

| Report of | Meeting | Date |
|-----------------------------------|----------------------|----------------------------|
| Head of Shared Assurance Services | Governance Committee | 28 th June 2012 |

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 2011/12 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 Governance Committee and the Chief Executive (Section 151 statutory chief finance officer) be enabled to sign the assurance letters requested by the Audit Commission

EXECUTIVE SUMMARY OF REPORT

3. In March 2012, the Audit Commission wrote to the Chief Executive (Appendix A) and the Chair of the Governance Committee (Appendix B) requesting information to assist with their audit of the Council's 2011/12 financial statements. Given the assurances requested were similar to the evidence being collated by Internal Audit to support the Annual Governance Statement (AGS) 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.
4. **Similar requests for assurance were made in respect of the 2010/11 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.**
5. 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 Governance 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
 - the work of the Monitoring Officer and the Legal Team.
6. Further detailed information to support Internal Audit's review and conclusions can be found in the tables at Appendices C and D.

| | | |
|----------------------------|-----|----|
| Confidential report | Yes | No |
|----------------------------|-----|----|

CORPORATE PRIORITIES

7. This report relates to the following Strategic Objectives:

| | | | |
|---|--|--|---|
| Strong Family Support | | Education and Jobs | |
| Being Healthy | | Pride in Quality Homes and Clean Neighbourhoods | |
| 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

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

| | | | |
|--|---|--|--|
| Finance | | Customer Services | |
| Human Resources | | Equality and Diversity | |
| Legal | | Integrated Impact Assessment required? | |
| No significant implications in this area | X | Policy and Communications | |

GARRY BARCLAY
HEAD OF SHARED ASSURANCE SERVICES

| Background Papers | | | |
|--|-------------|---------------------------|---------------------------------|
| Document | Date | File | Place of Inspection |
| International Auditing Standards Annual Governance Statement Service Assurance Statements Evidence collated by Internal Audit to support responses. | 2012 | Shared Assurance Services | Civic Centre South Ribble BC |

| Report Author | Ext | Date | Doc ID |
|----------------------------|----------------------|---------------------------|-------------------|
| Dawn Highton Clare Ware | 5468 01772 625249 | 28 th May 2012 | IAS Report for AC |

Our reference CBC 11/12

28 March 2012

Mr G Hall
Chief Executive
Chorley Borough Council
Town Hall
Market Street
Chorley
PR7 1DP

Dear Gary

— **Audit of Chorley Borough Council Financial Statements for the year ended 31 March 2012**

I have a good understanding of your management processes and arrangements. This enables me to deliver an efficient audit, reducing the time your staff need to spend responding to auditor queries.

However, auditing standards require me to formally update my understanding annually. Therefore, I am writing to ask that you please provide a response to the following questions. Where your response to questions 2, 3 and/or 4 is 'yes', please provide details.

Fraud and Internal Control

1) What are the management processes in relation to:

- 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 views on business practice and ethical behavior (for example by updating, communicating and monitoring against the Council code of conduct); and
- communicating to the Audit Committee (i.e. those charged with governance) the processes for identifying and responding to fraud or error.

2) In addition to management processes and controls, I would like your views on fraud to inform my assessment of the risk of fraud and error in the financial statements.

- Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2011 to 31 March 2012? –

- Do you have any concerns over whether internal controls, including segregation of duties, exist and work effectively?
- Are you aware of any related party relationships or transactions that could give rise to instances of fraud?
- Are you aware of any entries in the accounting records that you believe or suspect are false or intentionally mis-leading?

Laws and Regulations

3) How does management gain assurance that all relevant laws and regulations have been complied with? Have there been any instances of non-compliance during 2011-12?

Litigation and Claims

4) Are there any actual or potential litigation or claims that would affect the financial statements?

Related Party Transactions and Relationships

5) What controls do you have in place to: identify; authorise; approve; account for; and disclose, related party transactions and relationships? For any new related parties (i.e. any not already disclosed in your year end 31 March 2011 audited financial statements) please provide a list of them, explain the nature of these, and whether you have entered into any transactions with these related parties during the year to 31 March 2012.

