

Audit Committee  
27<sup>th</sup> June 2011

# Update Report

## **Agenda Item 5 – Benefit Fraud Annual Report 2010/11**

**Please find the following amendments/points of clarification to this report: -**

Replacement Paragraph 13:

Overpayment of benefit is usually recoverable and this is a very important area as it affects the level of subsidy the Council receives from Central Government. If a fraud is detected resulting in an overpayment then the Council receives 40% of the overpayment in subsidy, resulting in a 60% loss in subsidy. Therefore, if the Council recovers 60% of the overpayment then the Council will break even financially. However, if the Council manages to recover more than 60% then the Council retains the balance.

Clarification Paragraph 27:

The tabled graph shows all cases sanctioned and each year it is indicated if RIPA was used in any of these cases. For 2010/11 Ashford Borough Council did not request or sanction any RIPA authorisations, however 3 of the cases noted in the table, 2532, 2219 & 1964 had RIPA sanctioned by the DWP as they were joint DWP & ABC Investigations.

Jo Fox  
23.06.11

## **Agenda Item 7 – Approval of Annual Governance Statement**

**Please find an insertion to the Statement to be inserted as a new paragraph 19 under the heading ‘Standards Committee’.**

“The Localism Bill contains draft provisions which, if enacted, will repeal the existing mandatory code of conduct and remove the duty to appoint a standards committee. In place of the current ethical framework would be a general statutory duty to promote high standards of conduct amongst members and a new regime for dealing with declarations of personal interests including the creation of criminal offences in certain circumstances. However, Councils will still have a discretion to adopt "local" codes of conduct (albeit without the backing of the formal sanctions which exist at present) and retain Standards Committees e.g. to assist with/advise upon the fulfillment of the

new statutory duty. Further consideration will need to be given to these matters in due course.”

### **New Agenda Item 10 – Annual Audit Fee Letter 2011/12**

Please find this report attached.

### **New Agenda Item 11 – Letter of Assurance – Compliance with International Standards for Auditing**

Please find this report attached.

### **Date of Next Meeting**

The next Meeting has been moved from 6<sup>th</sup> September to **28<sup>th</sup> September 2011.**

**Agenda Item No:** 10  
**Report To:** **AUDIT COMMITTEE**  
**Date:** **27 JUNE 2011**  
**Report Title:** **ANNUAL AUDIT FEE LETTER 2011/12**  
**Report Author:** Paul Naylor, Deputy Chief Executive (covering summary)



**Summary:** In April the District Auditor submitted to the Chief Executive his fee proposal for external audit work relating to the financial year 2011/12. A copy of the fee letter is attached for Members to consider. The District Auditor will be present at the meeting to introduce his report. Overall, the Audit and Inspection fee proposal is £169,525 which includes a fee for specific grant claims authorisation. The work plan and fee proposal has been discussed with senior management.

**Key Decision:** Not applicable

**Affected Wards:** None specifically

**Recommendations:** **The Audit Committee is asked to consider and agree the Audit Commission's Audit Fee Proposal for 2011/12.**

**Policy Overview:** The work of the District Auditor fulfils a statutory requirement.

**Financial Implications:** Estimated total external audit fees in the proposal are £169,525. The Council's budget for audit fees including grant claims is £189,000.

**Risk Assessment** Not applicable

**Equalities Impact Assessment** Not applicable

**Other Material Implications:** None

**Background Papers:** None

**Contacts:** Paul.naylor@ashford.gov.uk – Tel: (01233) 330436

**Agenda Item No:** 11

**Report To:** **AUDIT COMMITTEE**

**Date:** **27 JUNE 2011**

**Report Title:** **LETTER OF ASSURANCE – COMPLIANCE WITH INTERNATIONAL STANDARDS FOR AUDITING**

**Report Author:** Brian Parsons, Head of Internal Audit Partnership  
(covering summary)

**Summary:** In order to comply with International Auditing Standards, the External Auditor (Audit Commission) requires an understanding of how those charged with governance have exercised oversight of various processes relating to the management of fraud and other breaches of internal control (see the annex to the appendix). The Chairman of the Audit Committee has been asked by the External Auditor to provide a letter giving the necessary assurances (draft letter attached at **Appendix A**). Similar assurance was sought from, and given by, the Deputy Chief Executive on behalf of management.

