

Agenda Item No: 11
Report To: Audit Committee
Date of Meeting: 17 March 2020
Report Title: 2019/20 Financial Statement – Letters of Assurance to the External Auditor
Report Author & Job Title: Ben Lockwood
Director Finance and Economy
Portfolio Holder Cllr Bell – Portfolio Holder for Finance and IT
Portfolio Holder for:



Summary: Each year in support of the external audit of the council's financial statements, it is necessary to provide assurance letters to the auditors from both the Management and Member perspectives.

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 Director of Finance and Economy 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
Significantly Affected Wards: N/A

Recommendations: The Audit Committee is recommended to:-

- I. Endorse the Chairman's and Management's assurance letters
- II. Delegate authority to the Director of Finance and Economy and the Chairman of the Audit Committee to make necessary amendments up to the 31 March 2020.

Financial None

Financial Implications: N/A

Legal Implications N/A

Equalities Impact Assessment N/A

Other Material Implications: N/A

Exempt from Publication: NO

Contact: Ben.lockwood@ashford.gov.uk – Tel: (01233) 330540

Cllr C Krause

Ask For: Cllr Krause
Email: larry.krause@ashford.gov.uk



ASHFORD
BOROUGH COUNCIL

Trevor Greenlee
Audit Manager
Grant Thornton UK LLP
110 Bishopsgate,
London
EC2N 4AY

Civic Centre
Tannery Lane
Ashford, Kent
TN23 1PL
(01233) 331111
www.ashford.gov.uk
Twitter: @ashfordcouncil

Date: 6 March 2020

Dear Trevor

Ashford Borough Council Audit of Accounts 2019/20: Information from those charged with Governance

I respond here to your letter of 4th March 2020. In that letter you pose several questions on the Committee's views on the Council's governance. I understand you will use this response in your audit of the Council's financial statements for the year ended 31 March 2020.

This letter and the management assurance letter from the Director Finance & Economy will go to the Audit Committee on 17th March 2020. At that meeting, I will ask the Committee to approve my responses.

Auditor question	Response
Fraud risk assessment	
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	The Council has a risk assessment (date) the Council uses this to measure where to focus its anti-fraud initiatives. We also use a risk based verification method in the Revenues and Benefit team when considering risks.
What are the results of this process?	The audit Committee were presented with the annual results of the Investigation and Enforcement Support Team in October 2019. This report highlighted £656,026 which was identified over various areas such as long term empty properties, council tax and right to buy sales of council stock.

	<p>The team has also reviewed Small Business Rates Relief, identified as an area of high financial risk, the review will include all 1,800 applications.</p> <p>Business that have not registered for business rates, including properties that have undeclared holiday lets are being reviewed. Working with the Council's housing service cases of subletting, false succession and property abandonment have also been investigated, resulting in a saving of £7,200</p>
<p>What processes does the Council have in place to identify and respond to risks 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, 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>The statutory financial statements are informed by all of these various processes and where necessary disclosures are made</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>Risk areas :</p> <ul style="list-style-type: none"> • Housing, presents a number of fraud risks which are hard to detect. A number of initiatives have been trailed such as a 'key amnesty' resulting in four sets of keys being returned. A data matching exercise aimed at identifying unlicensed Houses in Multiple Occupation. The Councils housing repairs team have received fraud awareness training. • Revenues discounts and exemptions, the team data match against Abavus/CRM records and electoral roll to remove fraud and error.

	<ul style="list-style-type: none"> • Parking permit holders names were matched against council tax and electoral roll in order to highlight discrepancies and errors. This resulted in approximately thirty applications/permits being removed which cleared the waiting list and reduced complaints.
Are internal controls, including segregation of duties, in place and operating effectively?	Yes and these are reviewed on an annual basis by Grant Thornton and also periodically by internal audit.
If not, where are the risk areas and what mitigating actions have been taken?	NA
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	No
Are there any areas where there is a potential for misreporting?	No
How does the Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	The Committee approves the Internal Audit Charter as prescribed by the Public Sector Internal Audit Standards. The audit charter defines the role of internal audit un fraud related work.
What arrangements are in place to report fraud issues and risks to the Committee?	Internal audit report on fraud and other risks to the committee
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	Training, policies, support from specialist staff in contracts and legal, communications in news letters etc. Internal audits compliance with policies.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	The Council has a 'Speaking Up' Policy which encourages staff to voice concerns at an early stage.
Are you aware of any related party relationships or	None have been brought to my attention

transactions that could give rise to risks of fraud?	
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2019?	None have been brought to my attention
Laws and regulations	
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	Each year the Council's Annual Governance Statement sets out how it complies with the local Code of Corporate Governance and its Risk Management Policy. This includes respecting the rule of law. All reports to members are assessed for legal compliance and implications
How does management gain assurance that all relevant laws and regulations have been complied with?	See above
How is the Committee provided with assurance that all relevant laws and regulations have been complied with?	See above
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2019?	No
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Any litigation and claims would be assessed using our usual accounting policies to assess the appropriate accounting treatment. We assess material claims on an individual basis.
Is there any actual or potential litigation or claims that would affect the financial statements?	No – we understand the material threshold is £1m The NHS claim for charitable business rates relief was unsuccessful. It was a judgement not to accrue for this last year. Whilst the NHS has stated an intention to appeal the case a judgement will be needed to consider the accounting treatment.
Have there been any reports from other regulatory bodies, such as HM Revenues and	No

