

REPORT TO	DATE OF MEETING
Governance Committee	14 June 2010

Report template revised June 2008



SUBJECT	PORTFOLIO	AUTHOR	ITEM
Compliance with International Auditing Standards	N/A	G Barclay & C Ware	6

SUMMARY AND LINK TO CORPORATE PRIORITIES

The purpose of this report is to enable ‘those charged with governance’ and ‘management/section 151 officer’ to provide the assurances being sought by the Audit Commission as part of their audit of the Council’s 2009/10 accounts. The specific assurances being sought by the Audit Commission are set out in the two letters appended to this report.

The report links with all of the corporate priorities, in particular to be an ‘efficient, effective and exceptional Council’.

RECOMMENDATIONS

That, subject to consideration by the Committee, the Chairman of the Governance Committee and the Deputy Chief Executive (Section 151 statutory chief finance officer) be authorised to sign the assurance letters requested by the Audit Commission.

DETAILS AND REASONING

In February 2010 the Audit Commission wrote to the Corporate Director (Resources) (Appendix1) and the Chair of the Governance Committee (Appendix 2) requesting information to assist with their audit of the Council’s 2009/10 financial statements. Given the assurances requested would need to rely on very similar evidence to that being gathered to compile the Annual Governance Statement (AGS), and in the interests of transparency, it was agreed with the Audit Commission that responses to their letters would be provided following consideration at this meeting.

Having reviewed the specific information being sought, Internal Audit is satisfied that the Council’s arrangements are such that positive assurances can be given in response to the Audit Commission. Principally, this conclusion is arrived at through the:

- comprehensive assurance and evidence gathered in compiling the AGS;
- ongoing work of the Committee and Internal Audit scrutinising and challenging the Council’s arrangements;
- work of the Chief Financial Officer and the financial arrangements and controls, including financial regulations, that have been adopted; and
- work of the Monitoring Officer supported by the Legal Services team.

Further detailed information to support Internal Audit’s review and conclusions can be found in the tables at Appendices 3 and 4.

WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

FINANCIAL	There are no financial implications arising directly from this report.		
LEGAL	International Standards on Auditing (ISA (UK & I))		
RISK	This report is about providing assurances that the Council has in place appropriate measures to mitigate the risk areas highlighted by the Audit Commission.		
OTHER (see below)			
<i>Asset Management</i>	<i>Corporate Plans and Policies</i>	<i>Crime and Disorder</i>	<i>Efficiency Savings/Value for Money</i>
<i>Equality, Diversity and Community Cohesion</i>	<i>Freedom of Information/ Data Protection</i>	<i>Health and Safety</i>	<i>Health Inequalities</i>
<i>Human Rights Act 1998</i>	<i>Implementing Electronic Government</i>	<i>Staffing, Training and Development</i>	<i>Sustainability</i>

BACKGROUND DOCUMENTS

Annual Governance Statement.
 Service Assurance Statements.
 Evidence collated by Internal Audit to support responses.

18th February 2009

Mr Mike Nuttall
Corporate Director Resources
South Ribble Borough Council
Civic Centre
West Paddock
Leyland
PR25 1DH

Mobile 07815 880270
Email g-winstanley@audit-
commission.gov.uk

Dear Mike

Audit of South Ribble Borough Council Financial Statements - Compliance with International Auditing Standards

In order to comply with a number of International Standards on Auditing (ISA (UK&I) 240, 250 and 501) we are required to obtain an understanding of the management processes with regard to fraud and internal control, laws and regulations and potential for litigation and claims affecting the financial statements.

ISA+ 240 focuses on management processes in place in relation to:

- Undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
- Identifying and responding to risks of fraud in the organisation;
- Communication to employees of views on business practice and ethical behavior; and
- Communication to those charged with governance the processes for identifying and responding to fraud.
- Awareness of any actual or alleged instances of fraud.

ISA+ 250 requires that auditors understand how management gain assurance that all relevant laws and regulations have been complied with.

ISA+ 501 requires that auditors obtain confirmation from management around the potential for litigation and claims that would affect the financial statements.

