

CHESHIRE EAST COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 27 March 2014
Report of: Chief Operating Officer
Title: Informing the Risk Assessment for Cheshire East Council
Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

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

- Fraud (ISA 240)
- Laws and Regulations (ISA 250)
- Going Concern (ISA 570)
- Accounting Estimates (ISA 540)
- 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.

2.0 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.

3.0 Reasons for Recommendations

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).

4.0 Wards Affected

4.1 All Wards

5.1 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 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 Chief Operating Officer is designated as the Council's s151 Officer.

8.2 In addition the Accounts and Audit (England) Regulations 2011 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.

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 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:

- Fraud (ISA 240)
- Laws and Regulations (ISA 250)
- Going Concern (ISA 570)
- Accounting Estimates (ISA 540)
- Related Party Transactions (ISA 550)

- 10.2 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.
- 10.3 The Council has in place arrangements to identify fraud risks and respond to them accordingly. There is a strategic fraud risk which is supplemented by a detailed fraud risk assessment that engages 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.
- 10.4 The arrangements for responding to fraud issues, including the Anti Fraud and Corruption Strategy and the Whistleblowing Policy are subject to regular review and Members receive update reports on these matters through this Committee.
- 10.5 Member oversight of fraud is further strengthened by the Member/Officer Group which provides a more detailed understanding of the issues and arrangements in this area.
- 10.6 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 September for approval.
- 10.7 The Council has in place arrangements to assess its ability to continue as a going concern through its sound financial management and budget planning processes.
- 10.8 The Financial Resilience report produced by the Council in October 2013, together with the Grant Thornton report to this Committee in September 2013 confirms that the financial health and resilience of Cheshire East has continued to improve to a position of strength, enabling the Council to cope with the national austerity challenges that the public sector continue to face.
- 10.9 Arrangements are in place to ensure arrangements for accounting estimates and the disclosure of related parties transactions are fully compliant with the CIPFA Code and associated guidance.

10.10 The Audit and Governance Committee is asked to consider whether management's response to the questions are consistent with its understanding and whether there are any further comments it wishes to make.

11.0 Access to Information

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

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