



ASHFORD
BOROUGH COUNCIL

Agenda Item No: 5
Report To: **Audit Committee**
Date: **11 July 2017**
Report Title: **2016/17 Financial Statements – Letters of Assurance to the External Auditor**
Report Author: Ben Lockwood, Head of Finance & IT
Portfolio Holder Cllr Shorter - Portfolio Holder for Finance & IT

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 & IT on behalf of management.

They cover similar points to assurance letters in the past, and shared, in draft, with our Auditor.

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 2016/17 assurance letters**

Policy Overview: N/A

Financial Implications: N/A

Legal Implications N/A

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Cllr C Waters

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BOROUGH COUNCIL

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Date: 31 March 2017

Dear Elizabeth

Ashford Borough Council Financial Statements for the year ended 31 March 2017 – Understanding how the Audit Committee gains Assurance from Management

I refer to your letter of 7th March 2017, in which you ask for responses to a number of assurance questions for the purposes of your audit of the 2016-2017 financial statements.

This letter and the management assurance letter from the Head of Finance are to be reported to the Audit Committee on 11 July 2017 when the committee will be asked to formally approve this letter of assurance.

Auditor Question	Response
1 How does the 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 –	The committee receives reports from the external auditors and officers on the financial statements, which highlight audit findings, changes in statutory and regulatory environment, 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.
<p>– identifying and responding to the risk of breaches of internal control</p>	<p>The committee has regular updates from the internal audit team on its work to assess the adequacy of controls. Their work plan seeks to cover the organisations control environment over a 4 year period. The Internal Audit and Assurance Plan for 2017/18 was approved by the committee in March which included an appendix listing the audit universe and when areas were planned to be audited.</p> <p>The Committee has continued to create a culture of accountability ensuring 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.</p>
<p>– 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)</p>	<p>The committee receives reports on the work of the Internal Audit team covering systems and controls at risk of fraud.</p> <p>The Committee also receives an annual report from the fraud team itself, this update is scheduled for the July meeting.</p>
<p>– communicating to employees its views on appropriate business practice and ethical behaviour (for example by updating, communicating and monitoring against the codes of conduct)?</p>	<p>The Annual Governance Statement and the reports that the committee receives updating it of progress of remedying exceptions throughout the year, deal with any issues relating to business practice and ethical standards expected of staff by the Council.</p> <p>The Strategic Risk register has at its first risk Organisational Skills and Capacity to deliver. This covers staff not having appropriate skills or culture and has a number of controls to manage this risk.</p> <p>Internal Audit reports will also highlight any areas where issues</p>

	of this nature are being identified in the audit work and reporting them to the audit committee.
2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.	I have no knowledge of any actual, suspected nor alleged frauds other than the information that the committee receives updates on the work of our fraud investigation team which has a principal focus on.
3 How does the Committee gain assurance that all relevant laws and regulations have been complied with?	<p>This is covered in the management response however, the Committee receives reports from both Internal and external auditors that will highlight any areas where the council has failed to comply. Reports also flag changes to the legislative environment so that the committee can monitor areas where change is likely to occur and needs monitoring.</p> <p>There are also statutory officers with special responsibilities to ensure that the authority complies with relevant laws and regulations.</p>
4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?	Other than the issues included in the management assurance letter there are no other issues I am aware.

If you have any further questions or queries on this response please do not hesitate to contact me or the Head of Finance.

Yours Sincerely

Councillor Christopher Waters
Chairman of the Audit Committee



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3 February 2017

Dear Paul,

Audit of Ashford Borough Council financial statements for the year end 31 March 2017

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 March 2017. 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 Jackson
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 2016/17?</p>	<p>Elwick – The Council has entered into a development funding agreement with Stanhope PLC for the development of a town centre cinema, hotel and restaurant complex.</p> <p>Conningbrook – the Council has entered into a land deal with Bretts for the development of the site at Conningbrook Lakes, the Council will receive a phased capital receipt for the land.</p> <p>Chilmington – The Council has signed a Section 106 agreement for Chilmington development, this is a 5,000+ housing development.</p> <p>Commercial Quarter – the council has entered into a lease to guarantee the letting of 2 floors of a new town centre office block.</p> <p>J10A – the Council has entered into a funding agreement with the DCLG and HA to receive a grant for the construction of the motorway junction – this funding will be received from the DCLG and passed to HA. The Council will undertake to recover the grant through planning agreements.</p> <p>College – The Council has lent £3m to the college for the development of the new campus. Upon reaching certain triggers the loan will convert to grant.</p> <p>The Triennial review of the Councils Pension Fund has been completed setting the future contribution levels. This has seen a lower level of back funding but increase costs for new benefits, overall the two offset each other.</p> <p>East Kent Merger – The Council withdrew from discussions to form a new East Kent District which would have seen the merger of 5 Authorities.</p>

