

**Agenda Item No:** 11  
**Report To:** **AUDIT COMMITTEE**  
**Date:** **25 JUNE 2012**  
**Report Title:** Compliance with International Standards of Auditing (UK and Ireland)  
**Report Author:** Brian Parsons – Head of Audit Partnership



**Summary:**

In the context of the International Standards on Auditing and the current work on the Council's accounts for 2011/12, the external auditors require an understanding of how those charged with governance (the Audit Committee):

- exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council
- gain assurance that all relevant laws and regulations have been complied with,

And, whether the Committee is aware of any actual or potential litigation or claims that would affect the financial statements,

And, whether the Committee has carried out a preliminary assessment of the going concern assumption and if so has identified any events which may cast significant doubt on the Authority's ability to continue as a going concern.

The Audit Committee need to consider and agree a letter to the external auditors which provides assurances in the areas concerned.

**Key Decision:** NO

**Affected Wards:** Not applicable

**Recommendations:** **The Audit Committee is asked to:-**

**Consider and agree the contents of a letter to the Audit Commission to provide assurance in respect of:**

- **the risk of fraud**
- **management processes for reporting fraud and potential breaches of internal control**
- **potential litigation or claims**
- **the Authority as a going concern**

**Policy Overview:** The Council sets high standards for its governance and financial management arrangements, including those arrangements that exist to counter fraud.

**Financial Implications:** None (directly)  
**Risk Assessment** YES

**Equalities Impact Assessment** NO

**Other Material Implications:** None

**Background Papers:** None

**Contacts:** Brian.Parsons@ashford.gov.uk – Tel: (01233 330442)

## **Report Title: Compliance with International Standards of Auditing (UK and Ireland)**

### **Purpose of the Report**

1. In the context of the International Standards on Auditing and the current work on the Council's accounts for 2011/12, the external auditors require an understanding of how those charged with governance (the Audit Committee):
  - exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council
  - gain assurance that all relevant laws and regulations have been complied with

And, whether the Committee is aware of any actual or potential litigation or claims that would affect the financial statements,

And, whether the Committee has carried out a preliminary assessment of the going concern assumption and if so has identified any events which may cast significant doubt on the Authority's ability to continue as a going concern.

The Audit Committee needs to consider and agree a letter to the external auditors, which provides assurances in the areas concerned.

### **Issue to be Decided**

2. The external auditors require that the Audit Committee provide assurance to meet the expectations of the International Standards on Auditing.
3. A letter has been prepared for signing by the Audit Committee Chairman. Members are asked to consider and agree the content of the letter.

### **Background**

4. The District Auditor provided an 'Audit Committee Update' report to the meeting of the Audit Committee on 6 March 2012. The report included a statement of the assurances required by the District Auditor in relation to the auditing standards.
5. The requirements are shown below.

# Assurances for 2011/12 audit opinion work - The District Auditor's requirements

## Understanding how the Audit Committee gain assurance from management

I have a good understanding of how the Audit Committee as those charged with governance gains assurance over management processes and arrangements. This enables me to deliver an efficient audit, reducing the time your staff need to spend responding to auditor queries.

However, auditing standards require me to formally update my understanding annually. Therefore, I am writing to ask that you please provide a response to the following questions. Where your response to questions 2 to 5 is 'yes', please provide details.

1) How do you exercise 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 (including the nature, extent and frequency of these assessments);
- identifying and responding to risks of fraud in the Authority, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
- communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Authority code of conduct); and
- communicating to you the processes for identifying and responding to fraud or error.

2) How do you oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control? Are you aware of any breaches of internal control during 2011-12?

3) How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2011-12?

4) Are you aware of any actual or potential litigation or claims that would affect the financial statements?

5) Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Authority's ability to continue as a going concern?

In addition to the above questions about how you gain assurance from management, I have included at Appendix 1, 8 questions about your views on fraud. Your responses will inform my assessment of the risk of fraud and error within the financial statements, which in turn determines the extent of audit work I undertake.

Please provide a response by 30 April 2012 and please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Andy Mack  
District Auditor

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6. A letter setting out the Council's draft response, for the Committee's consideration and a draft completed questionnaire relating to fraud are attached at Appendix 1.

### **Risk Assessment**

7. A failure to provide the District Auditor with the necessary assurances could compromise the audit of the accounts for 2011/12.

### **Other Options Considered**

8. The external auditors require a statement from the Chair of the Audit Committee. There is no alternative action.

### **Portfolio Holder's Views**

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**Contact:** Brian Parsons Tel: 01233 330442

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**Cllr Paul Clokie**

Mr Andy Mack  
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Audit Commission  
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Millbank  
London  
SW1P 4HQ

Ask For: Cllr Paul Clokie  
Email:  
Direct Line:

Date: 25 June 2012

Dear Andy

**COMPLIANCE WITH INTERNATIONAL AUDIT STANDARDS (UK AND IRELAND)**

I refer to your 'Audit Committee Update' which was provided to the meeting of the Audit Committee on 6 March 2012.

