

Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	27 June 2013

COMPLIANCE WITH INTERNATIONAL AUDITING STANDARDS

PURPOSE OF REPORT

1. The purpose of this report is to enable the Governance Committee, as “those charged with governance” and the Chief Executive on behalf of “management” to provide a range of assurances being sought by the external auditors – Grant Thornton as part of their audit of the Council’s 2012/13 accounts. The specific assurances being sought by Grant Thornton are set out in the two letters appended to this report.

RECOMMENDATION(S)

2. That, subject to consideration by the Committee, the Chairman of the Governance Committee and the Chief Executive be enabled to sign the assurance letters requested by Grant Thornton.

EXECUTIVE SUMMARY OF REPORT

3. Grant Thornton recently 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 2012/13 financial statements. Given that 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 Grant Thornton that responses to their letters would be provided following consideration at this meeting.
4. **Similar requests for assurance were made in respect of the 2011/12 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. 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;
 - the work of the Chief Financial Officer and the financial arrangements and controls, including financial regulations, 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 Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

7. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	X

IMPLICATIONS OF REPORT

8. This report has implications in the following areas and the relevant Directors' comments are included:

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

COMMENTS OF THE STATUTORY FINANCE OFFICER

9. These are covered within the body of the report

COMMENTS OF THE MONITORING OFFICER

10. These are covered within the body of the report

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.	2013	Shared Assurance Services	Civic Centre South Ribble BC
Report Author	Ext	Date	Doc ID
Dawn Highton Garry Barclay	5468 01772 625272	7 th June 2013	IAS report

M rG aryH all
Chief Executive
Chorley Borough Council
Town Hall
Market Street
Chorley
PR7 1DP

29th May 2013

Dear Gary

Audit of Chorley Borough Council Financial Statements for the year ending 31 March 2013

Understanding your management processes and arrangements

As you will be aware each year as your external auditor we contact you to comply with International Auditing Standards to gain an understanding of the Council's management processes and arrangements for ensuring that the financial statements are free from material misstatement. This enables me to deliver an efficient audit, reducing the time your staff need to spend responding to auditor queries. I would be grateful, therefore, if you could arrange for the attached appendix to be completed include management's responses.

Your responses will inform my assessment of the risk of fraud and error within the financial statements, which in turn determines the extent of audit work I undertake.

Additionally, there are a number of other areas relating to the financial statements and the overall control environment operating at the Council for which I would also be grateful if you could consider and respond to the following questions:

- 1 What controls do management have in place to identify, approve and disclose related party transactions and relationships? If there are any new related parties for 2012/13 could you please let me know their nature and whether you have entered into any transactions with them during the year to 31 March 2013.
- 2 What arrangements does management have in place to assess the effectiveness of the system of internal control, including internal audit?
- 3 How does management ensure that the Governance Committee provides effective scrutiny and that members are provided with adequate training in appropriate areas, e.g. financial reporting?

If you are able to provide a response by 30th June 2013 that would be most helpful. As ever please feel free to contact me regarding any of the questions..

Yours sincerely

Gareth W instanley
Manager
For Grant Thornton UK LLP

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Appendix - Understanding Chorley Borough Council's management processes

