

Agenda Item No: 9

Report To: **Audit Committee**

Date: **30 June 2016**

Report Title: **2015/16 Financial Statements – Letters of Assurance to the External Auditor**

Report Author: Ben Lockwood

Portfolio Holder: Cllr Shorter - Portfolio Holder for Finance & Budget, Resource Management and Procurement

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 Head of Finance on behalf of management.

They cover similar points to assurance letters in the past, and have already been shared in draft with our auditor's. 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: N/A

Recommendations: **The Committee is asked to:**

- i. **Endorse the Chairman's and Management's 2015/16 assurance letters**

Policy Overview: N/A

Financial Implications: N/A

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Cllr C Waters

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Date: 30 June 2016

Dear Elizabeth

Ashford Borough Council Financial Statements for the year ended 31 March 2016 – Understanding how the Audit Committee gains Assurance from Management

I refer to your letter of 11 March 2016 to the former chairman of the Audit Committee, Councillor John Link, in which you ask for responses to a number of assurance questions for the purposes of your audit of the 2015-2016 financial statements. I am replying as the new chairman of the committee, previously having been the Vice Chairman; Councillor Link continues to serve as a member of the committee.

This letter and the accompanying management assurance letter from the Head of Finance 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:

- **Financial Statements**

The committee receives reports from the external auditors on the financial statements, reviewing the action plans included to address any weaknesses identified in the audit.

The committee has received training on the financial statements to enable members of the committee to have a robust examination of the statements.

- **Internal Controls**

The committee has regular updates from the internal audit team on its work to assess the adequacy of controls, they seek to cover the organisations control environment over a 4 year period

Over the last year we have put in place new measures to ensure that the

relevant head of service attend the next committee to explain the reasons for a weak audit assessment and outline the action plan to address the issue.

- Managing fraud risk

The committee receives reports on the work of the Internal Audit team covering systems and controls at risk of fraud and from the fraud team itself.

- Business practice and ethics,

This is covered within the Annual Governance Statement and the reports that the committee receives updating it of progress of remedying exceptions throughout the year.

and

- Our compliance with laws and regulations

The committee has received various reports on these issues throughout last year. As you are aware our approach to risk management was reviewed recently and the committee considered a progress report of that review in September 2015 and is due to receive a report on the work undertaken by the Corporate Enforcement Support and Investigations Team on 30 June.

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 June when it received a presentation covering the statements of account more generally as part of the preparatory work for the financial statements and this issue is covered by the management response. The Committee supports 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.

Yours Sincerely

Councillor Christopher Waters
Chairman of the Audit Committee

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11 March 2016

Dear Paul,

Audit of Ashford Borough Council financial statements for the year end 31 March 2016

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 31 May 2016. 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

Elizabeth Olive
Engagement Lead
For Grant Thornton UK LLP

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 2015/16?</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.</p> <p>The introduction of IFRS13 will have an impact on the valuation of the Councils assets and valuers have been instructed accordingly</p> <p>NNDR – un-submitted appeals, there is a requirement to consider un-submitted appeals as part of the appeals provision. An appropriate methodology will need to be developed to assess the level of appeals as yet un-submitted.</p> <p>NNDR Pooling – This is the first year that the Council will have to account as part of the Kent Business Rates pool.</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 2016.</p>
<p>Are you aware of any changes to the Councils regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>None</p>
<p>How would you assess the quality of the Council's internal control processes?</p>	<p>I am comfortable with the internal control environment; the Council has a stable control environment with many processes embedded for a number of years.</p> <p>The Council's internal audit function reviews the councils internal control environment. The findings have shown that there is a robust system of internal controls in operation. Where an audit report identifies an issue these are highlighted to both members and management team and action is taken. Evidence of this can be seen with the response to both the safeguarding and data protection audits which have seen action plans put in place and tracked.</p>

Auditor question	Response
How would you assess the process for reviewing the effectiveness of internal control?	The Council receives regular reports from the internal audit partnership managers on the progress that is being made on the planned audits. Progress is in line with the plan and consequently the process for reviewing the effectiveness of internal control is considered to be strong.
How does the Council's risk management processes link to financial reporting?	<p>The Council has been working closely with the internal audit team and audit committee to put together a new corporate risk register, most recently this has been reported to the March committee.</p> <p>Further to this the Council's financial reporting considers the risk register when considering estimation techniques/approaches and when formulating a view on contingent assets and liabilities.</p>
How would you assess the Council's arrangements for identifying and responding to the risk of fraud?	<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.</p> <p>The Council is working with KCC on the development of the Kent Intelligence Network and a data matching tool as a means of identifying potential fraud.</p>

