation of actions following the 'Fraud Risk Management Review'.
Identification of any high risk posts from a fraud and corruption perspective and how such risks are identified, assessed and managed	<ul style="list-style-type: none"> • Such posts include Directors, Heads of Service and Senior Finance Officers. Specific risks are assessed within the Corporate Fraud Risk Register. • Controls include: appointment vetting & references, CRB checks, Code of Conduct & other policies, authorisation & signatory controls, segregation of duties and member accountability / reporting. • All activities subject to Internal Audit risk assessment & review.

<p>Awareness of any related party relationships or transactions which could give rise to instances of fraud and how any such risks are mitigated</p>	<ul style="list-style-type: none"> • We are not aware of any such transactions. • Risk registers are in place for significant partnerships. • Partnership monitoring procedures are in place & reports presented to management and relevant Committees.
<p>View on the adequacy and effectiveness of internal controls including segregation of duties (including details of any areas of internal control considered to be a risk and the action taken to mitigate them)</p>	<ul style="list-style-type: none"> • The opinion of the head of internal audit in the 2010/11 Annual Internal Audit Report is that the Council continues to operate within a strong internal control environment. Improvement actions are contained within individual audit reports and are summarised in the Annual Report.
<p>Awareness of any actual or alleged frauds during 2011</p>	<ul style="list-style-type: none"> • Internal Audit undertook two separate investigations into potential irregularities, neither of which identified any evidence of fraudulent activity.
<p>Assurance that all relevant laws and regulations have been complied with (include a summary of instances of non-compliance which have been identified).</p>	<ul style="list-style-type: none"> • Role of the Monitoring Officer & Team of qualified lawyers to advise officers. • All committee reports with legal implications are reviewed by the Monitoring Officer. • The Annual Governance Statement (AGS) and Service Assurance Statements (SAS) provide the necessary assurances.
<p>Any potential or actual litigation or claims that would affect the financial statements</p>	<ul style="list-style-type: none"> • We are not aware of any potential for litigation or claims that would affect the financial statements.

30th June 2011

Tony Hough
Audit Manager
Audit Commission
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Middlebrook
Horwich
Bolton
BL6 6QQ

Dear Tony

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

Further to your letter dated 25th May 2011 in respect of the above, please find attached a table providing you with the necessary information that you seek in relation to the specific issues you raised to assist with planning for the 2010/11 financial statements audit:

The attachment was formally reported to and discussed by the Audit Committee on 30th June 2011 and I trust that this provides you with the necessary assurances that the Council's arrangements are effective and that there are no specific concerns or issues to report.

Yours sincerely

Councillor A. Gee
Chair of the Audit Committee
Chorley Borough Council
Town Hall
Market Street
Chorley
PR7 1DP

Issue	How the Audit Committee demonstrates that it secures the relevant assurances
<p>How the Audit Committee exercises oversight of management's processes in relation to:</p> <ul style="list-style-type: none"> • Undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud • Identifying & responding to risks of fraud within the organisation • Communication to employees of views on business practice & ethical behaviour • Communication to the Audit Committee the process for identifying and responding to fraud 	<ul style="list-style-type: none"> • Receipt of Annual Report including audit opinion from the Head of Shared Assurance • Review of key financial systems on an annual basis • Receipt of Annual Governance Statement • Results of detailed 'Fraud Management Review' reported to Audit Committee in 2010 and agreed actions recently followed up • Promotion of core values • Publicity of Codes of Conduct • On-line fraud awareness survey • Whistle-Blowing, Anti-Fraud & Corruption, Fraud Response & Anti-Money Laundering policies in place • National Fraud Initiative (NFI)
<p>How the Audit Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control</p>	<ul style="list-style-type: none"> • Corporate policies relating to governance, e.g. Whistle-Blowing, Anti-Fraud & Corruption Strategy and Anti-Money Laundering. • Internal Audit present a quarterly report on the work undertaken in respect of the Annual Internal Audit Plan
<p>Whether you have knowledge of any actual, suspected or alleged frauds</p>	<ul style="list-style-type: none"> • Internal Audit reports to Audit Committee quarterly • NFI results • Publicity of successful prosecutions by BEU • Internal Audit undertook two separate investigations into potential irregularities, neither of which identified any evidence of fraudulent activity. A report was provided to the relevant manager following each investigation which included management actions to strengthen controls.
<p>How you gain assurance that all relevant laws and regulations have been complied with</p>	<ul style="list-style-type: none"> • Role of the Monitoring Officer • Team of qualified lawyers to advise officers • All committee reports cleared by Legal • The Annual Governance Statement (AGS) and Service Assurance Statements (SAS) • Internal Audit reports to Audit Committee quarterly. • Key areas of Internal Audit reviews include compliance with statutory requirements and relevant laws.