A brief response by email to the above issues and how they are addressed either by management or by yourself in your capacity as s.151 officer will suffice.

Please call me if you wish to discuss anything in relation to this request.

Yours sincerely

Gareth Winstanley
Audit Manager



18 February 2010

Councillor G O'Hare
Chair of the Governance Committee
South Ribble Borough Council

Direct line 0844 798 7056
Email f-blatcher@auditcommission.gov.uk

Dear Councillor O'Hare

**Audit of South Ribble Borough Council 2009/10 Financial Statements -
Compliance with International Auditing Standards**

This is a request for your assistance as Chair of the Governance Committee with our current work on the Council's accounts for 2009/10. In your role as Chair of the Council's Governance Committee ("those charged with governance") I am required to obtain your views on the following issues as part of our planning for the 2009/10 financial statements audit:

1) Oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council

In order to comply with International Standards on Auditing we are required to obtain an understanding of how "those charged with governance" exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council.

I would be grateful if you would confirm:

- how the Governance Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control in the Council?;
- whether you have knowledge of any actual, suspected or alleged frauds affecting the Council?;
- whether the Governance Committee is satisfied that it has sufficient assurance that internal controls, including segregation of duties, exist and work effectively?; and
- whether you have any knowledge of any actual, suspected or alleged breaches of internal control?.

2) Assurance that all relevant laws and regulations have been complied with

I would be grateful if you would explain:

- how the Governance Committee gains assurance that all relevant laws and regulations have been complied with?; and

- whether you have knowledge of any actual, suspected or alleged breaches of relevant laws and/ or regulations by the Council?

3) Going concern – how the Governance Committee satisfies itself as to whether it is appropriate for the Council to adopt the going concern basis in preparing the financial statements

I would be grateful if you would explain:

- How the Governance Committee satisfies itself as to whether it is appropriate for the Council to adopt the going concern basis in preparing the financial statements?

4) Financial Reporting

I would be grateful if you would explain:

- How the Governance Committee considers any significant items in the accounting records which are vulnerable to manipulation such as estimates based on judgement and unusual or highly complex transactions?;
- Whether you are aware of any entries made in the accounting records of the organisation that you believe or suspect are false or intentionally mis-leading?; and
- Whether you are aware of any non-financial management involvement in the selection of accounting policies and estimation techniques?

5) Misappropriation of Assets

I would be grateful if you would explain:

- How the Governance Committee satisfies itself that the Council has adequate controls over assets susceptible to theft?

A brief response either verbally or by e-mail will suffice. I would be grateful if you could provide a response at or before the Governance Committee 29th April 2010. Please call me, or Gareth Winstanley, if you wish to discuss anything in relation to this request.

Yours sincerely

Fiona Blatcher
Senior Audit Manager

Audit Commission, 2nd Floor, Aspinall House, Aspinall Close, Middlebrook, Horwich,
Bolton, BL6 6QQ
T 0844 798 7300 F 0844 798 7301 www.audit-commission.gov.uk

