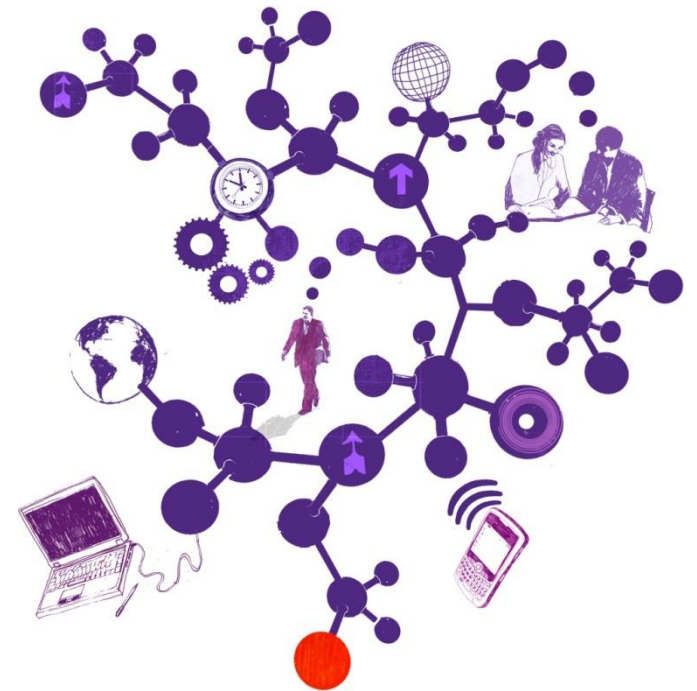


Informing the audit risk assessment Enquiries to Management and those charged with governance – Burnley Council

**Year ended
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Karen Murray
Engagement Lead
T 0161 234 6364
E karen.l.murray@uk.gt.com

Marianne Dixon
Engagement Manager
T 07880 456 157
E marianne.dixon@uk.gt.com



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Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern.

This report includes a series of questions on each area with provision for responses from both management and the Audit Committee. We suggest that Management should complete the relevant sections before submitting these responses to the Audit Committee. The Audit Committee should consider whether these responses are consistent with its understanding, before completing the relevant sections applicable to them.

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with provision for responses to inform both auditor's and those charged with governance.

Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?</p>	<p>Yes as preparation for statement of accounts 2014/15.. No material residual risk of fraud in financial statements.</p>
<p>What processes does the Council have in place to identify and respond to risks of fraud?</p>	<p>Anti-Fraud Corruption and Bribery Strategy, whistleblowing policies. Internal controls have been implemented including authorisation and segregation of duty. Risk Management Group. The NFI Data Matching exercise assists in the identification of fraud and recording the way we respond to fraud risks.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>Highest exposure to fraud is benefit fraud. Checks are in place to ensure applicant meets the necessary criteria. An investigation team was employed specifically for benefit fraud.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>Yes</p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>No</p>
<p>Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?</p>	<p>No</p>
<p>What arrangements are in place to report fraud issues and risks to the Audit Committee?</p>	<p>There is an annual fraud risk assessment reported to the Audit committee, this provides consideration of risk of fraud. Strategic risks are reported to the Audit Committee, Internal audit report on fraud risks identified as part of their audit activity. The AGS also provides assurance from managers about the control of fraud and any reporting.</p>
<p>How does the Council communicate and encourage ethical behaviour of its staff and contractors?</p>	<p>Codes of Conduct available to all staff electronically and on paper, training is provided and staff sign up to the code. Staff performance reviews including job chats. Inductions. Staff conferences.</p>
<p>How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?</p>	<p>Whistleblowing, no significant issues reported.</p>

Fraud risk assessment

Question	Management response
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	Related party risks have been identified that may give rise to risk of fraud both these are appropriately controlled such as conflict of interest at meetings, controlled by declaration of interest or register of gifts and hospitality.
Are you aware of any instances of actual, suspected or alleged, fraud, within the Council since 1 April 2014?	Yes (parks equipment, time and attendance, benefits fraud)
Question	Audit Committee response
<p>How does the Audit Committee oversee management's processes for:</p> <ul style="list-style-type: none"> • carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error • identifying and responding to the risk of breaches of internal control • identifying and responding to risks of fraud in the organisation (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 views on appropriate business practice and ethical behaviour (for example by updating, communicating and monitoring against the codes of conduct)? 	<p>The Audit Committee receive an annual fraud risk assessment report from Internal Audit detailing the principal fraud risks faced by the Council and the controls that the Council has in place to address and reduce these risks.</p> <p>Internal Audit provide details of work concerning breaches of internal control and summaries of outcomes.</p> <p>The ethical behaviour of members and officers was principally the remit of the Standards Committee. For 2015/16 the role of Standards Committee has been combined with the Audit Committee to form an Audit and Standards Committee. Through this the monitoring of member and colleagues ethical behaviour has been placed under the same body with Management investigating colleagues behaviour and the Monitoring officer investigating member behaviour (supported as required by Internal Audit).</p> <p>Communication has come from Standards Committee Newsletters for Members and through all effective channels (training, competences, job chats, conferences and disciplinary process) for colleagues.</p>
Is the Audit Committee aware of any actual, suspected or alleged fraud? If so please provide details.	As reported by management
Has the Audit Committee considered the risk of material misstatements (misreporting) by management?	Through the Annual Governance Statement process we have assurance that there is an effective system of internal control operating to minimise the risks of fraud and misstatement.
What is the Audit Committee's assessment of the impact of misappropriation on the statements?	The Audit Committee's view that the impact of misappropriation is minimised by the operation of effective internal controls and robust governance mechanisms.

