

Corporate Governance and Standards Committee Report

Ward(s) affected: n/a

Report of the Director of Finance

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## Discussions with those charged with Governance

### Executive Summary

In carrying out their annual audit of the Council, Grant Thornton comply with the International Standards on Auditing (ISAs) as adopted by the UK Financial Reporting Council (FRC).

ISAs, require the auditor to make inquiries of those charged with governance (TCWG) to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. These inquiries are made in part to corroborate the responses to the inquiries of management.

Grant Thornton has sent the Council a questionnaire setting out their inquiries of TCWG. Officers have prepared a response to the questionnaire, on behalf of the Chairman of the Corporate Governance and Standards Committee. The questionnaire and the Council's proposed responses are set out in **Appendix 1**. The Corporate Governance and Standards Committee is asked to approve the Council's response.

### Recommendation to Committee

That the Committee approves the responses to Grant Thornton provided in the Discussions with Those Charged with Governance document at Appendix 1 to this report.

### Reason for Recommendation:

To enable the Council's external auditors, Grant Thornton, to carry out their duties under the Local Audit and Accountability Act 2014, we are required to provide the auditors with the necessary assurances required under International Standards on Auditing (ISA), particularly, ISA 260, Communication with Those Charged with Governance.

## **1. Purpose of Report**

- 1.1 The purpose of the report is to provide the necessary assurances to the Council's external auditor, Grant Thornton, as required under International Standards on Auditing (ISA) 260. The standards require that the auditors ask those people charged with governance certain questions around internal control and the risk of fraud and error.

## **2. Strategic Framework**

- 2.1 The Council's Corporate Plan 2018-2023 includes the key priority of using innovation, technology and new ways of working to improve value for money and efficiency in Council Services under the Innovation fundamental theme. The external auditors of the Council have a statutory duty to provide an opinion on the value for money the Council provides.

## **3. Background**

- 3.1 In carrying out their annual audit of the Council, Grant Thornton comply with the International Standards on Auditing (ISAs) as adopted by the UK Financial Reporting Council (FRC). Auditing standards for audits of financial statements include objectives for the auditor, together with requirements and related application and other explanatory material.
- 3.2 ISA 260, Communication with Those Charged with Governance, defines the objectives of the auditor which are to:
- (a) communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit
  - (b) obtain from those charged with governance information relevant to the audit
  - (c) provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process
  - (d) promote effective two-way communication between the auditor and those charged with governance.
- 3.3 'Those Charged With Governance' (TCWG) is a term used to describe the body or people of an organisation with responsibility for overseeing the strategic direction of the organisation and obligations related to the accountability of the organisation. At Guildford Borough Council, the Council has delegated responsibility to the Corporate Governance and Standards Committee for overseeing the Council's governance arrangements.
- 3.4 Many of the ISAs require the auditor to discuss items with, and seek assurances from, management and TCWG. ISA 260 requires certain discussions with TCWG, to be documented as part of the audit.

- 3.5 The standards set out that the auditor shall communicate with TCWG an overview of the planned scope and timing of the audit and significant findings from the audit. The auditor shall communicate with TCWG:
- (a) the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
  - (b) significant difficulties, if any, encountered during the audit;
  - (c) unless all of TCWG are involved in managing the entity:
    - (i) significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management; and
    - (ii) written representations the auditor is requesting; and
  - (d) other matters, if any, arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
- 3.6 Unless all of TCWG are involved in managing the entity, the auditor shall obtain an understanding of how TCWG exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. The auditor shall make inquiries of TCWG to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. These inquiries are made in part to corroborate the responses to the inquiries of management.
- 3.7 Grant Thornton has sent the Council a questionnaire setting out their inquiries of TCWG. Officers have prepared a response to the questionnaire, on behalf of the Chairman of this Committee. The questionnaire and the Council's proposed responses are set out in **Appendix 1**. The Committee is asked to approve the Council's response.

#### **4. Financial Implications**

- 4.1 There are no financial implications to this report

#### **5. Legal Implications**

- 5.1 The Local Audit and Accountability Act 2014 states that the accounts of a relevant authority for a financial year must be audited:
- (a) in accordance with the Act and provision made under it, and
  - (b) by an auditor (a "local auditor") appointed in accordance with the Act or provision made under it.
- 5.2 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 Audit Commission in 2010. The code adopts the International Standards on Auditing (ISAs) as issued by the Financial Reporting Council.

## **6. Human Resource Implications**

6.1 There are no human resource implications to the report

## **7. Conclusion**

7.1 International Standards on Auditing, ISAs, require the auditor to make inquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. These inquiries are made in part to corroborate the responses to the inquiries of management.

7.2 Grant Thornton has sent the Council a questionnaire setting out their inquiries of TCWG. Officers have prepared a response to the questionnaire, on behalf of the Chairman of this Committee. The questionnaire and the Council's proposed responses are set out in **Appendix 1**. The Committee is asked to approve the Council's response.

## **8. Background Papers**

None

## **9. Appendices**

Appendix 1: Discussions with Those Charged with Governance