

Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	25 June 2014

## 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 2013/14 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 2013/14 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 2012/13 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.

<b>Confidential report</b> Please bold as appropriate	Yes	<b>No</b>
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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

<b>Background Papers</b>			
<b>Document</b>	<b>Date</b>	<b>File</b>	<b>Place of Inspection</b>
International Auditing Standards Annual Governance Statement Service Assurance Statements Evidence collated by Internal Audit to support responses.	2014	Shared Assurance Services	Civic Centre South Ribble BC
<b>Report Author</b>	<b>Ext</b>	<b>Date</b>	<b>Doc ID</b>
Dawn Highton Garry Barclay	5468 01772 625272	9 <sup>th</sup> June 2014	IAS report

Mr Gary Hall  
Chief Executive  
Chorley Borough Council  
Town Hall  
Market St  
Chorley  
PR7 1DP

Date 24<sup>th</sup> February 2014

Dear Gary

Chorley Borough Council Financial Statements for the year end 31 March 2014

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 in place to prevent and detect fraud and to ensure compliance with law and regulations. International Auditing Standards also place certain obligations on auditors to document Management's view on some key areas affecting the financial statements.

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the attached schedule. In completing this task, you may wish to take into account the views of other directors where you think appropriate. The schedule relates to operational issues as well as the financial statements.



## **LG - Fraud laws and Regs - Responses fro**

In addition to our request to management, we also will need to gain an understanding of how the Governance Committee maintains oversight of the above processes. I have also attached a copy of the letter that I intend to send to the Chair of the Governance Committee, for your information:



Chorley BC - Fraud  
laws and Regs letter 1

In preparing your responses, it would assist me greatly if you could include a summary of evidence you have relied on to inform your responses. We suggested that it may be useful to co-ordinate your response with the response from the Chair of the Governance Committee.

If you are in agreement I would be grateful for your formal response by 31st May 2014, thus ensuring it covers the full twelve month period for 2013/14.

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

Yours sincerely

Gareth Winstanley  
Manager  
For Grant Thornton UK LLP  
T 0161 234 6343  
E [gareth.j.winstanley@uk.gt.com](mailto:gareth.j.winstanley@uk.gt.com)

## Appendix B

Cllr Paul Leadbetter  
Governance Committee Chair  
Chorley Borough Council  
Town Hall  
Market St  
Chorley  
PR7 1DP

Date: 24<sup>th</sup> February 2014

Dear Cllr Leadbetter

### **Chorley Borough Council Financial Statements for the year end 31 March 2014 - Understanding how the Governance Committee gains assurance from management**

As you will be aware each year as your external auditor we contact you to comply with International Auditing Standards to establish an understanding of how the Governance Committee gains assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me in your role as the Governance Committee Chairman with your responses to the following questions.

- 1 How does the Governance Committee oversee management's processes in relation to:
  - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
  - identifying and responding to the risk of breaches of internal control
  - identifying and responding to risks of fraud in the organisation ( 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 appropriate business practice and ethical behavior (for example by updating, communicating and monitoring against the codes of conduct)?
  - how will the Governance Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does the Governance Committee gain assurance that all relevant laws and regulations have been complied with by the Council?
- 4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

I have attached a separate schedule which explores these areas in more detail.



**LG - TCWG response  
re Fraud laws and Re**

For information, we are also required to make enquiries of management and recently sent a letter and schedule of questions to the Chief Executive, (the schedule of questions is attached below). We suggested that it may be useful to co-ordinate your response with that of management .

If you are in agreement I would be grateful for your formal response by 31st May 2014, thus ensuring it covers the full twelve month period for 2013/14.