The attached assurance letter which the Committee is asked to agree is evidence the External Auditor will take into account when considering his opinion on the Council's financial statements.

**Key Decision:** No

**Affected Wards:** Not applicable

**Recommendations:** **The Audit Committee is asked to agree the content of the draft letter attached to the Audit Committee to provide assurance in respect of International Auditing Standards.**

**Policy Overview:** The Council has set high standards for its governance and financial management arrangements. The assurance letter supports that.

**Financial Implications:** None

**Risk Assessment** A failure to provide the External Auditor with the necessary assurances could compromise the audit of the financial statements for 2010/11.

**Other Material** None

**Implications:**

**Background  
Papers:**

None

**Contacts:**

Brian.parsons@ashford.gov.uk – Tel: (01233) 330442

**Members Room**  
APPENDIX A

Ask For: Paul Clokie

Lynn Clayton  
Audit Manager  
Audit Commission  
16 South Park Road  
Sevenoaks, Kent  
TN13 1AN

Email: paul.clokie@ashford.gov.uk  
Direct Line: (01580) 763124

Date: 27 June 2011

Dear Lynn

**COMPLIANCE WITH INTERNATIONAL AUDIT STANDARDS (UK AND IRELAND)**

I refer to your earlier request that the Audit Committee provide some explanations and assurances in relation to Fraud, and Law and Regulations.

I have set out below the Audit Committee's views in relation to the specific areas that you have raised in your request.

In relation to ISA 240 and ISA 250:

The Committee is satisfied that:

- The financial statements are not misstated due to fraud
- There are adequate arrangements for identifying and responding to risks of fraud in the organisation
- There are adequate arrangements in place to communicate to employees the Council's views on business practice and ethical behaviour, and that
- There are adequate arrangements in place to ensure that the processes for identifying and responding to fraud are communicated to those charged with governance.

The Audit Committee require officers to report on:

- Outcomes of internal audit activity, which cover internal control issues. These reports include the main risks identified, recommendations to address control weaknesses and management action to improve controls
- Investigations of fraud/corruption allegations. The Committee would receive these as EXEMPT reports, showing the outcome of the investigation and the remedial action taken.

At annual intervals, the Audit Committee require officers to report on:

- The annual Internal Audit work programme
- Internal Audit's annual report, including the Head of Internal Audit's opinion on the adequacy of the Council's control environment
- Summary reports on any allegations of fraud or corruption investigated by Internal Audit. For 2010/11 there were no investigations of fraud or corruption (other than the cases of Benefit fraud which were investigated by the Benefit Fraud Team)
- The Benefit Fraud Annual Report
- Tenancy Fraud
- The Strategic Risk Register
- The Annual Governance Statement
- The Annual Audit and Inspection letter from the Audit Commission

The Committee is also able to request reports on any other relevant subject area where required.

All reports to the Audit Committee are shown on the Council's website (other than EXEMPT reports).

Investigations would be reported to the Committee when an investigation is complete to preserve confidentiality during the investigation. However, arrangements are in place for the Head of Internal Audit to make me aware of significant investigations or irregularities.

I am made aware of Benefit Fraud as part of the Annual Report. The Section 151 Officer is made aware of any significant Benefit Fraud investigations as they are completed.

The Committee does not have any knowledge of any actual, suspected or alleged frauds affecting the Council which have not already been reported to the Committee.

The Committee gains assurance that all relevant laws and regulations have been complied with, through the work of Internal Audit, the Annual Audit and Inspection letter from the Audit Commission and the Council's Annual Governance Statement, which includes reference to the work of the Monitoring Officer.

Yours sincerely

Councillor P Clokie  
Chairman  
Ashford Borough Council Audit Committee



# Audit opinion plan- Compliance with International Auditing Standards

In order to comply with a number of International Standard on Auditing I am required to obtain an understanding of the following:

1) How those charged with governance exercise oversight of management's processes in relation to:

- undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud;
- identifying and responding to risks of fraud in the organisation;
- communication to employees of views on business practice and ethical behaviour; and
- communication to those charged with governance the processes for identifying and responding to fraud.