No.	Questions from management	Management's response
1	Are there any matters or events which occurred during the year that could influence our audit approach or the Council's financial statements?	
2	How does management consider the appropriateness of the accounting policies to be used in the period, and whether any changes in the Council's activities could require them to be updated?	
3	How does management maintain awareness of laws, accounting standards, corporate governance and regulatory requirements (including changes or new items) that could affect the financial statements?	
4	What is management's assessment of the process for reviewing the effectiveness of the system of internal control and the results of any review?	
5	How does management view the risk assessment process as it relates to financial reporting?	
6	What are your views on fraud risks, including: the assessment process to identify and respond to fraud risk, including relevant controls and the monitoring of those controls; the results of this process?	
7	Are there any accounts, classes of transactions, or disclosures where fraud risks have been identified or are likely to exist?	
8	Are you aware of whistleblower tips or complaints? What has been management's response?	
9	Have any reports been made under the Bribery Act?	
10	How does management communicate business risks (including fraud risks) to those charged with governance?	
11	How does management communicate to employees your views on business practices and ethical behaviour?	
12	What policies and procedures are in place for identifying, evaluating and accounting for litigation claims and assessments?	
13	Are you aware of significant transactions that are outside the normal activities of the Council?	
14	Are you aware of any events or changes in circumstances that would cause an impairment of non-current assets?	
15	Has the Council entered into any guarantee contracts?	
16	Are you aware of allegations of fraud, errors, or other irregularities during the period?	
17	Are you aware of any instances of non-compliance with laws or regulations or are you on notice of any such possible instances of non-compliance?	
18	Are you aware of any inquiries or examinations performed by licensing, tax or other authorities or other regulators?	
19	Are you aware of the existence of loss contingencies and/or unasserted claims?	
20	Are you aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?	

21	What progress has been made on addressing any prior year's reported internal control deficiencies and advisory comments?	
22	Are any solicitors utilised by the Council during the year working on open litigation or contingencies from prior years?	
23	Have any other advisors been consulted during the year?	
24	Have any service providers reported any of the following items that would affect the financial statements: fraud; non-compliance with laws and regulations; uncorrected misstatements?	

Cllr Paul Leadbetter
Chorley Borough Council
Town Hall
Market Street
Chorley
PR7 1DP

8 April 2013

Dear Cllr Leadbetter

Audit of Chorley Borough Council Financial Statements for year end 31st March 2013

Understanding how the Governance Committee gains assurance from management

I have a good understanding of how the Governance Committee as those charged with governance gains assurance over 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.

- 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 at 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 disclosures 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's code of conduct); and
 - communicating to you the processes for identifying and responding to fraud or error.

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

In addition to the above questions about how you gain assurance from management, I have included at Appendix 1, 6 questions about your views on fraud. Your responses will inform my assessment of the risk of fraud and error within the financial statements, which in turn determines the extent of audit work I undertake.

Please provide a response by 30 May 2013 and please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Gareth JW Instanley

Manager
For Grant Thornton UK LLP

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Appendix 1

No.	Questions for those charged with governance.	Those charged with governance response
1	Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2012 – 31 March 2013?	
2	<p>Do you suspect fraud may be occurring at the Council?</p> <ul style="list-style-type: none"> ➤ Have you identified any specific fraud risks at the Council? ➤ Do you have any concerns that there are areas at the Council that are at risk of fraud? ➤ Are there particular locations at the Council where fraud is more likely to occur? 	
3	How do you encourage staff to report their concerns about fraud?	
4	<p>Are you aware of any entries made in the accounting records at the Council that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> ➤ Are there particular balances where fraud is more likely to occur? ➤ Are you aware of any assets, liabilities or transactions that you believe were in properly included or omitted from the accounts at the Council? ➤ Could a false accounting entry escape detection? If so, how? 	
5	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> ➤ Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets? 	
6	Are you aware of any whistleblowing tips or complaints?	

27th June 2013

Gareth Winstanley
Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester
M3 3EB