Laws and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with provision for management's response to inform both auditor's and those charged with governance.

Impact of Laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations (incl accounting standards and corporate governance requirements)?	Monitoring officer Qualified accounting officers and other suitably qualified officers where relevant.
How does management gain assurance that all relevant laws, regulations and standards have been complied with?	Assurances from heads of service and officers as part of their performance reviews (job chats etc.), whistleblowing, monitoring officer reports, standards committee, other third part reviews such as for external funding, internal audit.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2014, or earlier with an on-going impact on the 2014/15 financial statements?	No
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Legal unit collate such information for example as part of insurance administration. Accountancy are then informed if accounting treatment is necessary.
Is there any actual or potential litigation or claims that would affect the financial statements?	No
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No
How is the Audit Committee provided with assurance that all relevant laws, standards, requirements and regulations have been complied with?	Assurances from heads of service as part of their governance statements.
Question	Audit Committee response
Is the Audit Committee aware of any non-compliance with relevant laws, standards, requirements and regulations?	No
If there have been instances of non-compliance, what oversight has the Audit Committee had to ensure that actions are taken by management to address any gaps in control?	No instances
Is the Audit Committee aware of any actual or potential litigation or claims that would affect the financial statements?	Those that are reported as part of the statement of accounts.

Going Concern

Issue

Matters in relation to Going Concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The code of practice on local authority accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Council is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Council's financial resilience.

As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Council's financial and operating performance.

Going concern considerations have been set out below with provision for management's response to inform both auditor's and those charged with governance.

Going Concern Considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	<p>Reserves Strategy, minimal level of balances</p> <p>The Medium Term Financial Strategy (MTFS) and its updates are approved by the Executive and, where appropriate, full Council. The impact of changes to government funding (e.g. CSR 2015) are factored into the latest MTFS as it becomes known.</p> <p>The Section 151 Officer reports on the robustness of the annual revenue budget.</p> <p>Financial Risks are the main reported strategic risk for the Council.</p> <p>Budget monitoring processes manages and controls the in-year budget (on going income and expenditure)</p>
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	<p>Medium Term Financial Strategy - annually balanced budget</p> <p>Fraud monitoring</p> <p>Management Team are actively involved in managing the financial position of the Council and deal with the significant implications of reductions in funding.</p>
Are arrangements in place to report the going concern assessment to the Audit Committee?	<p>S114 report by exception to full Council</p> <p>External audit would be alerted</p> <p>In the event of an issue about the going concern of the Council and the issue of a S151 report this would be presented to the Audit and Standards Committee.</p>
Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Business Plan and the financial information provided to throughout the year?	<p>Assumptions and risk assessment in budget report</p> <p>Budget report and S151 report</p>
Are the implications of statutory or policy changes appropriately reflected in the Business Plans, financial forecasts and report on going concern?	<p>Such changes incorporated into MTFS and Strategic Plan. Any risks are considered and incorporated into strategic risk register if significant.</p> <p>Senior Management are involved fully in the budget preparation and monitoring processes and are required to certify that their budgets cover their anticipated net costs before the overall budget is set.</p>

Going Concern Considerations

Question	Management response
<p>Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</p>	<p>No adverse comments have been raised to the Council via External or Internal Audit or via the Annual Governance process. The Council has a good record of adapting and facing financial issues</p>
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?</p>	<p>MTFS identifies a future funding gap to enable proactive management to address the shortfall. Recent examples of this includes the review of Treasury Management which will be factored into future assessments of the MTFS. In addition the recent appointment of a strategic partner will ensure sustainable savings. This is not just the consideration of outsourcing but also increasing commercial awareness and preparing the Council to adapt to these and other challenges.</p>
<p>Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes Senior Management recently reviewed Newly appointed Chief Executive and Monitoring Officer.</p>
Question	Audit Committee response
<p>How does the Audit Committee satisfy itself that it is appropriate to adopt the going concern basis in the preparation of the financial statements?</p>	<p>Audit Committee have been informed in March of the major risks to financial reporting and the accounting policies adopted. This consideration of risk and policies includes assessing going concern. The Annual Governance Statement is available to members of the Audit and Standards Committee when approving the accounts on a going concern basis.</p>



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