**LG - Fraud laws and  
Regs - Responses fro**

Please feel free to contact me if you wish to discuss anything in relation to this request.  
Yours sincerely

Gareth J Winstanley

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25<sup>th</sup> June 2014

Gareth Winstanley  
Grant Thornton UK LLP  
5 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 24<sup>th</sup> February 2014 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 25<sup>th</sup> June 2014. 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

## CBC Responses from Management:

Auditor question	Response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2013/14?	The new BRR regime, Council Tax Support, sale of Lbi claim and Triennial Review of Pensions, Purchase of Market Walk Shopping Centre.
2. Have you considered the appropriateness of the accounting policies adopted by the Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Production of Medium Term Financial Strategy sets framework for policy and spending decisions. Balanced budget achieved for 2013/14. With regard to the SOAs Market Walk will be disclosed as a Trading Operation.
3. Are you aware of any changes to the regulatory environment that may have a significant impact on the Authority's financial statements?	Role of Monitoring Officer and team of qualified lawyers to advise officers. System of internal audit, Governance Group, Governance Committee, Standing Orders and Financial Regulations. CIPFA Code of Conduct for finance officers.
4. How would you assess the quality of the Authority's internal control processes?	The Council has the following robust measures in place: Annual assessment against the Local code of Governance. Annually completed service assurance statements. Independent sources of assurance obtained from Services. Internal Audit compliant with the Public Sector Standards.
5. How would you assess the process for reviewing the effectiveness of internal control?	Highlighted areas for improvement included within the Annual Governance Statement.
6. How do the Authority's risk management processes link to financial reporting?	Key financial systems reviewed annually by Internal Audit. No significant control weaknesses identified.
7. How would you assess the Authority's arrangements for identifying and responding to the risk of fraud?	Internal Audit Risk Assessment updated over the course of the year Internal Audit Annual Plan agreed by Strategy Group and Governance Committee. Monitoring of management actions by Internal Audit and reporting to Governance Committee.
8. What has been the outcome of these arrangements so far this year?	Internal Audit Annual Plan completed, no significant control weaknesses identified.
9. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Key financial systems reviewed annually by Internal Audit. No significant control weaknesses identified.
10. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	None for 2013/14



11. Have any reports been made under the Bribery Act?	None for 2013/14
12. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Annual and interim reports Internal Audit reports to Governance Committee. External Audit assurance On-going monitoring and reporting of the Strategic Risk Register to Governance Committee.
13. As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	Internal Audit has time dedicated to fraud awareness / anti-fraud and corruption in the annual plan. Local Code of Corporate Governance On-going promotion of core values Register of interests / gifts and hospitality Adherence to Codes of Conduct Ethical guidance / policies on the intranet Zero tolerance of fraud Compliance with corporate policies relating to Whistle Blowing, Anti-Fraud and Corruption and Anti – Money Laundering.
14. What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	Very little litigation against this Council for uninsured risks. Any major issues would be reported to CEO / Section 151 Officer
15. Is there any use of financial instruments, including derivatives?	The Council discloses movements in financial instruments in note 16 to the Statement of Accounts. The financial instruments include borrowing, investments, debtors and creditors, all relating to the normal course of business.
16. Are you aware of any significant transaction outside the normal course of business?	Sale of Lbi; purchase of Market Walk shopping centre.
17. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
18. Are you aware of any guarantee contracts?	No
19. Are you aware of allegations of fraud, errors, or other irregularities during the period?	No
20. Are you aware of any instances of non-compliance with laws or regulations or is the Authority on notice of any such possible instances of non-compliance?	Please note we have had correspondence from Equality and Human Rights commission indicating a breach of legal duty but I am satisfied none such breach exists and they have not as yet accepted an invitation to come in and discuss.
21. Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	No

<p>22. Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?</p>	<p>Yes- estimate of BRR RV appeals</p>
<p>23. Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?</p>	<p>Outstanding Appeal data from VOA and forecasting outcomes on past trend data</p>
<p>24. What is the status of contingent assets and liabilities reported in prior years?</p>	<p>Car parking VAT contingent asset will no longer be disclosed. Compound interest claim on leisure centre VAT still being pursued. The Council continues to receive its share of Preserved RTB receipts from CCH. Property search fees contingent liability – issue not yet resolved. The Council is still obliged to provide and environmental risks warranty to CCH, which is by means of an insurance policy.</p>
<p>25. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?</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 repaid £17,000.00 approx. in response to a levy request from MMI. The Council is also now responsible for the funding of 15% of any future claims that may arise and making payment of compensation direct to claimant solicitors.</p>
<p>26. Has the management team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of that assessment?</p>	<p>Preparation of a 3 year budget projection included in the Medium Term Financial Strategy to identify any financial risks facing the council. Level of un-committed reserves.</p>
<p>27. Can you provide details of those solicitors utilised by the Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>Messers Forbes Solicitors provide some Employment Law Advice Hill Dickinson Solicitors undertook a high value property transaction.</p>
<p>28. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Yes – Barrister provide specialist legal advice relating to: Planning Land Law</p>

