

**Report to: Audit Committee**

**Subject: Compliance With International Auditing Standards**

**Date: 26<sup>th</sup> March 2013**

**Author: Chairman of the Audit Committee**

## **1. PURPOSE OF REPORT**

International Auditing Standards require the Council's external auditors KPMG, on an annual basis, to make formal enquiries of those charged with governance (in the case of Gedling Borough Council this is the Audit Committee) about the arrangements in place to combat fraud and corruption.

This report outlines the Audit Committee's response to the standard questions raised.

## **2. BACKGROUND**

The standard questions raised are outlined below.

- 1) Please explain how the Audit Committee exercises oversight of management's processes in relation to:
  - Undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud or error (including the nature, extent and frequency of these assessments);
  - Identifying and responding to risks of fraud in the Council, 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 disclosures for which a risk of fraud is likely to exist;
  - Communicating to members of the Audit Committee the processes for identifying and responding to fraud or error; and
  - Communicating to employees views on acceptable business practice and ethical behaviour (for example by updating, communicating and monitoring against a code of conduct).
- 2) Is the Committee aware of any actual, suspected or alleged instances of fraud that may have a significant impact on the 2012/13 financial statements?

- 3) Is the Committee aware of entries made in the accounting records of the Council that it believes or suspects are false or intentionally misleading?
- 4) How does the Committee get assurance from management that internal controls, including segregation of duties, exist and are working effectively?
- 5) How does the Committee get assurance from management that all relevant laws and regulations have been complied with?
- 6) Is the Committee aware of instances of non-compliance with laws and regulations?
- 7) Is the Committee aware of any actual or potential litigation or claims that would affect the 2012/13 financial statements?
- 8) Are you aware of any related party relationships or transactions that could increase the risk of fraud?
- 9) Has the Council undertaken a preliminary assessment of the going concern assumption and if so have you identified any events that may cast significant doubt on the Council's ability to continue to operate as a going concern?

Historically, the Chair of the Audit Committee has produced a written response to the standard questions.

The written response is attached at Appendix A for the consideration of members of the Audit Committee.

### **3. RECOMMENDATION**

Members are requested to consider and endorse the Chairman's response.

### **How the Audit Committee oversees management processes to identify and respond to risks associated with fraud and possible breaches of internal control in the Council.**

The Audit Committee's Terms of Reference expressly state a key role of the committee is "to monitor council's policies on whistleblowing and the anti-fraud and anti-corruption strategy and the council's complaints policy".

The Terms of Reference are reviewed annually by the Committee (last reviewed June 2012).

A forward schedule is provided for the Committee, outlining the sources of assurance provided throughout the year to enable the Committee to fulfil its objectives.

The Annual Internal Audit report, Corporate Governance review and the Annual Fraud and Irregularities report are key sources of assurance provided to the Committee in fulfilling this role. Each report outlines management processes adopted for assessing and identifying and responding to risks and the supporting communication / reporting arrangements.

The Committee receive summaries of all internal audit reports, which identify specific instances of fraud/irregularities within the scope of each review.

In addition, the Corporate Risk Scorecard is considered quarterly by the Committee, which summarises existing and emerging risks, including those associated with fraud.

Identified instances of significant fraud are reported separately in the annual fraud and irregularities report, with updates provided as requested by members of the Committee.

I can confirm that I have no knowledge of any actual, suspected or alleged frauds affecting the Council.

### **How those charged with governance gain assurance that all relevant laws and regulations have been complied with.**

As above, the Corporate Risk Scorecard identifies this risk separately as "legal / regulatory / contractual breach". The scorecard identifies issues raised through the risk management process and via internal audit activity, with issues reported through at each meeting of the Audit Committee.