Going Concern

6) What management process is followed in determining whether the Council is a 'going concern' when compiling the financial statements?

Please provide a response by email either on behalf of management or by yourself in your capacity as the Chief Executive by 30 April 2012.

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

Yours sincerely

Fiona Blatcher
Engagement Lead

Our reference CBC 11/12

28 March 2012

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

Dear Cllr Gee

Audit of Chorley Borough Council - Financial Statements for the year ended 31 March 2012

Understanding how the Audit Committee gains assurance from management

I have a good understanding of how the Audit Committee, as those charged with governance, gains assurance over management processes and arrangements. This enables me to deliver an efficient audit, reducing the time staff need to spend responding to auditor queries.

However, auditing standards require me to formally update my understanding annually. Therefore, I am writing to ask that you please provide a response to the following questions. Where your response to questions 2 to 5 is 'yes', please provide details.

Fraud and Internal Control

1) How do you exercise oversight of management's processes in relation to:

- 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 behavior (for example by updating, communicating and monitoring against the Council code of conduct); and
- communicating to you the processes for identifying and responding to fraud or error.

2) How do you oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control? Are you aware of any breaches of internal control during 2011-12?

3) In addition to overseeing management processes and controls, I would like your views on fraud to inform my assessment of the risk of fraud and error in the financial statements.

- Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2011 to 31 March 2012?

- Do you have any concerns over whether internal controls, including segregation of duties, exist and work effectively?
- Are you aware of any related party relationships or transactions that could give rise to instances of fraud?
- Are you aware of any entries in the accounting records that you believe or suspect are false or intentionally mis-leading?

Laws and Regulations

4) How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2011-12?

Litigation and Claims

5) Are you aware of any actual or potential litigation or claims that would affect the financial statements?

Going Concern

6) How does the Audit Committee satisfy itself as to whether it is appropriate to adopt the going concern basis in preparing financial statements? Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Council's ability to continue as a going concern?

Please provide a response by 30 April 2012. Please contact me or Tony Hough if you wish to discuss anything in relation to this request.

Yours sincerely

Fiona Blatcher
Engagement Lead

28th June 2012

Fiona Blatcher
Engagement Lead
Audit Commission
2nd Floor
Aspinall House
Aspinall Close
Middlebrook
Horwich
Bolton
BL6 6QQ

— **Dear Fiona**

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

With reference to your letter dated 28th March 2012 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 Governance Committee on 28th June 2012. 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
Chief Executive
Chorley Borough Council
Town Hall
Market Street
Chorley
PR7 1DP

| Issue | Management Processes and Assurances |
|--|---|
| <p>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);</p> | <p>Review of key financial systems on an annual basis.</p> <p>Risk based Internal Audit plan</p> <p>Assurance ratings contained within each Internal Audit report.</p> |
| <p>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> | <p>Undertaking the Annual Governance Review, including Service Assurance Statements.</p> <p>The Corporate Risk Management Framework / operation risk registers</p> <p>Governance documents including the Anti fraud and corruption strategy and Fraud Response Plan direct officers and members to Internal Audit / Monitoring Officer, to report suspicion of fraud / irregularity.</p> <p>National Fraud Initiative (NFI)</p> <p>Use of IDEA (data interrogation software)</p> <p>Internal Audit has undertaken one investigation into a potential irregularity which did not identify any evidence of fraud.</p> |
| <p>Communicating to employees its views on business practice and ethical behavior</p> | <p>Internal Audit has time dedicated to fraud awareness / anti fraud and corruption in the annual plan.</p> <p>Local Code of Corporate Governance</p> <p>Ongoing promotion of core values.</p> <p>Register of Interests / gifts and hospitality.</p> <p>Adherence to Codes of Conduct.</p> <p>Ethical guidance / policies on the “Need to Know” section of the loop.</p> <p>Zero tolerance of fraud</p> <p>Promoting participation in the on-line fraud awareness survey.</p> <p>Compliance with corporate policies relating to Whistle-Blowing, Anti-Fraud &</p> |