	Employment Law and Criminal litigation.
29. Have any of the Authority service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No

25<sup>th</sup> June 2014

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 24<sup>th</sup> February 2014 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 2013/14 financial statements audit:

The attachment was formally reported to and discussed by the Governance Committee on 25<sup>th</sup> June 2014 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

## Response from Governance Committee Chair

Issues	How the Governance Committee demonstrates that it secures the relevant assurances
<p>How does the Governance Committee oversee management's processes in relation to:</p> <ul style="list-style-type: none"> <li>• Carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error</li> <li>• Identifying and responding to the risk of breaches of internal control</li> <li>• identifying and responding to risks of fraud in the organisation ( 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)</li> <li>• Communicating to employees its views on appropriate business practice and ethical behavior (for example by updating, communicating and monitoring against the codes of conduct)?</li> <li>• How will the Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?</li> </ul>	<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 &amp; Corruption, Fraud Response and Anti-Money Laundering policies.</p>
<p>Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details</p>	<p>No - receipt of quarterly Internal Audit reports.</p> <p>NFI results</p> <p>Publicity of successful prosecutions by BEU</p>
<p>How does the Governance Committee gain assurance that all relevant laws and regulations have been complied with by the Council?</p>	<p>Receipt of regular reports from the Council's Monitoring Officer.</p>
<p>Are you aware of any actual or potential litigation or claims that would affect the financial statements?</p>	<p>The Governance Committee is aware of matter in which in 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</p>

	local authorities.
<b>Fraud Risk Assessment</b>	
1. Has the Authority assessed the risk of material misstatement in the financial statements due to fraud?	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.
2. What are the results of this process?	No significant weaknesses identified
3. What processes does the Authority have in place to identify and respond to risks of fraud?	Promotion of core values  Publicity of Codes of Conduct  Whistle-Blowing, Anti-Fraud & Corruption, Fraud Response and Anti-Money Laundering polices.
4. Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	No - we do not currently have any concerns and / or suspect fraud.  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.
5. Are internal controls, including segregation of duties, in place and operating effectively?	The opinion of the Head of Shared Assurance in the 2013/2014 Internal Audit Annual Report is that the Council continues to operate within a strong internal control environment
6. If not, where are the risk areas and what mitigating actions have been taken?	All areas considered within the Internal Audit Risk Assessment
7. Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	No
8. Are there any areas where there is a potential for misreporting?	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.
9. How does the Authority exercise oversight over management's processes for identifying and responding to risks of fraud?	Internal Audit risk assessment Internal Audit annual plan agreed by Strategy Group and Governance

	<p>Committee.</p> <p>Monitoring of management actions by Internal Audit and reporting to Governance Committee.</p>
<p>10. What arrangements are in place to report fraud issues and risks to the Authority?</p>	<p>Annual and interim 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 the Authority communicate and encourage ethical behaviour of its staff and contractors?</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. 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>13. Have any significant issues been reported?</p>	<p>No</p>
<p>14. Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p>We do checks every year as part of closure of accounts process and run extracts from CRs to test.</p>
<p>15. Are you aware of any instances of actual, suspected or alleged, fraud, either within the Trust as a whole or within specific departments since 1 April 2013?</p>	<p>No</p>

Law and regulation	Response
16. What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?	Role of Monitoring Officer and team of qualified lawyers to advise officers. System of internal audit, Governance Group, Governance Committee, Standing Orders and Financial Regulations.
17. How does management gain assurance that all relevant laws and regulations have been complied with?	Annual and interim reports Internal Audit reports to Governance Committee.  External Audit assurance
18. How is the Authority provided with assurance that all relevant laws and regulations have been complied with?	Receipt of Internal Audit's Annual Report including audit opinion from the Head of Shared Assurance  Annual Governance Statement
19. Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2013?	No
20. What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	Very little litigation against this Council for uninsured risks. Any major issues would be reported to CEO / Section 151 Officer
21. Is there any actual or potential litigation or claims that would affect the financial statements?	The Governance Committee is aware of matter in which in 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.
22. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	No