I have set out below the Audit Committee's views in relation to the specific areas that you have raised.

In relation to the oversight of fraud:

The Committee is satisfied that:

- The financial statements are not materially mis-stated due to fraud
- There are adequate arrangements for identifying and responding to risks of fraud in the organisation
- There are adequate arrangements in place to communicate to employees the Council's views on business practice and ethical behaviour, and that
- There are adequate arrangements in place to ensure communication to those charged with governance the processes for identifying and responding to fraud.

At six monthly intervals, the Audit Committee require reports on:

- Progress against the approved internal audit work programme
- Outcomes of internal audit activity, which cover internal control issues.

These reports include the main risks identified, recommendations to improve control and management actions to improve controls.

At annual intervals, the Audit Committee require officers to report on:

- The Annual Fraud Report - setting out the anti-fraud work carried out by the Investigation Team in relation to Benefits, Council Tax, Housing Tenancies, and other areas, as well as providing information on counter fraud work, including the training programme provided to staff and to Members.
- Internal Audit's annual report, including the Head of Internal Audit's opinion on the adequacy of the Council's control environment, and including summaries of the results of internal audit project work (including fraud and irregularities)
- The annual internal audit work programme for approval.
- The Strategic Risk Register
- The Annual Governance Statement
- The Annual Audit Letter and the Annual Governance Report from the Audit Commission/External Auditor

The committee is also able to request reports on any other relevant subject area where required and arrangements are in place for the Head of Internal Audit to make me aware of significant investigations or irregularities.

The Committee is not aware of any breaches of internal control during 2011/12, other than the issues which are reported in the Head of Audit Partnership's Annual Report.

The Committee gains assurance that all relevant laws and regulations have been complied with, through the work of Internal Audit, the Annual Audit Letter and Governance Report from the Audit Commission and the Council's Annual Governance Statement.

The Committee is not aware of any actual or potential litigation or claims that would affect the financial statements, other than the longstanding issues in respect of the Stour Centre, which the District Auditor is aware of.

The Committee has not carried out a preliminary assessment of the going concern assumption; however the Committee does review the Council's accounts on an annual basis and this includes consideration of the Authority's ability to continue as a going concern.

Yours sincerely

Paul Clokie  
Chairman  
Ashford Borough Council Audit Committee  
cc: Deborah Moorhouse, Audit Manager, Audit Commission

	Questions for those charged with governance.	Those charged with governance response
1	Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2011 – 31 March 2012?	No – other than those instances of fraud that are referred to in the report of the Investigations Officer to the Audit Committee 25 June 2012.
	<p>Do you suspect fraud may be occurring within the Authority?</p> <ul style="list-style-type: none"> <li>➤ Have you identified any specific fraud risks within the Authority?</li> <li>➤ Do you have any concerns that there are areas within your Authority that are at risk of fraud?</li> <li>➤ Are there particular locations within the Authority where fraud is more likely to occur?</li> </ul>	<p>Yes – Benefits and Council Tax SPD</p> <p>Yes – as above</p> <p>Yes – as above</p>
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> <li>➤ If not where are the risk areas?</li> <li>➤ What other controls are in place to help prevent, deter or detect fraud?</li> </ul>	<p>Yes</p> <p>An effective Internal Audit service and an effective and proactive Investigation service.</p>
4	<p>How do you encourage staff to report their concerns about fraud?</p> <ul style="list-style-type: none"> <li>➤ What concerns about fraud are staff expected to report?</li> </ul>	<p>Yes – through the whistle blowing process and through fraud awareness training.</p> <p>Staff are expected to report any/all aspects of fraud</p>
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within your Authority?</p> <ul style="list-style-type: none"> <li>➤ How are the risks relating to these posts identified, assessed and managed?</li> </ul>	<p>Staff involved in Treasury Management (due to the materiality of the transactions) and Procurement.</p> <p>Staff are required to strictly follow prescribed processes which are monitored by management.</p> <p>All subject to Internal Audit review. The Audit Plan is risk based.</p>
6	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> <li>➤ How do you mitigate the risks associated with fraud related to related party relationships and</li> </ul>	<p>No</p> <p>Staff and Councillors are required to make declarations.</p>



	transactions?	
7	<p>Are you aware of any entries made in the accounting records of the Authority that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> <li>➤ Are there particular balances where fraud is more likely to occur?</li> <li>➤ Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the Authority?</li> <li>➤ Could a false accounting entry escape detection? If so, how?</li> <li>➤ Are there any external fraud risk factors, such as benefits payments or collection of tax revenues which are high risk of fraud?</li> </ul>	<p>No</p> <p>No</p> <p>No</p> <p>No</p> <p>Yes, as stated earlier.</p>