| | |
|---|---|
| | <p>Corruption & Anti-Money Laundering.</p> <p>Internal Audit also publicises “Fraud Awareness” bulletins through the Loop.</p> |
| <p>Communicating to the Governance Committee (i.e. those charged with governance) the processes for identifying and responding to fraud or error.</p> | <p>Compliance with corporate policies relating to Whistle-Blowing, Anti-Fraud & Corruption & Anti-Money Laundering.</p> <p>Presentation to and approval by the Governance Committee following production of new or revised governance policies e.g., Whistle Blowing Policy, Anti-Fraud and Corruption Strategy and Fraud Response Plan.</p> |
| <ul style="list-style-type: none"> • Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2011 to 31 March 2012? • Do you have any concerns over whether internal controls, including segregation of duties, exist and work effectively • Are you aware of any related party relationships or transactions that could give rise to instances of fraud? | <p>Internal Audit has undertaken one investigation into potential abuse of flexi – time / allegations of non-compliance with council policies. However, they were unable to prove fraud. A report was provided to the relevant manager following the investigation which included management actions to strengthen controls.</p> <p>The Benefits Enquiry Unit publicise all successful prosecutions internally and externally, therefore ensuring that potential fraudsters are aware that the council actively investigates and prosecutes fraudsters.</p> <p>No - The opinion of the Head of Shared Assurance in the 2011/2012 Internal Audit Annual Report is that the Council continues to operate within a strong internal control environment.</p> <p>Internal Audit has undertaken various audits during the financial year. The majority have not identified any significant control weaknesses. Where only limited assurance was given, management actions were agreed and implemented. The segregation of duties is a key audit area.</p> <p>No – We are not aware of any significant weaknesses. The Council ensures that service level agreements and / or partnership agreements are in place.</p> |

| | |
|---|--|
| <ul style="list-style-type: none"> • Are you aware of any entries in the accounting records that you believe or suspect are false or intentionally misleading? | <p>Risk registers are in place for key partnerships.</p> <p>Partnership monitoring procedures are in place and reports are presented to management and relevant Committees</p> <p>No – Key financial systems are reviewed by Internal Audit annually. No significant control weaknesses were identified.</p> |
| <p>How does management gain assurance that all relevant laws and regulations have been complied with? Have there been any instances of non-compliance during 2011-12?</p> | <p>Role of the Monitoring Officer & Team of qualified lawyers to advise officers.</p> <p>All committee reports with legal implications are reviewed by the Monitoring Officer.</p> <p>The Annual Governance Statement (AGS) and Service Assurance Statements (SAS) provide the necessary assurances.</p> |
| <p>Are there any actual or potential litigation or claims that would affect the financial statements?</p> | <p>The only matter in which we are a potential defendant is the Property Search Litigation relating to personal search fees. This is a group action brought by property search companies against all local authorities.</p> |
| <p>What controls do you have in place to: identify; authorise; approve; account for and disclose related party transactions and relationships? For any new related parties (i.e., any not already disclosed in your year end 31 March 2011 audited financial statements) please provide a list of them, explain the nature of these and whether you have entered into any transactions with these related parties during the year to 31 March 2012.</p> | <p>All new partnerships or partnering arrangements are reported to and approved by Members.</p> <p>Compliance with the high standards of governance, risk management and control as stated in the Framework for Partnership Working</p> <p>Partnership monitoring procedures are in place and reports are presented to management and relevant Committees.</p> <p>There are no new related parties</p> |
| <p>What management process is followed in determining whether the Council is a 'going concern' when compiling the financial statements?</p> | <p>We prepare a 3 year budget projection included in the Medium Term Financial Strategy to identify any financial risks facing the Council.</p> <p>Level of un-committed reserves.</p> |

28th June 2012

Fiona Blatcher
Engagement Lead
Audit Commission
2nd Floor
Aspinall House
Aspinall Close
Middlebrook
Horwich
Bolton
BL6 6QQ

Dear Fiona

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

Further to your letter dated 28th March 2012 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 2011/12 financial statements audit:

The attachment was formally reported to and discussed by the Governance Committee on 28th June 2012 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 Governance Committee demonstrates that it secures the relevant assurances |
|--|---|
| <p>How the Governance 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 or error. • Identifying & responding to risks of fraud in the Council, including 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 views on business practice & ethical behaviour • Communicating to the Governance Committee the process for identifying and responding to fraud or error. | <p>Receipt of Internal Audit's Annual Report including audit opinion from the Head of Shared Assurance</p> <p>Receipt of assurance from Internal Audit following the review of key financial systems on an annual basis</p> <p>Receipt of Annual Governance Statement</p> <p>Promotion of core values</p> <p>Publicity of Codes of Conduct</p> <p>On-line fraud awareness survey issued to both Officers and Members</p> <p>Approval of the Whistle-Blowing, Anti-Fraud & Corruption, Fraud Response and Anti-Money Laundering policies.</p> <p>Co-ordination of the National Fraud Initiative (NFI) by Internal Audit and the results of investigations contained within the Internal Audit progress and annual reports.</p> |
| <p>How the Governance Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control. Is the Governance Committee aware of any breaches of internal control during 2011-12?</p> | <p>Corporate policies relating to governance, e.g., Whistle-Blowing, Anti-Fraud & Corruption Strategy and Anti-Money Laundering Policy.</p> <p>Internal Audit presents Governance Committee with progress reports on the work undertaken in respect of the Internal Audit Annual Plan. Breaches of internal control would be identified within these reports.</p> |
| <ul style="list-style-type: none"> • Whether the Governance Committee are aware of any instances of actual, suspected or alleged fraud during the period 1 April 2011 to 31 March 2012. • Does the Governance Committee have any concerns over whether internal controls, including segregation of duties exist and work effectively? | <p>Receipt of quarterly Internal Audit reports</p> <p>NFI results</p> <p>Publicity of successful prosecutions by BEU</p> |

| | |
|---|---|
| <ul style="list-style-type: none"> • Is the Governance Committee aware of any related party relationships or transactions that could give rise to instances of fraud? • Is the Governance Committee aware of any entries in the Accounting Records that you believe or suspect are false or intentionally misleading? | <p>Internal Audit undertook one investigation into potential abuse of flexi time, but it did not identify any evidence of fraudulent activity. A report was provided to the relevant manager following the investigation which included management actions to strengthen controls.</p> <p>The opinion of the Head of Shared Assurance in the 2011/2012 Internal Audit Annual Report is that the Council continues to operate within a strong internal control environment.</p> <p>Internal Audit has undertaken various audits during the financial year and these have not identified any significant control weaknesses. The segregation of duties is a key audit area.</p> <p>Receipt of Annual Governance Statement</p> |
| <p>How does the Governance Committee gain assurance that all relevant laws and regulations have been complied with? Is the Governance Committee aware of any instances of non-compliance during 2011-12?</p> | <p>Key areas of Internal Audit reviews include compliance with statutory requirements and relevant laws.</p> <p>Role of the Monitoring Officer Team of qualified lawyers to advise officers</p> <p>All committee reports cleared by Legal</p> <p>The Annual Governance Statement (AGS) and Service Assurance Statements (SAS)</p> <p>Internal Audit progress reports to Governance Committee would identify any non-compliances</p> <p>The Governance Committee are not aware of any instances of non compliance during 2011-12.</p> |
| <p>Is the Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements?</p> | <p>The Governance Committee is aware of a matter in which the Council is a potential defendant in the Property Search Litigation relating to personal search fees. This is a group action brought by property search companies against all local authorities.</p> |

| | |
|--|--|
| <p>How does the Governance Committee satisfy itself as to whether it is appropriate to adopt the going concern basis in preparing financial statements? Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Council's ability to continue as a going concern?</p> | <p>No, the Governance Committee has not carried out a preliminary assessment of the going concern assumption. However, it does not have any doubts due to the following:</p> <p>The Council sets a legal and balanced budget.</p> <p>The level of un-committed reserves.</p> <p>The Governance Committee also considers the statutory financial statements and receives in year monitoring reports</p> |
|--|--|