

**Agenda Item No:** 8

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

**Date:** **30 June 2015**

**Report Title:** **2014/2015 Financial Statements - Letters of Assurance to External Auditors**

**Report Author:** Paul Naylor



<b>Summary:</b>	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
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**Key Decision:** NO

**Affected Wards:** NA

**Recommendations:** **The Committee is asked to:-  
endorse the Chairman's and Management's  
2014/2015 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

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## Councillor John Link

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Lisa Robertson  
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Date: 23 June 2015

Dear Lisa,

### **Ashford Borough Council Financial Statements for the year ended 31 March 2015 – understanding how the Audit Committee gains assurance from management**

I refer to your letter of 24 February 2015 to the former chairman of the Audit Committee, Councillor Paul Clokie, in which you ask for responses to a number of assurance questions for the purposes of your audit of the 2014-2015 financial statements. I am replying as the new chairman of the committee, previously having been the Vice Chairman; Councillor Clokie has taken up a cabinet member position.

This letter and the accompanying management assurance letter from the Deputy Chief Executive are to be reported to the Audit Committee on 30 June when the committee will be asked to formally approve this letter of assurance.

You raised five questions in your letter which I will now address.

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
- our compliance with law and regulations.

You will be aware the committee received various reports on these issues throughout last year. As you are aware our approach to risk management was reviewed a year ago and I anticipate the committee will consider the outcome of that review in September.

On question 2, neither I nor the previous chairman have any knowledge of actual, suspected nor alleged frauds, besides the updates to the committee of the work by our fraud investigation team which has a principal focus on fraud in areas such as council tax, housing benefit and housing tenancies.

On question 4, there are no other issues I am aware of beyond the disclosure included in the management assurance letter, concerning settlement of legal proceedings brought by Personal Local Search Companies, and a disclosure made in the draft financial statements concerning protective claims by the council regarding VAT on off street parking income. The latter are longstanding legal claims that are being pursued by a number of councils and are subject to appeal by HM Revenues and Customs.

On question 5, the Committee last considered the 'going concern' principle in March when it received a report covering accounting principles more generally as part of the preparatory work for the financial statements. The Committee supported then and will continue to support the going concern principle based on the council's statutory position, its legal and financial arrangements, and its current and longer term financial prospects as reported at various times each year to members of the council.

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 John Link  
**Chairman of the Audit Committee**

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24 February 2015

Dear Paul,

**Audit of Ashford Borough Council financial statements for the year end 31 March 2015**

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 those charged with governance 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.

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 enclosed a copy of the letter that I intend to send to the Chair of the Audit Committee, for your information.

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.

We would be grateful if you could provide a response by 30 June 2015. You may find it useful to co-ordinate both the Audit Committee and management responses to our letters in time for discussion at that the June Audit Committee meeting.

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

Yours sincerely

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## Responses from Management:

Auditor question	Response
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2014/15?	<p>In April 2014 the Council has completed the purchase of International House.</p> <p>In May 2015 the Council completed the purchase of the long leasehold of Unit 1 Park Mall and is in advanced stages of purchasing a long leasehold interest in the Park Mall shopping centre. This non adjusting post-balance sheet event will have an impact on the net worth of the council going forward.</p>
Have you considered the appropriateness of the accounting policies adopted by the Trust? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes – a report detailing the findings of the review was presented the Audit Committee in March 2015.
Are you aware of any changes to the Councils regulatory environment that may have a significant impact on the Council's financial statements?	The General Election in May and consequential change in government policy has the potential to have an impact on the council's financial statements. However until the results are known and policy announcements made this cannot be fully assessed.
How would you assess the quality of the Council's internal control processes?	Broadly, the manner in which the Council assesses the quality of its internal control processes is as described within the Annual Governance Statement. This draws upon a range of sources, including Head of Internal Audit reports, Management oversight, residents' feedback, Member reviews as well as information provided by external audit. This information is considered as a continuing exercise by the management team for its commentary on the efficacy of internal controls both in design and operation.
How would you assess the process for reviewing the effectiveness of internal control?	The overall process is as described in the above response. During 2015/16 no significant matters have arisen through the operation of this assessment that have served to cause doubt in the minds of management as to the effectiveness of internal control.
How do the Council's risk management processes link to financial reporting?	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,

