

# CHESHIRE EAST COUNCIL

## REPORT TO: Audit and Governance Committee

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**Date of Meeting:** 27 June 2013

**Report of:** Interim Chief Operating Officer

**Title:** Compliance with International Auditing Standards

**Portfolio Holder:** Councillor Peter Raynes

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### 1.0 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 how the Audit and Governance Committee gains assurance over management processes in place to prevent and detect fraud and to ensure compliance with law and regulation.
- 1.2 This report has, therefore, been drafted in order to assist the Chairman in formally responding to Grant Thornton.

### 2.0 Recommendation

- 2.1 That the Committee notes (i) the content of this report and (ii) that it will form the basis of the written response to the Council's External Auditors by the Chairman of the Audit and Governance Committee.

### 3.0 Reasons for Recommendations

- 3.1 The Council's officers are responsible for establishing and implementing arrangements to counter fraud and corruption and ensure that the Council's operations are conducted in accordance with laws and regulations. In order for the Council's anti fraud and compliance objectives to be achieved it is important that the Audit and Governance Committee actively oversee management arrangements including considering the potential for override of controls or other inappropriate influence over the financial reporting process.
- 3.2 In recognition of this important role, and in order to comply with International Standards on Auditing (UK and Ireland), the Council's External Auditors require an understanding of:
  - management processes and arrangements for identifying and reporting the risk of fraud and complying with relevant laws and regulations
  - how the Audit and Governance Committee gains assurance of these processes and arrangements

#### **4.0 Wards Affected**

4.1 All wards.

#### **5.0 Local Ward Affected**

5.1 Not applicable.

#### **6.0 Policy Implications**

6.1 Not applicable.

#### **7.0 Financial Implications**

7.1 No specific financial implications although incidences of fraud and non compliance with the law and regulations can result in financial consequences for the Council such as fines and litigation.

#### **8.0 Legal Implications**

8.1 The responsibilities of public sector entities in relation to the prevention and detection of fraud and error are set out in statute, standards and other guidance. Local Government entities have a statutory duty to make arrangements for the proper administration of their financial affairs. An officer must also be appointed to have responsibility for the administration of these arrangements.

8.2 In addition the Accounts and Audit Regulations require the “responsible financial officer” to determine accounting control systems that include measures to enable the prevention and detection of inaccuracies and fraud.

#### **9.0 Risk Assessment**

9.1 The Council as a large organisation is at risk of:

- loss due to fraud
- failure to comply with laws and regulations

Both of which may materially affect the financial statements.

9.2 The impact of which 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.

#### **10.0 Background and Options**

10.1 The Audit Commission has requested an understanding of the following:

- 1) How the Audit and Governance Committee oversee management's processes in relation to:
  - carrying out an assessment of the risk that the financial statements may be materially misstated due to fraud or error
  - identifying and responding to risks of breaches of internal control
  - identifying and responding to risks of fraud in the organization
  - communicating to employees its views on appropriate business practice and ethical behaviour
- 2) Knowledge of any actual, suspected or alleged frauds
- 3) How the Audit and Governance Committee gain assurance that all relevant laws and regulations have been complied with
- 4) Is the Committee aware of any actual or potential litigation claims that would affect the financial statements
- 5) How the Committee has satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements.

10.2 The response to the External Auditor's request for information can be found at Appendix A.

## **11.0 Access to Information**

The background papers relating to this report can be inspected by contacting the report writer:

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