Issue	How management demonstrates that it secures the relevant assurances
<ul style="list-style-type: none"> Assessment of the risk that the financial statements may be materially mis-stated due to fraud; 	<ul style="list-style-type: none"> Risk-based Internal Audit Plan Review of key financial systems on an annual basis Provision of controls assurance ratings in each Internal Audit report Quarterly monitoring reports to Governance Committee
<ul style="list-style-type: none"> Identifying and responding to risks of fraud in the organisation; 	<ul style="list-style-type: none"> The Corporate Risk Management Framework / operational risk registers Whistleblowing Policy Anti-fraud and Corruption Strategy Fraud Response Plan Annual Governance Statement National Fraud Initiative Use of IDEA (data interrogation software)
<ul style="list-style-type: none"> Communication to employees of views on business practice and ethical behaviour; and 	<ul style="list-style-type: none"> Annual Governance Statement (AGS) and Service Assurance Statement (SAS) Employee Survey Council's Values Competency Framework Code of Conduct
<ul style="list-style-type: none"> Communicating to those charged with governance the processes for identifying and responding to fraud. 	<ul style="list-style-type: none"> Presentation to Governance Committee following production of new or revised governance policies e.g., the Whistleblowing Policy, Anti-Fraud & Corruption Policy and Fraud Response Plan
<ul style="list-style-type: none"> Awareness of any actual or alleged instances of fraud 	<ul style="list-style-type: none"> Detailed reports by Internal Audit following any investigation activity BEU publicise all successful prosecutions internally and externally
<ul style="list-style-type: none"> Law and regulations - focusing on whether the council complies with the relevant laws and regulations 	<ul style="list-style-type: none"> Annual Governance Statement Completion of Service Assurance Statement by senior management Role of the Monitoring Officer Team of qualified lawyers to advise officers All committee reports cleared by Legal
<ul style="list-style-type: none"> Potential for litigation and claims affecting the financial statements 	<ul style="list-style-type: none"> Provision of appropriate insurance covers (fidelity guarantee, officials indemnity, professional negligence) Contingent liabilities identified within the accounts and, as appropriate financial provision made. General reserve maintained at an appropriate level.

Issue	How 'those charged with governance' demonstrate that they secure the relevant assurances
<p>An oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council:</p> <ul style="list-style-type: none"> • How 'those charged with governance' oversee management processes to identify and respond to the risk of fraud and possible breaches of internal control in the Council; • Whether 'those charged with governance' have knowledge of actual, suspected or alleged frauds affecting the Council; • Whether 'those charged with governance' are satisfied that it has sufficient assurance that internal controls, including segregation of duties, exist and work effectively and • Whether 'those charged with governance' have any knowledge of actual, suspected or alleged breaches of internal control. 	<ul style="list-style-type: none"> • Receipt of new and revised corporate policies relating to governance, e.g. Whistle-Blowing, Anti-Fraud & Corruption Strategy, Fraud Response Plan and Anti Money Laundering. • Recent 'Fraud Management Review' reported to Governance Committee. • Internal Audit reports following investigations. • Risk based Internal Audit Plan • Internal Audit reports to Governance Committee quarterly.
<p>Assurance that all relevant laws and regulations have been complied with:</p> <ul style="list-style-type: none"> • How 'those charge with governance gain assurance that all relevant laws and regulations have been complied with and • Whether they have knowledge of actual, suspected or alleged breaches of relevant laws and / or regulations by the Council. 	<ul style="list-style-type: none"> • Monitoring Officer/Legal Services team • The Annual Governance Statement (AGS) and Service Assurance Statements (SAS). • Internal Audit reports to Governance Committee quarterly.
<p>Going concern:</p> <ul style="list-style-type: none"> • how do 'those charged with governance' satisfy themselves as to whether it is appropriate for the council to adopt the going concern basis in preparing the financial statements: 	<ul style="list-style-type: none"> • Council setting a legal and balanced budget • Consideration of statutory financial statements and in year monitoring reports
<p>Financial reporting:</p> <ul style="list-style-type: none"> • how do 'those charged with governance' consider significant items in the accounting records which are vulnerable to manipulation, e.g., estimates based on judgement and unusual or highly complex transactions; • are 'those charged with governance' aware of any entries made in the accounting records of the organisation that they believe or suspect are false or intentionally mis-leading and • are they aware of any non-financial management involvement in the selection of accounting policies and estimation techniques. 	<ul style="list-style-type: none"> • Governance consider the draft statement of accounts pre and post audit and give consideration to material issues within the accounts asking questions of the Cabinet Member for Finance & Resources and the chief financial officer. • The Governance Committee receive all external reports reviewing the accounts. • Accounting policies of the Council are determined by the chief financial officer with reference to accounting practice (as disclosed in the accounts)
<p>Misappropriation of Assets:</p> <ul style="list-style-type: none"> • How do 'those charged with governance' satisfy themselves that the Council has adequate controls over assets susceptible to theft. 	<ul style="list-style-type: none"> • Asset Registers maintained by managers • Risk based Audit Plan • Internal Audit reports following investigations into theft of assets.