Dear Gareth

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

With reference to your letter dated 29th May 2013 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 27th June 2013. 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>What controls do management have in place to identify, approve and disclose related party transactions and relationships? If there are any new related parties for 2012/13 could you please let me know their nature and whether you have entered into any transactions with them during the year to 31 March 2013.</p>	<p>All new partnerships and 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>No new related parties for 12/13.</p>
<p>What arrangements does management have in place to assess the effectiveness of the system of internal control, including internal audit?</p>	<p>Annual assessment against the Local code of Governance.</p> <p>Annually completed service assurance statements.</p> <p>Independent sources of assurance obtained from Services.</p> <p>Internal Audit compliant with the CIPFA Code of practice.</p>
<p>How does management ensure that the Governance Committee provides effective scrutiny and that members are provided with adequate training in appropriate areas, e.g. financial reporting?</p>	<p>Member induction programme.</p> <p>Member Development Charter.</p> <p>Member Support working group which oversees member development matters meeting on a quarterly basis.</p> <p>Governance Committee terms of reference, contained within Constitution.</p> <p>Member learning sessions.</p> <p>Financial training on Core Funding for members provided in 2012.</p>
<p>Questions for management</p>	
<p>1. Are there any matters or events which occurred during the year that could influence our audit approach or the Council's financial statements?</p>	<p>No</p>
<p>2. How does management consider the appropriateness of the accounting policies to be used in the period, and whether any changes in the Council's activities could require them to be updated?</p>	<p>Production of Medium Term Financial Strategy sets framework for policy and spending decisions balanced budget achieved for 2012/13 with surplus forecast in anticipation of downturn in resourcing from 2012/13 onwards.</p>

<p>3. How does management maintain awareness of laws, accounting standards, corporate governance and regulatory requirements (including changes or new items) that could affect the financial statements?</p>	<p>Role of Monitoring Officer and Team of qualified lawyers to advise officers.</p> <p>System of internal audit, Governance Group, Governance Committee, Standing Orders and Financial Regulations.</p> <p>CIPFA Code of Conduct for finance officers.</p>
<p>4. What is management's assessment of the process for reviewing the effectiveness of the system of internal control and the results of any review?</p>	<p>Annual assessment against the Local Code of Governance.</p> <p>Annually completed service assurance statements.</p> <p>Independent sources of assurance obtained from Services.</p> <p>Internal Audit compliant with the CIPFA Code of practice.</p> <p>Highlighted areas for improvement included within the Annual Governance Statement.</p>
<p>5. How does management view the risk assessment process as it relates to financial reporting?</p>	<p>Key financial systems reviewed annually by Internal Audit. No significant control weaknesses identified.</p>
<p>6. What are your views on fraud risks, including:</p> <ul style="list-style-type: none"> • the assessment process to identify and respond to fraud risk, including relevant controls and the monitoring of those controls; • the results of this process? 	<p>Internal Audit risk assessment,</p> <p>Internal Audit annual plan agreed by Strategy Group and Governance Committee.</p> <p>Monitoring of management actions by Internal Audit and reporting to Governance Committee.</p>
<p>7. Are there any accounts, classes of transactions, or disclosures where fraud risks have been identified or are likely to exist?</p>	<p>Key financial systems reviewed annually by Internal Audit. No significant control weaknesses identified.</p>
<p>8. Are you aware of whistleblower tips or complaints? What has been management's response?</p>	<p>None for 2012/13.</p>
<p>9. Have any reports have been made under the Bribery Act?</p>	<p>No</p>
<p>10. How does management communicate business risks (including fraud risks) to those charged with governance?</p>	<p>Annual and interim reports Internal Audit reports to Governance Committee.</p> <p>External Audit assurance</p> <p>On-going monitoring and reporting of the Strategic Risk Register to Governance Committee.</p>

