

Agenda Item No: 9
Report To: **AUDIT COMMITTEE**
Date: **26 June 2014**
Report Title: **2013/2014 Financial Statements - Letters of Assurance to External Auditors**
Report Author: Paul Naylor



Summary: Each year in support of the external audit of the council's financial statements, it is necessary to provide two assurance letters to the auditors. These are important statements on which the auditors rely for their opinion work. The two completed letters are attached. One is from the chairman on behalf of the committee. The second is from the Deputy Chief Executive on behalf of management. They cover similar points to assurance letters in the past, and have already been shared in draft with our auditors. They cover assurances relating to such matters as disclosures of material facts affecting the statements, fraud, contingent liabilities and legal issues affecting the statements

Key Decision: NO

Affected Wards: NA

Recommendations: **The Committee is asked to:-
endorse the Chairman's and Management's
2013/2014 Assurance Letters**

Policy Overview: The assurance forms an important part of the financial statements disclosure process and the maintenance of the council's governance.

Financial Implications: NA

Risk Assessment NA

Equalities Impact Assessment NA

Other Material Implications: NA

Background Papers: NA

Contacts: paul.naylor@ashford.gov.uk - Tel: (01233) 330436



Grant Thornton

An instinct for growth™

Paul Naylor
Deputy Chief Executive
Ashford Borough Council
Civic Centre
Tannery Lane
Ashford
TN23 1PL

Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP
T +44 (0)20 7383 5100
www.grant-thornton.co.uk

05 February 2014

Dear Paul

Ashford Borough Council Financial Statements for the year end 31 March 2014

To comply with International Auditing Standards, we need to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with law and regulation. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document Management's view on some key areas affecting the financial statements

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the attached schedule. In completing this task, you may wish to take into account the views of other directors where you think appropriate. The schedule relates to operational issues as well as the financial statements.



Fraud, Laws and
Regulation responses

In addition to our request to management, we also will need to gain an understanding of how the Audit Committee maintains oversight of the above processes. I have also attached a copy of the letter that I intend to send to the Chair of the Audit Committee, for your information:



ABC - TCWG - Fraud
laws and Regs letter.

Chartered Accountants

Member firm within Grant Thornton International Ltd
Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No. OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP
A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

In preparing your responses, it would assist me greatly if you could include a summary of evidence that you have relied on to inform your responses, and the sources of assurance that you have that the relevant management controls have operated effectively through the financial year to date and will operate up to the date the accounts are approved.

The next audit committee meeting is on 04 March 2014, I wonder whether it would be useful to co-ordinate both the Audit Committee and management responses to our letters in time for discussion at that meeting.

Please contact me if you wish to discuss anything in relation to this request

Yours sincerely

Andy Mack
Director
For Grant Thornton UK LLP

T +44 (0)20 7728 3299
E andy.l.mack@uk.gt.com



Grant Thornton

An instinct for growth™

Councillor Clokie
Audit Committee Chair
Ashford Borough Council
Civic Centre
Tannery Lane
Ashford
Kent
TN23 1PL

Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP
T +44 (0)20 7383 5100
www.grant-thornton.co.uk

05 February 2014

Dear Councillor Clokie

Ashford Borough Council Financial Statements for the year end 31 March 2014 - 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 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:
 - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
 - 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?
- 4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

Chartered Accountants

Member firm within Grant Thornton International Ltd
Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No. OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP
A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

We have also written to management to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with law and regulation.

The next audit committee meeting is on 04 March 2014, I wonder whether it would be useful to co-ordinate both the Audit Committee and management responses to our letters in time for discussion at that meeting.

Please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Andy Mack
Director
For Grant Thornton UK LLP

T: 0207 228 3299
E: andy.lmack@uk.gt.com

Responses from Management:

Auditor question	Response
<p>What do you regard as the key events or issues that will have a significant impact on the financial statements for 2013/14?</p>	<p>In April 2014 the Council has completed the purchase of International House. This non adjusting post-balance sheet event will have an impact on the net worth of the council going forward.</p> <p>The Statement of Accounts for 2012/13 stated that the Council was seeking recompense in respect of costs it had incurred as a result of a delay in completing the refurbishment of the Stour Centre. The Council has now settled its differences with the lead consultant. The terms of settlement are confidential.</p>
<p>Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Yes – a report detailing the findings of the review was presented the Audit Committee in March 2014.</p> <p>New policies have been adopted for business rate accounting and the impacts of changes to pension fund accounting standards.</p>
<p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>Yes – the localisation of business rates has a significant impact on the way the council accounts for business rate income. Given the importance of managing the risks and forecasting the opportunities we have developed the focus and understanding in this area, and are in the course of making a permanent adjustment to integrate the work of the revenues and finance teams in this area.</p>
<p>How would you assess the quality of the Council's internal control processes?</p>	<p>Internal audit systematically reviews the effectiveness and quality of our internal control processes each year. Management receives copies of the assurance findings and recommendations relating to the individual audits. During the DCX's periodic review discussions with the Head of Audit Partnership discussion covers any outstanding material issues relating to audit recommendations. As part of the assurance process the Audit Committee receives twice yearly reports updating members about internal audit findings. Annually the Committee receives the Head of Audit Partnership's report providing a conclusion about the effectiveness and quality of internal controls to the Audit Committee.</p>

	<p>This year's draft findings (the report will be submitted to the June committee) will once again report a 'substantial' assurance conclusion. External audit's work has provided similar assurance in the past.</p>
<p>How would you assess the process for reviewing the effectiveness of internal control?</p>	<p>The process of review is well-developed and established not just within the audit function, but with services understanding, respecting and valuing its need. The reviews are also used, where appropriate, as opportunities for internal audit to provide constructive comment on value for money and service effectiveness issues.</p>
<p>How do the Council's risk management processes link to financial reporting?</p>	<p>Risk management is an inherent part of the work of members, the management team, service managers, and line managers. We have an established risk management process, recently reviewed, that focuses on strategic and service risks and instils a good discipline and culture that is risk aware. These processes link to financial reporting in various ways. Strategic financial risks – the overall financial position, and financial risk associated with key strategic projects – are handled through various reporting processes, including the financial planning processes (this also includes the formal scrutiny stage), and the preparation of business plans and reports to members that take forward our key projects, and the risk register itself (reported to and owned by the Audit Committee). For major projects a governance framework exists (the Ashford Strategic Delivery Board) that monitors and discusses progress, including key financial issues and risks and the management of these. Note this is not a decision-making board separate from the council.</p> <p>The statutory financial statements are informed by all of these various processes and where necessary disclosures are made.</p>
<p>How would you assess the Council's arrangements for identifying and responding to the risk of fraud?</p>	<p>Our arrangements are strong, both in terms of the capacity we have and in policy and procedural terms. Our counter fraud arrangements have served the council and the taxpayer well; this is generally acknowledged by members and has received praise and acknowledgement from our external auditors.</p>
<p>What has been the outcome of these arrangements so far this year?</p>	<p>An annual report is prepared and submitted to the Audit Committee, the report summarises the scope of activity covered over a year and</p>

	<p>the outcomes achieved. The next report is due to be reported to the June Audit Committee, the data is currently being compiled.</p> <p>Fraud within the council is rare, but from time to time an issue can arise. Our arrangements deal with any alleged fraud through a thorough investigation approach as any allegation must be carefully investigated to reach a proper conclusion. In cases that may give rise to potential criminal fraud, a referral would be made to the police. Our sanction protocols deal firmly with any fraud that is established.</p> <p>Our routine counter-fraud work focuses on housing benefit, council tax support, and housing tenancy fraud, but the scope is widening to cover other corporate fraud risks.</p> <p>As the council places some emphasis on provide public assurance our counter fraud work is given publicity through the local media. This has assisted in developing reputation as a council that is proactive in counter-fraud work. Members are keen to maintain this profile.</p>
<p>What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The Council manages Housing Benefit claims for 10,000 claimants and whilst it has a Fraud investigation team there is scope for fraud in this area.</p> <p>The Council offers a number of Council Tax discounts to residents and there is scope for fraud in this area. The counter fraud team now routinely scrutinises single person discounts claims using a third party service, building on large scale periodic reviews in the past. With council tax yield being important to the borough council and the preceptors there is a joint agreement in place that supports this focus.</p> <p>The Council lets circa 5,000 properties and there is a risk of tenancy fraud. This is another area of routine activity for the counter fraud team, with investigation work resulting in some positive outcomes for the HRA thjat helps to manage this risk.</p>
<p>Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what</p>	<p>There have not been any issues that have been reported through the council's whistleblowing</p>

