

## **LANCASHIRE COMBINED FIRE AUTHORITY**

### **AUDIT COMMITTEE**

Meeting to be held on 23 June 2016

### **EXTERNAL AUDIT – UNDERSTANDING HOW THE AUDIT COMMITTEE GAINS ASSURANCE FROM MANAGEMENT (Appendices 1 and 2 refer)**

Contact for further information:

Keith Mattinson – Director of Corporate Services – telephone 01772 866804.

#### **Executive Summary**

In order to comply with International Auditing Standards, the External Auditors, Grant Thornton, are required to obtain an assurance as to how those charged with governance discharge their responsibilities in connection with the risk of fraud and breaches of internal controls. The letter requesting this is attached as appendix 1.

A draft response has been prepared and is attached as appendix 2. (It is worth noting that the Chairman of Resources Committee has provided a similar response in connection with the oversight of the annual accounts process and financial reporting.)

#### **Decision Required**

The Committee is asked to approve the submission of the response.

#### **Information**

As stated in the Executive Summary.

#### **Financial Implications**

None

#### **Business Risk Implications**

The internal controls operated within the Authority are designed to minimise business risk in general and in particular the risk of fraud.

#### **Environmental Impact**

None

**Equality and Diversity Implications**

None

**Human Resource Implications**

None

**Local Government (Access to Information) Act 1985**

**List of Background Papers**

Paper	Date	Contact
None		
Reason for inclusion in Part II, if appropriate:		

Councillor Stephen Holgate  
Chair of the Audit Committee  
Lancashire Fire Authority  
Lancashire Fire and Rescue Service Headquarters  
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25 May 2016

Dear Councillor Holgate

**Lancashire Combined Fire Authority Financial Statements for the year end 31 March 2016. Understanding how the Audit Committee gains assurance from management**

To comply with International Auditing Standards, each year we need to refresh our understanding of how the Audit Committee gains assurance over management processes and arrangements.

I have written separately to the Chair of the Resources Committee in respect of the management processes in place for the Resources Committee to:

- oversee management's processes in relation to carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error?; and
- satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

If you have any comments on the questions I have asked the Chair of the Resources Committee please include these in your response.

I would be grateful, therefore, if you could write to me with your responses to the following questions.

- 1 How does the Audit Committee oversee management's processes in relation to:
  - 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 behavior (for example by updating, communicating and monitoring against the codes of conduct)?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with?

**Chartered Accountants**

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

Please could you provide a response by the Audit Committee of the 23 June 2016 and please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Karen Murray  
Director  
For Grant Thornton UK LLP

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Mrs K Murray  
Director  
Grant Thornton UK LLP  
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:  
Date: 23 June 2016

Dear Mrs Murray

**LANCASHIRE COMBINED FIRE AUTHORITY FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2016 - UNDERSTANDING HOW THE  
AUDIT COMMITTEE GAINS ASSURANCE FROM MANAGEMENT**

Further to your letter, I confirm the following.

*How does the Audit Committee oversee management's processes in relation to:*

- *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)?*

I believe that the Audit Committee adequately discharges its duties in respect of the above as it considers the following issues throughout the year:-

- The Code of Corporate Governance continues to be relevant
- Internal and external audit plans are in place, which are designed to ensure appropriate controls
- Relevant external and internal audit reports are reviewed by the committee, none of which have identified any significant issues which require addressing.
- Regular progress reports from internal audit which provide an assurance as to the adequacy and effectiveness of systems that have been reviewed. These have confirmed that all key financial systems have been reviewed and that the controls in place are both adequate and effective.
- Risk management arrangements, including the updated corporate risk register

- The Authority's Anti-Fraud Policy and Whistleblowing Policy, are in line with best practice and continue to be relevant
- The Authority participates in the National Fraud Initiative
- The Committee is aware that the Authority maintains an up to date Code of Conduct for both Members and Officers that requires all parties to declare relevant interests.
- The Committee will consider the Annual Governance Statement, prepared by the Service, at its June meeting, and in particular will review the process for reviewing this and the assurances on which the statement is based.

*Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details*

I am not aware of any instances of actual, suspected or alleged frauds which affect the authority at this moment in time, or of any related party relationships or transactions that could give rise to instances of fraud. Nor am I aware of any entries in the accounting records that I believe or suspect are false or misleading.

*How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with?*

All Committee reports are reviewed by the Clerk to the Authority and the Treasurer to the Authority to ensure compliance with legal and financial regulations, and I am not aware of any instances of non-compliance with laws and regulations during 2015/16

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

I am not aware of any actual or potential litigation that would affect the financial statements which is not already recorded in them

Yours sincerely

Mr C Crompton  
Chair of the Audit Committee  
Lancashire Combined Fire Authority