2) How the Audit Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control.

3) Whether you have knowledge of any actual, suspected or alleged frauds

4) How you gain assurance that all relevant laws and regulations have been complied with.

Please discuss the current arrangements and provide a formal response to Lynn Clayton ([l-clayton@audit-commission.gov.uk](mailto:l-clayton@audit-commission.gov.uk)) by letter or email by 31 March 2010.

14 April 2011

John Bunnett  
Chief Executive  
Ashford Borough Council  
Civic Centre  
Tannery Lane  
Ashford  
Kent  
TN23 1PL

**Mobile line** 07765 898682  
**Email** a-mack@audit-  
commission.gov.uk

Dear John

## Annual audit fee 2011/12

I am writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at Ashford Borough Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12. The audit fee covers the:

- The audit of financial statements
- Value for money conclusion
- Whole of Government accounts.

As I have not yet completed my audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses.

## Audit fee

The Audit Commission proposes to set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee reflects proposed decreases in the total audit fee, as follows:

- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
- a cut in scale fees resulting from our new approach to local VFM audit work; and
- a cut in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower continuing audit costs after implementing IFRS.

The scale fee set by the Audit Commission for Ashford Borough Council is £132,525. Variations from the scale fee will only occur where my assessments of audit risk and complexity are significantly different from those identified and reflected in the 2010/11 fee.

	<b>Scale fee 2011/12</b>	<b>Planned fee 2010/11</b>
<b>Audit fee</b>	<b>£132,525</b>	<b>£139,500</b>

In addition, I will be required to certify a number of grant claims and returns prepared by the Council. The work required in this area is variable and depends on the approach specified by government departments. I will seek to place reliance on the Council's control environment and the work of internal audit in order to minimise the cost to the Council. At this stage, I anticipate fees in the region of £37,000.

I will issue a detailed audit plan in early 2012. This will set out any risks I have identified in respect of the financial statements audit and the vfm conclusion. The plan will also set out the audit procedures I plan to undertake and any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss this with the Deputy Chief Executive. I will then prepare a report outlining the reasons the fee needs to change for discussion with the Audit Committee.

I propose to review your updated business plan and Medium Term Financial Plan to support the vfm conclusion. I will issue a detailed project plan before work begins.

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work the Commission may agree to undertake using its advice and assistance powers. We will negotiate each piece of work separately and agree a detailed project specification.

### **Audit team**

Your audit team must meet high specifications and must:

- understand you, your priorities and provide you with fresh, innovative and useful support;
- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
Andy Mack District Auditor	<a href="mailto:a-mack@audit-commission.gov.uk">a-mack@audit-commission.gov.uk</a> 07765 898682	Andy is responsible for the overall delivery of the audit including the quality of outputs, liaison with the Chief Executive and Chair of Audit Committee and issuing the auditor's report.
Lynn Clayton Audit Manager (covering for Debbie Moorhouse maternity leave)	<a href="mailto:l-clayton@audit-commission.gov.uk">l-clayton@audit-commission.gov.uk</a> 07881 836129	Lynn manages and coordinates the different elements of the audit work. Key point of contact for the Deputy Chief Executive.
Kevin Long Principal Auditor	<a href="mailto:k-long@audit-commission.gov.uk">k-long@audit-commission.gov.uk</a> 07974 008174	Kevin leads the on-site team in delivering the audit.

I am committed to providing you with a high-quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk))

Yours sincerely

Andy Mack, District Auditor

cc Paul Naylor, Deputy Chief Executive

cc Councillor Robert Taylor, Acting Chair of the Audit Committee

## Appendix 1- Planned outputs

We will discuss and agree our reports with officers before issuing them to the audit committee.

---

**Table 1**

<b>Planned output</b>	<b>Indicative date</b>
Audit plan	February 2012
Annual governance report	September 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2012
Final accounts memorandum (to the Deputy Chief Executive) if required	October 2012
Annual audit letter	November 2012
Annual claims and returns report	February 2013