Auditor question	Response
	<p>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>
How would you assess the Council's arrangements for identifying and responding to the risk of fraud?	Our arrangements are strong, both in terms of the capacity we have and in policy and procedural terms.
What has been the outcome of these arrangements so far this year?	<p>An annual report is prepared and submitted to the Audit Committee, the report summarises the scope of activity covered over a year and 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 providing public assurance that 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.</p>
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	<p>The Council manages Housing Benefit claims for circa 10,000 claimants and they are covered within the scope of work by the Fraud investigation team.</p> <p>The Council offers a number of Council Tax discounts to residents and there is scope for</p>

Auditor question	Response
	<p>fraud in this area. The counter fraud team now routinely scrutinise 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 other major 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 that helps to manage this risk.</p>
<p>Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The Head of Internal Audit is a designated officer as per the Council's whistleblowing policy to receive disclosures made through that policy. During 2015/16 he has received no such disclosures nor been made aware or discovered through completion of the audit plan or general enquiry any circumstances that lead him to believe such a disclosure is imminent or under consideration.</p> <p>The Council's Monitoring Officer also confirms no such disclosures have been received and he is not aware of any which are imminent or under consideration.</p>
<p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The Councils strategic risk register is routinely reported to the Audit committee.</p> <p>Risks on major projects are routinely reviewed by the Ashford Strategic Delivery Board as part of the regular reporting process.</p> <p>Committee reports have sections for risk assessments to allow individual project risks to be reported through to members.</p>
<p>As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?</p>	<p>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.</p>
<p>What are your policies and procedures for identifying, assessing and accounting for litigation and claims?</p>	<p>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.</p>

Auditor question	Response
Is there any use of financial instruments, including derivatives?	<p>The Council uses pooled investment funds such as money market funds and a property fund and has purchased a corporate bond.</p> <p>The Council has a PFI contract that has a lease embedded into it and is accounted for accordingly.</p>
Are you aware of any significant transaction outside the normal course of business?	<p>In April 2014 the Council completed the purchase of International House £7.7m.</p> <p>Throughout the year the Council has been refurbishing one of its sheltered accommodation schemes, this major capital scheme has resulting in capital expenditure of £3.4m</p>
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>
Are you aware of any instances of non-compliance with laws or regulations or is the Trust's on notice of any such possible instances of non-compliance?	The Council has settled proceedings brought by Personal Local Search Companies for refunds of fees and will shortly settle further similar proceedings. These are part of a nationwide series of actions by companies against all local authorities as a result of a misinterpretation by government on environmental information disclosure and charging. Further similar proceedings could be taken by other search companies
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	<p>The Council has been inspected by HMRC for VAT compliance – the inspection highlighted some issues which have been addressed.</p> <p>The Council has 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. Further similar proceedings may be taken by other companies.</p>



Auditor question	Response
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?	<p>Note 4 of the Financial statement details of these items, in summary the main areas are:</p> <ul style="list-style-type: none"> <li>• Pensions – the accounts include an estimate on the pensions liabilities</li> <li>• NNDR appeals – an estimate has been made to provide for liabilities relating to NNDR appeals.</li> <li>• The accounting treatment of the PFI scheme is based upon a financial model that includes a number of estimates on future costs.</li> </ul>
Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?	See note 4 of the statement, there is a draft of the note appended to this document.
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
Are you aware of any reports having been made by the Trust under the Bribery Act during the last year?	<p>The Head of Internal Audit is a designated officer as the Council's counter fraud policy to receive disclosures made under the Bribery Act. During 2015/16 he has received no such disclosures nor been made aware or discovered through completion of the audit plan or general enquiry any circumstances that lead him to believe such a disclosure is imminent or under consideration. The Council's Monitoring Officer is similarly unaware of any such disclosures or possible disclosures</p>
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.
Although the public sector interpretation of IAS1 means that unless Local Government services are being transferred out of the public sector then the financial services should be prepared on a going concern basis, 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 council's business plan.</p>

Auditor question	Response
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?	Bevan Brittan have acted for the Council (and most other local authorities) on the land searches 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.
Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	