has been your response?	procedures.
Have any reports been made under the Bribery Act?	No
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	<p>Formally all cabinet reports are required to indicate the extent to which risk assessments have been considered. For a number of report issues the subject matter will lead to greater coverage of risks, the implications and mitigating actions. Leading up to the production of reports on significant matters internal discussions with management team members and in many cases with members, including the portfolio holders, will have taken place. For all potential reports to cabinet a one-page summary of issues, these are expected to include highlights of material risks are reported to the leader's monthly cabinet briefing meetings so cabinet is aware in good time of matters due to come before a future cabinet meeting.</p> <p>On strategic risks it is part of the Audit Committee's remit each year to 'sign off' the council's strategic risk register and to monitor progress with the action plans.</p> <p>There is a regular report to the audit committee on the Councils strategic risk register.</p>
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	We use a number of means including: induction for new employees, the availability through the intranet of expected standards and internal policies (including emphasis on staff conduct), the Chief Executive's personal 'walkabouts' to services to brief on important issues and progress against important plans, our leadership and management development programmes, and our regular staff appraisal processes.
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	As part of the closing process we write to the Monitoring Officer to identify what litigation the Council has engaged in and to open a discussion about accounting for these cases.
Is there any use of financial instruments, including derivatives?	No
Are you aware of any significant transaction outside the normal course of business?	The council did complete the purchase of Stanhope shops for £1m.

	See also reply to Q1 relating to Stour Centre.
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
Are you aware of any guarantee contracts?	Yes – the Council has given a financial guarantee to Ashford Leisure trust for pensions costs and termination costs, the details of which are disclosed as a contingent liability.
Are you aware of allegations of fraud, errors, or other irregularities during the period?	<p>On benefit fraud we have arrangements that allow residents and others to inform the council anonymously should they have any information that needs to be investigated; these arrangements are used and information is followed up.</p> <p>Occasionally allegations of a general nature relating to benefit fraud are made at public council meetings, when a reminder is given that information will be followed up confidentially if specific information is provided.</p> <p>One matter of internal fraud was highlighted through our internal control activity relating to a part of the 2013 electoral canvass performed by two temporary canvass staff; this was robustly dealt with.</p>
Are you aware of any instances of non-compliance with laws or regulations or is the Council on notice of any such possible instances of non-compliance?	The Council has recently settled proceedings brought by a group of Property Search Companies for refunds of fees. This is part of a nationwide, series of actions by these companies against virtually all local authorities as a result of a misinterpretation by government of rules on charging. Further similar proceedings may be taken by other companies.
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	<p>The Council made a voluntary disclosure to HMRC re tax position for members' home to office travelling expenses. This is about to be settled. Other HMRC have requested information for a VAT compliance test in May 2014</p> <p>The Council has undergone a Compliance Check by HMRC for its transactions relating to the Construction Industry Scheme (CIS) deductions.</p>
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	None
Where the financial statements include amounts based on significant estimates, how have the	See note 4 of the statement, there is a draft of the note appended to this document.

accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?	
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
Has the management team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of that assessment?	The council has completed a number of Forward planning sessions to discuss the financial strategy of the Authority in the medium term.
Management is still required to consider whether there are any material uncertainties that cast doubt on the Council's ability to continue as a business. What is the process for undertaking a rigorous assessment of going concern? Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?	<p>The Council has been conducting a number of financial planning exercises with members to identify ways to address the funding challenge in the next 3 years.</p> <p>Given the level of funding cuts that are anticipated this work is necessary to ensure that members and officers develop a coherent strategy to address this risk.</p> <p>All services and cabinet members have been included in this process and consequently it is expected that this will capture service specific issues.</p> <p>Finally the finance and policy teams monitor government announcements for anything that will impact upon the councils business plan.</p>
Can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Pinsent Masons re Stour Centre Bevan Brittan on land charges litigation
Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The Council has a process that requires the completion of a proforma for all purchases of external advice. These are contained in the exchequer department and will be available for audit to inspect.

Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

The items in the Authority's Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from assumptions
Land Searches	<p>The Council may become a defendant in proceedings brought by a group of Property Search Companies for refunds of fees paid to the Council to access land charges data. A group of Property Search Companies are seeking to claim refunds although no proceedings have yet been issued.</p> <p>The Property Search Companies have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Council.</p> <p>It is possible that additional claimants may come forward to submit claims for refunds.</p>	<p>A Grant has been paid to the Council to cover the cost upto £34,000 which has been added to a reserve to cover potential claims. The total claims could exceed £110,000</p>
Pensions	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.</p> <p>A firm of actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p>	<p>A 0.1% change in the discount rate (the iBoxx Corporate Bond Index) would result in a change in the liability of £2.6m.</p> <p>A 1 year change in the mortality assumption would result in a £4.8m change in the pension liability.</p>
NNDR appeals liability	<p>From April 2013, the Council is responsible for refunding successful appeals against past NNDR liabilities. An estimate of the possible effect on this Council has been taken into account in these accounts and future funding assumptions.</p>	<p>If the level of successful appeals exceeds the assumptions already made, the cost will fall to be met from future budgets.</p>
Recovery of Benefit over-payments	<p>These accounts assume that the Council will continue to be able to recover overpaid benefit from Benefit Claimants.</p>	<p>Should the changes being considered by the Government restrict the ability of local authorities to pursue such debts, write-offs of uncollected debt</p>

Item	Uncertainties	Effect if Actual Results Differ from assumptions
		will have to be met from future budgets.
Impairment Allowance for Bad Debts	The Council has an impairment allowances for bad debts totalling £3,521,000 approximately 48% of the value outstanding debt	In the current economic climate collection rates for all forms of debt have been maintained, however any decline in these rates for debt would result in a need to increase the allowance.

DRAFT

Councillor Paul Clokie

Ask For: Paul Clokie
Email: paul.clokie@ashford.gov.uk
Direct Line: (01233) 330436



ASHFORD
BOROUGH COUNCIL

Civic Centre
Tannery Lane
Ashford

Kent TN23 1PL
(01233) 331111

Typetalk (01233) 330744

www.ashford.gov.uk

DX 151140 Ashford (Kent) 7

Mr Andy Mack
Engagement Lead (Director)
Grant Thornton UK LLP
Grant Thornton House, Melton Street
Euston Square, London
NW1 2EP

Date: 29 May 2014

Dear Andy

Ashford Borough Council Financial Statements for the year ended 31 March 2014 – understanding how the Audit Committee gains assurance from management

I refer to your letter of 5 February 2014 in which you ask for my responses to a number of assurance questions for the purposes of your audit of the 2013-2014 financial statements.

This letter and the accompanying management assurance letter prepared by the Deputy Chief Executive are to be reported to the Audit Committee on 26 June when the committee will be asked to formally approve this letter of assurance.

You raised four questions to me in your letter, which I will now address for the committee, and the council, therefore.

On questions 1 and 3 I am satisfied the management response presents a good and accurate summary of assurance on:

- the financial statements,
- internal controls,
- managing fraud risk,
- business practice and ethics, and
- compliance with law and regulations.

You will be aware the committee receives various reports on these issues throughout each year and 2013-2014 was no different. As you are aware our approach to risk management was reviewed a year ago; during 2013-2014 the committee adopted a revised strategic risk plan and maintained close overall scrutiny of the risks during the year. This involved greater in-depth discussions about some of the risks, including presentations from officers. This approach partly developed from the committee's consideration of two national reports produced by Grant Thornton last year that helped the committee to shape its role generally.

On question 2, as Audit Committee chairman I have been briefed about the incident of fraud explained in the management assurance letter and of the action taken by management. I am satisfied there are no other suspected or alleged frauds.

On question 4, I can confirm that both I and the committee were aware of the claim the council had made about the Stour Centre project, with which you are familiar through officers' periodic briefings to you. As previously advised to you by officers the Council has now settled its differences with the lead consultant for the project. The terms of settlement are confidential.

I trust this response will be adequate for your audit purposes, but please do not hesitate to contact me should any point need further clarification.

Yours sincerely

Councillor Paul Clokie
Chairman of the Audit Committee