

Audit & Governance Committee

Date of Meeting: 15 March 2018

Report Title: Informing the External Audit Risk Assessment for Cheshire East Council

Portfolio Holder: Councillor Paul Bates

Senior Officer: Jan Willis, Interim Executive Director of Corporate Services

1. Report Summary

1.1. In order to comply with International Standards on Auditing (UK and Ireland) the Council's External Auditors (Grant Thornton) require an understanding of management processes for, and the Audit and Governance Committee's oversight of the following areas:

1.1.1. Fraud (ISA 240)

1.1.2. Laws and Regulations (ISA 250)

1.1.3. Going Concern (ISA 570)

1.1.4. Accounting Estimates (ISA 540)

1.1.5. Related Party Transactions (ISA 550)

1.2. The report, attached at Appendix A, includes a series of questions on each of these areas and the response that Grant Thornton has received from Cheshire East Council's management.

2. Recommendation

2.1. The Audit and Governance Committee is asked to consider whether management's response to a series of questions posed by the Council's external auditor are consistent with its understanding and whether there are any further comments it wishes to make.

3. Reasons for Recommendation/s

3.1. This report assists both the external auditor and the Audit and Governance Committee in understanding matters relating to the audit of financial statements and helps to develop a constructive working relationship. It also enables the external auditor to obtain information relevant to the audit from the Audit and Governance Committee, supports the Committee in fulfilling

its responsibilities in relation to the financial reporting process and helps to meet the requirements of International Standards on Auditing (UK and Ireland).

4. Other Options Considered

- 4.1. No other relevant options were available.

5. Background

- 5.1. The Audit and Governance Committee is an important source of assurance about the Council's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance. In recognition of this important role, and in order to comply with ISAs (UK and Ireland) Grant Thornton require an understanding of management processes and the Audit and Governance Committee's oversight of the following areas:
- 5.1.1. Fraud (ISA 240)
 - 5.1.2. Laws and Regulations (ISA 250)
 - 5.1.3. Going Concern (ISA 570)
 - 5.1.4. Accounting Estimates (ISA 540)
 - 5.1.5. Related Party Transactions (ISA 550)
- 5.2. The report, attached at Appendix A, includes a series of questions on each of these areas and the response that Grant Thornton has received from Cheshire East Council's management.
- 5.3. The Council has in place arrangements to identify fraud risks and respond to them accordingly. There is a corporate fraud risk which is supplemented by a detailed fraud risk assessment that engaged service managers in the process of identifying not only areas which may be susceptible to fraud, but also controls that are in place to mitigate these risks.
- 5.4. The arrangements for responding to fraud issues, including the Anti Fraud and Corruption Policy and the Whistleblowing Policy are subject to regular review and Members receive update reports on these matters through this Committee.
- 5.5. The Council has in place arrangements to ensure compliance with relevant laws and regulations via procedure rules contained within the Constitution and throughout the decision making process. Assurance on compliance is achieved through the internal audit work programme and the completion of the Annual Governance Statement which members will receive in July 2018 for approval.

- 5.6. The Council has arrangements in place to assess its ability to continue as a going concern through its sound financial management and budget planning processes. The following Corporate Risk has been formally considered in accordance with the Council's Risk Management Framework:

CR3 Financial Resilience:

The reduction in funding from Central Government means the Council must manage funding shortfalls over the next four years, through reduced expenditure, managing demand or increased local income. There is a possibility that the Council does not adopt its financial plans in sufficient detail quickly enough, either by deferring the difficult decisions about services, using over-optimistic planning assumptions, or not rethinking sources of income. This may result in difficulties in closing and managing the funding reductions, financial stress and may impede the Council's ability to meet its statutory requirements, and deliver all of its intended outcomes and objectives in full.

- 5.7. Arrangements are in place to ensure that accounting estimates and the disclosure of related parties transactions are fully compliant with the CIPFA Code and associated guidance.

6. Implications of the Recommendations

6.1. Legal Implications

6.1.1. The Council has a statutory duty (s151 of the Local Government Act 1972) to make arrangements for the proper administration of its financial affairs. An officer must also be appointed to have responsibility for the administration of these arrangements. The Interim Executive Director of Corporate Services is designated as the Council's s151 Officer.

6.1.2. In addition, the Accounts and Audit Regulations 2015 require the Council's s151 Officer to determine accounting control systems that include measures to enable the prevention and detection of inaccuracies and fraud and that risk is appropriately managed.

6.2. Finance Implications

6.2.1. The report does not identify any direct financial implications. Incidences of fraud, or non-compliance with the law, can result in income and expenditure losses to the Council as well as further consequences such as fines and litigation. The Council's Reserves Strategy reflects the requirement to protect front-line services from the immediate financial consequences of such losses, but ultimately losses would need to be recovered through the budget setting process.

6.3. Equality Implications

6.3.1. There are no direct equality implications.

6.4. Human Resources Implications

6.4.1. There are no direct Human Resources implications.

6.5. Risk Management Implications

6.5.1. The impact of issues identified above can have consequences that are serious and often far reaching. Financial loss is the obvious key risk but the undermining of public confidence that can result from the discovery of such issues can inflict a much greater damage than the act itself. In order to mitigate this risk, Management needs to establish and implement robust arrangements that are actively overseen by those charged with governance.

6.6. Rural Communities Implications

6.6.1. There are no direct implications for rural communities.

6.7. Implications for Children & Young People

6.7.1. There are no direct implications for children and young people.

6.8. Public Health Implications

6.8.1. There are no direct implications for public health.

7. Ward Members Affected

7.1. All wards are affected by the risk of fraud or material misstatement in the accounts.

8. Consultation & Engagement

8.1. None undertaken.

9. Access to Information

9.1. The risk assessment document is attached as an appendix to this report.

10. Contact Information

10.1. Any questions relating to this report should be directed to the following officer:

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