

CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting: 31st January 2012
Report of: Director of Finance and Business Services
Subject/Title: Compliance with International Auditing Standards
Portfolio Holder: Councillor Michael Jones (Resources)

1.0 Report Summary

- 1.1 In order to comply with International Standards on Auditing (UK and Ireland) the Council's External Auditors (Audit Commission) require an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risk of fraud and the internal control that management has established to mitigate the risk (ISA 240).
- 1.2 The Audit Commission also require an understanding of how those charged with governance gain assurance that all relevant laws and regulations have been complied with (ISA 250) and how management assess the Council's ability to continue as a going concern (ISA 570).
- 1.3 The Audit and Governance Committee is the committee 'charged with governance' and this report has, therefore, been drafted in order to assist both the Chairman and the Director of Finance and Business Services in formally responding to the Audit Commission.

2.0 Recommendation

- 2.1 That the Committee
 - (1) note the content of this report; and
 - (2) note that the report will form the basis of the written response to the Council's External Auditors by the Chairman of the Audit and Governance Committee and the Director of Finance and Business Services.

3.0 Reasons for Recommendations

- 3.1 The Council's officers are responsible for establishing and implementing arrangements to counter fraud and corruption and ensuring 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 Audit Commission require an understanding of:

- management arrangements for identifying and reporting the risk of fraud and complying with relevant laws and regulations
- how the Audit and Governance Committee exercises oversight of these processes

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 (Authorised by the Director of Finance and Business Services)

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 (Authorised by the Borough Solicitor)

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 (Director of Finance and Business Services) 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) Exercising 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
 - identifying and responding to risks of fraud in the Council
 - communicating views on business practice and ethical behaviour to employees
 - communicating the processes for identifying and responding to fraud or error to those charged with governance
- 2) Awareness of any breaches of internal control during 2011-12.
- 3) How assurance is gained that all relevant laws and regulations have been complied with during 2011-12
- 4) Whether there is any potential litigation or claims that would affect the financial statements.
- 5) Whether a preliminary assessment of the going concern assumption has been carried out.

- 10.2 Management's 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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