Auditor question	Response
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?	Yes – a report detailing the findings of the review was presented the Audit Committee in March 2017.
Are you aware of any changes to the Councils regulatory environment that may have a significant impact on the Council's financial statements?	None
How would you assess the quality of the Council's internal control processes?	<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 the data protection audits which have seen action plans put in place and tracked.</p>
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>This last year has been the first of the Councils new corporate risk register, this has been reviewed after its first year and reported to the March committee.</p> <p>As part of the audit planning for 2017/18 management team has been discussing with the Internal Audit Service whether they can facilitate the review of the Strategic Risk register and this is to be undertaken with the risk owners.</p> <p>In addition Services have drawn up Service Risk Registers to cover the operational risks that the council faces and these were reported to the budget scrutiny task group.</p>

Auditor question	Response
	<p>Further to this the Councils financial reporting considers the risk register when considering estimation techniques/approaches and when formulating a view on contingent assets and liabilities.</p>
<p>How would you assess the Council's arrangements for identifying and responding to the risk of fraud?</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).</p> <p>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>As well as the NFI data matching exercise, the Council is continuing its work with KCC on the development of the Kent Intelligence Network and a data matching tool as a means of identifying potential fraud and the past year has seen the first data matches being produced and investigated.</p> <p>The statutory financial statements are informed by all of these various processes and where necessary disclosures are made.</p>
<p>What has been the outcome of these arrangements so far this year?</p>	<p>Our arrangements are strong, both in terms of the capacity we have and in policy and procedural terms.</p>
<p>What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The areas at most risk of fraud are considered to be:</p>

Auditor question	Response
	<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.
<p>Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>I am aware of a whistle blowing complaint in respect of the competency of a contractor. The Council commissioned an independent review of the contractors competency and has developed an action plan to address the issues raised.</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:</p> <ul style="list-style-type: none"> • induction for new employees, • staff publication “Root and Branch” • Web based training –for example FOI, Safeguarding, data protection and trips and slips. • the availability through the intranet of expected standards and internal policies (including emphasis on staff conduct).

Auditor question	Response
	<ul style="list-style-type: none"> • 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 completed due diligence and entered into a funding agreement for the development of a town centre cinema, hotel and 8 restaurant units..</p> <p>The Council has completed the commercial deal for the development on the conningbrook site that will realise a capital receipt for the council.</p> <p>A loan has been made to the College for the development of the new campus. This will be converted into a grant once certain conditions are met.</p> <p>The Council has entered into a lease to underwrite the lease of 2 floors of the new commercial quarter office development.</p>
<p>Are you aware of any changes in circumstances that would lead to impairment of non-current assets?</p>	<p>None</p>

Auditor question	Response
Are you aware of any guarantee contracts?	<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>The Council has entered into a lease to underwrite the lease of 2 floors of the new commercial quarter office development.</p>
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 Council on notice of any such possible instances of non-compliance?	No
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	No
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"> • 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>
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?	Pensions – Estimates have been provided by the council’s actuaries who have to conform to professional standards when producing those numbers.

Auditor question	Response
	<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 that may affect the financial statements?</p>	<p>No</p>
<p>Are you aware of any reports having been made by the Trust under the Bribery Act during the last year?</p>	<p>No</p>
<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?</p>	<p>Yes - The Council reviews its medium term financial plan on an annual basis and both members and management team are comfortable with the use of the going concern basis for the preparation of the financial statements.</p> <p>The council has completed a number of Forward planning sessions to discuss the financial strategy of the Authority in the medium term.</p>
<p>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>	<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>
<p>Can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on</p>	<p>Winckworth Sherwood – Procurement Thomson Snell & Passmore LLP – Elwick Rd Stanford and Green – debt recovery</p>

Auditor question	Response
open litigation or contingencies from prior years?	Kingsfords LLP – Conveyancing Robinson Escott Planning Llp – Planning enforcement Becket Chambers – Licencing Hogan Lovells – Elwick Rd
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