

AUDIT COMMITTEE

Audit Committee Assurances in Relation to the Financial Reporting Process

22 May 2024

Report of Chief Finance Officer

PURPOSE OF REPORT

To summarise how the Audit Committee gains assurance, as 'those charged with governance', from management in order to fulfil its responsibilities in relation to the financial reporting process.

This report is public

RECOMMENDATION

The Committee is asked:

- To consider whether the responses at Appendices 1 and 2 are consistent with its understanding, and whether there are any further comments it wishes to make.

1.0 BACKGROUND

- 1.1 The Council's external auditor, KPMG, is required to comply with the requirements of the International Standards on Auditing (UK) (ISA), as adopted by the UK Financial Reporting Council (FRC), in conducting the audit of the Council's financial accounts for the year ended 31 March 2024.
- 1.2 Under the ISA's KPMG have specific responsibilities to communicate with the Audit Committee on certain specific matters and, as part of the risk assessment procedures, KPMG is required to obtain an understanding of the management processes, and the Audit Committee's oversight, of a number of the following areas in respect of the year ended 31 March 2024.
- General Enquiries of Management
 - Fraud.
 - Laws and Regulations.
 - Related Parties; and
 - Accounting Estimates
- 1.3 To support this work and to assist the Audit Committee as 'those charged with governance' (TCWG), to fulfil its responsibilities in relation to the financial reporting process, management has reviewed a number of documents and compiled a series of questions and responses covering the 2023/24 financial year. Although not exhaustive details of these are provided at **Appendices A and B**. Additional assurance will be required from the Chair of the Committee, and also Internal Audit, these will be dealt with directly with the individuals and passed to the External Auditor.

2.0 GENERAL ENQUIRES OF MANAGEMENT

- 2.1 ISA's (UK) 300 and 315 deal with the external auditors' responsibilities to plan the audit of the financial statements and identify and assess the risks of material misstatement within them.
- 2.2 To assist in discharging these obligations the auditors make a range of detailed and general enquires.
- Significant changes to the Council's control environment
 - Key events & policies
 - Accounting policies
 - Complex transactions
 - Areas of litigation or contingencies

3.0 FRAUD

- 3.1 ISA (UK) 240 covers auditors' responsibilities relating to fraud in an audit of financial statements.
- 3.2 The primary responsibility for prevention and detection of 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 a number of issues such as the potential for override of controls and inappropriate influence over the financial reporting process.
- 3.3 The External Auditors are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. This includes considering the arrangements management has put in place with regard to fraud risks including.
- 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, and
 - communication to employees regarding business practices and ethical behaviour

4.0 LAW AND REGULATIONS

- 4.1 ISA (UK) 250 requires auditors to consider the impact of laws and regulations in an audit of the financial statements.
- 4.2 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.
- 4.3 As noted above auditors 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. Where the auditors become aware of information of non-compliance, or suspected non-compliance they need to gain an understanding of this and the possible effect on the financial statements.

5.0 RELATED PARTIES

5.1 ISA (UK) 550 requires auditors to review the Council's procedures for identifying related party transactions and obtain an understanding of the controls that have been established to identify such transactions.

5.2 The Council is required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council.
- associates.
- joint ventures; .
- an entity that has an interest in the authority that gives it significant influence over the Council.
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

5.3 The Council is required to make a disclosure if a transaction (or series of transactions) is material on either side, i.e., if a transaction is immaterial from the other body's perspective but material from a related party viewpoint then the Council must disclose it.

6.0 ACCOUNTING ESTIMATES

6.1 ISA (UK) 540 requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates.
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates.
- How the entity's risk management process identifies and addresses risks relating to accounting estimates.
- The entity's information system as it relates to accounting estimates.
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

6.2 As part of this process auditors also need to obtain an understanding of the role of TCWG, which is particularly important where the estimates have high estimation uncertainty or require significant judgement. Specifically does the Audit Committee

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them.
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

7.0 OPTIONS AND OPTIONS ANALYSIS

7.1 The Committee could choose to accept the responses put forward by management or amend the comments as it wishes.

8.0 CONCLUSION

- 8.1 The attached Appendices set out a series of questions and responses from Management in respect of each of the above areas for consideration by the Audit Committee.
- 8.2 The responses demonstrate that the Audit Committee can gain assurance from management in order for it to fulfil its responsibilities in respect of the financial reporting process.

CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

The report has no direct impact on the above issues.

FINANCIAL IMPLICATIONS

None arising directly from this report.

OTHER RESOURCE IMPLICATIONS, SUCH AS HUMAN Resources, Information Service, Property, Open Spaces:

None arising directly from this report.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has authored this report in his capacity as Chief Finance Officer

LEGAL IMPLICATIONS

The Local Audit and Accountability Act 2014 (the Act) states that the accounts of a relevant authority for a financial year must be audited:

- (a) in accordance with the Act and provisions made under it, and
- (b) by an auditor (local auditor) appointed in accordance with the Act or provision made under it.

A local auditor must, in carrying out the auditor's functions in relation to the accounts of a relevant authority, comply with the Code of Audit Practice applicable to the authority that is for the time being in force. The current Code of Practice for UK Local Government is the Code of Audit Practice issued by the National Audit Office, which came into effect from the 2020/21 audit year. The Code adopts the International Standards on Auditing (ISAs) as issued by the FRC.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

N/A

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