Auditor question	Response
	The statutory financial statements are informed by all of these various processes and where necessary disclosures are made.
What has been the outcome of these arrangements so far this year?	Our arrangements are strong, both in terms of the capacity we have and in policy and procedural terms.
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	<p>The areas at most risk of fraud are considered to be:</p> <ul style="list-style-type: none"> • Benefits – the council administers Housing Benefit with over 10,000 claimants. The responsibility for the investigation and prosecution of benefits fraud transferred to the Single Fraud and Investigation Team in December 2015. • Council Tax Discounts – 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. • Housing Tenancy with approximately 5,000 properties and there is a risk of tenancy fraud. This is an 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.
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	I am aware of no whistle blowing complaints.
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	<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>
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	<p>We use a number of means including:</p> <ul style="list-style-type: none"> • induction for new employees, • staff publication “Root and Branch” • Web based training – most recently FOI, Safeguarding, data protection and trips

Auditor question	Response
	<p>and slips.</p> <ul style="list-style-type: none"> • 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, • Leadership and management development programmes, • and our regular staff appraisal processes.
<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>
<p>Is there any use of financial instruments, including derivatives?</p>	<p>The Council uses pooled investment funds such as:</p> <ul style="list-style-type: none"> • money market funds • property fund, • corporate bonds • and most recently invested in equities based funds. <p>The Council has made loans to its companies and a number of community groups.</p> <p>The Council has a PFI contract that has a lease embedded into it and is accounted for accordingly.</p>
<p>Are you aware of any significant transaction outside the normal course of business?</p>	<p>The council has been continuing its refurbishment of Farrow Court with a cost of £3.9m.</p> <p>The Council also completed the acquisition of Park Mall (£825k) and the Wilkinson’s retail unit (£3.6m) in the town Centre.</p>
<p>Are you aware of any changes in circumstances that would lead to impairment of non-current assets?</p>	<p>A Gas explosion in Council Properties at Oak Tree Road resulted in the loss of 8 council Properties.</p>
<p>Are you aware of any guarantee contracts?</p>	<p>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.</p>
<p>Are you aware of allegations of fraud, errors, or other irregularities during the period?</p>	<p>On benefit fraud we have arrangements that allow residents and others to inform</p>

Auditor question	Response
	<p>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>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?</p>	<p>No</p>
<p>Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?</p>	<p>The Council has settled proceedings brought by a group of Property Search Companies for refunds of fees. Further similar proceedings may be taken by other companies.</p>
<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?</p>	<p>Note 4 of the Financial statement details of these items, in summary the main areas are:</p> <ul style="list-style-type: none"> • Pensions – the accounts include an estimate on the pensions liabilities • NNDR appeals – an estimate has been made to provide for liabilities relating to NNDR appeals. <p>The accounting treatment of the PFI scheme is based upon a financial model that includes a number of estimates on future costs.</p>
<p>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?</p>	<p>Pensions – Estimates have been provided by the council’s actuaries who have to conform to professional standards when producing those numbers.</p> <p>NNDR Appeals – these are made on the data provided by the Valuation Office and data provided by Analyse Local. These views are then tested against national trends.</p> <p>Asset valuations – the council’s valuer has to conform to professional standards when forming a view on the value of the council’s assets.</p>
<p>Are you aware of the existence of loss contingencies and/or un-asserted claims</p>	<p>No</p>

Auditor question	Response
that may affect the financial statements?	
Are you aware of any reports having been made by the Trust under the Bribery Act during the last year?	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.
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 5 years. The strategy to address this was reported to members in October and work has continued to develop new income streams for the council and complete more detailed resource planning models.</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>
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?	<p>Winckworth Sherwood – Procurement</p> <p>Thomson Snell & Passmore LLP – Elwick Rd Stanford and Green – debt recovery</p> <p>Kingsfords LLP – Conveyancing</p> <p>Robinson Escott Planning Llp – Planning enforcement</p> <p>Becket Chambers – Licencing</p>
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?	No

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Friday, 11 March 2016

Dear Councillor Link,

Ashford Borough Council Financial Statements for the year end 31 March 2016: Obtain an 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?
- 5 How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

I would be grateful if you could respond by 16 June 2016.

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

Yours sincerely

Elizabeth Olive
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For Grant Thornton UK LLP