<p>11. How does management communicate to employees your views on business practices and ethical behaviour?</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>On-going 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 intranet</p> <p>Zero tolerance of fraud</p> <p>Compliance with corporate policies relating to Whistle Blowing, Anti-Fraud and Corruption and Anti money laundering.</p>
<p>12. What policies and procedures are in place for identifying, evaluating and accounting for litigation claims and assessments?</p>	<p>Very little litigation against this Council for uninsured risks. Any major issues would be reported to CEO / Section 151 Officer</p>
<p>13. Are you aware of significant transactions that are outside the normal activities of the Council?</p>	<p>No</p>
<p>14. Are you aware of any events or changes in circumstances that would cause an impairment of non-current assets?</p>	<p>No</p>
<p>15. Has the Council entered into any guarantee contracts?</p>	<p>No</p>
<p>16. Are you aware of allegations of fraud, errors, or other irregularities during the period?</p>	<p>No</p>
<p>17. Are you aware of any instances of non-compliance with laws or regulations or are you on notice of any such possible instances of non-compliance?</p>	<p>No</p>
<p>18. Are you aware of any inquiries or examinations performed by licensing, tax or other authorities or other regulators?</p>	<p>No</p>
<p>19. Are you aware of the existence of loss contingencies and/or unasserted claims.</p>	<p>Yes - The Council is a member of the MMI Scheme of Arrangement with a total amount of £94,814.00 of previous claims paid which is now potentially liable to "claw back" following the triggering of the Levy mechanism by the Scheme Administrator. During 2013/14 the Council will be asked to repay £15,000.00 approx. together with the funding of 15% of any future claims that may</p>

	<p>arise.</p> <p>There are no other material amounts relating to unasserted claims.</p>
<p>20. Are you aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?</p>	<p>Preparation of 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>
<p>21. What progress has been made on addressing any prior year's reported internal control deficiencies and advisory comments?</p>	<p>On-going monitoring and completion of the improvements identified in the Annual Governance Statement.</p> <p>Regular reporting to Governance Committee.</p>
<p>22. Are any solicitors utilised by the Council during the year working on open litigation or contingencies from prior years?</p>	<p>Yes – Working on a number of cases relating to civil litigation and planning enforcement.</p>
<p>23. Have any other advisors been consulted during the year?</p>	<p>Yes, Barristers provide specialist legal advice relating to:</p> <p>Planning Land law Employment law and Criminal litigation.</p>
<p>24. Have any service providers reported any of the following items that would affect the financial statements:</p> <ul style="list-style-type: none"> • fraud; • non-compliance with laws and regulations; • uncorrected misstatements? 	<p>No</p>

27th June 2013

Gareth J Winstanley
Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester
M3 3EB

Dear Gareth

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

Further to your letter dated 8th April 2013 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 2012/13 financial statements audit:

The attachment was formally reported to and discussed by the Governance Committee on 27th June 2013 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 P Leadbetter
Chair of the Governance 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 do the Governance Committee exercise 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 (including the nature, extent and frequency of these assessments). • Identifying & responding to risks of fraud at 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>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>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>The following questions 1 - 6 are about your views on fraud;</p>	
<p>1. Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2012 – 31 March 2013?</p>	<p>No - Receipt of quarterly Internal Audit reports</p> <p>NFI results</p> <p>Publicity of successful prosecutions by BEU</p>
<p>2. Do you suspect fraud may be occurring at the Council?</p> <ul style="list-style-type: none"> • Have you identified any specific fraud risks at the Council? • Do you have any concerns that there are areas at the Council that are at risk of fraud? • Are there particular locations at the Council where fraud is more likely to occur? 	<p>No - we do not currently have any concerns and / or suspect fraud.</p> <p>Fraud risks are considered as part of the Council's risk management arrangements and high risk areas are considered in the Internal Audit risk assessment and Internal Audit plan.</p>

<p>3. How do you encourage staff to report their concerns about fraud?</p>	<p>Governance documents including the Whistleblowing Policy, Anti-Fraud and Corruption Strategy and Fraud Response Plan are all available on the intranet.</p>
<p>4. Are you aware of any entries made in the accounting records at the Council that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> • Are there particular balances where fraud is more likely to occur? • Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts at the Council? • Could a false accounting entry escape detection? If so, how? 	<p>No – Key Financial Systems are reviewed by Internal Audit annually. No significant control weaknesses were identified in these.</p> <p>The opinion of the Head of Shared Assurance in the 2012/2013 Internal Audit Annual Report is that the Council continues to operate within a strong internal control environment.</p>
<p>5. Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> • Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets? 	<p>No</p>
<p>6. Are you aware of any whistleblowing tips or complaints.</p>	<p>No</p>