Customs, which indicate non-compliance?	
Going Concern	
How has the Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?	<p>The Council has set a balanced budget for 2020/21 and this has been scrutinised at Overview and Scrutiny Budget Task Group. The main sources of budget funding remain Council Tax and Business Rates, which are set in advance and remain low risk. The Council has set aside monies in an Economic Risk Reserve to mitigate the impact of downturn in its commercial income.</p> <p>The Committee is satisfied that there are robust processes in place for monitoring of variances to the budget during the year. Cabinet receives Financial Monitoring reports at regular intervals.</p>

If you have any further questions or queries on this response please contact me

Yours sincerely

Councillor Larry Krause

Chairman of the Audit Committee



Ben Lockwood

Director - Finance and Economy

300

Maria Stevens

Head of Finance & IT

Ashford Borough Council

Civic Centre

Tannery lane

Ashford

TN23 1PL

Grant Thornton UK LLP

110 Bishopsgate

London

EC2N 4AY

T +44 (0)20 7383 5100

F +44 (0)20 7383 4715

4th February, 2020

Dear Ben and Maria,

**Ashford Borough Council – Financial Statements for the year ended
31 March 2020**

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 management 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 schedule set out in **Appendix 1**. 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. I would be grateful for your response by Tuesday 11th February 2020.

Please contact me if you wish to discuss anything in relation to this request, either by telephone 020 7865 2905 or by email on the following address: ke.ma@uk.gt.com. Alternatively, please contact Trevor Greenlee, Audit Manager on 7860 456 148 or Trevor.Greenlee@uk.gt.com.

Yours sincerely,

Ke Ma

Audit Associate

For Grant Thornton UK LLP

Director of Finance and Economy

Ask for: Ben Lockwood
Email: Ben.Lockwood@ashford.gov.uk
Direct line: (01233) 330540



ASHFORD
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Civic Centre
Tannery Lane
Ashford
Kent TN23 1PL
01233 331111

www.ashford.gov.uk



@ashfordcouncil



AshfordBoroughCouncil

Trevor Greenlee
Audit Manager
Grant Thornton UK LLP
110 Bishopsgate
London
EC2N 4AG

Date: 6 March 2020

Dear Trevor

Ashford Borough Council Audit of Accounts 2019/20: Information from management

I respond here to your letter of 4th February 2020. In that letter you pose several questions on the Management Teams views on the Council's governance. I understand you will use this response in your audit of the Council's financial statements for the year ended 31 March 2020.

Auditor question	Response
Changes in 2019/20	
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	<p>Following Ashford college being placed in Education Administration the Council is considering conversion of the outstanding loan to grant, £1m loan currently outstanding. Awaiting a decision as to the position of this loan at 31 March and whether there will be sufficient funds to repay the loan.</p> <p>The Council has purchased a retail unit for £5m, currently let to Matalan. The unit is currently held in Land and Buildings, but longer term uses for the site could include offices, industrial or residential.</p> <p>Significant increase in housing properties. In the region of £9m purchase costs, held in Council Dwellings. At 31 March properties up to end of February will be independently valued, subsequent purchases will be brought on at purchased prices and all purchases will be subject to the reduction for the social housing indicator.</p> <p>Pension fund tri-annual review results show that there is a funding deficit of £18.4m at 31 March 2019 relating to a funding lever of 85.5%,</p>

	<p>compared to a funding deficit of £22m at 31 March 2016, relating to a funding level of 79%.</p> <p>Due to COVID 19 and the impact on global markets there could be a drop in the fair value of strategic investments. However these will be reversed out through the Movement in Reserve Statement using the statutory override.</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>The accounting policies and any material estimates have been reviewed for appropriateness and a report will be presented to the Audit Committee in March 2020.</p> <p>The de-minimis limit for manual accruals has been reviewed and has been increased to £10,000, to keep in line with increased materiality limits.</p>
<p>Are you aware of any changes to the regulatory environment that may have a significant impact on the financial statements?</p>	<p>The regulatory environment has been reviewed and there are no significant impacts to the Council's 2019-20 financial statements.</p> <p>In preparation for the introduction of the new leasing standard on 1 April 2020, work has been undertaken to assess the future impact of this change.</p>
<p>Internal Control</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.</p>
<p>How would you assess the process for reviewing the effectiveness of internal control?</p>	<p>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.</p>
<p>How do the Council's risk management processes link to financial reporting?</p>	<p>The strategic and service risks are considered when setting the budget and reported through to Overview and Scrutiny Budget Task Group when they are scrutinising the budget.</p>
<p>Fraud and Ethics</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</p>

	<p>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>The Council has its own data warehouse and has been matching various in-house data sets over the past year. We also take part in the NFI data matching exercise and have undertaken a Transliteration Pilot exercise under the digital Economy Act.</p> <p>We are members of the Kent Intelligence Network which continues to develop in identifying potential fraud across the County</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>Savings for the Council and County have been identified for the period April 2019 to January 2020 of £1,100,195.</p>
<p>Are you aware of allegations of fraud, errors, or other irregularities during the period?</p>	<p>No</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> <ul style="list-style-type: none"> • Benefits – the council administers Housing Benefit with over 7,000 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. • Business Rates, the Council collects nearly £50m in Business Rates and administers discounts and exemptions for rate payers. As with Council tax these are at risk of fraud and error. <p>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</p>

	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?	None have been reported in 2019/20
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?	For 2019/20 strategic risks and service risks are kept up to date with strategic risks being reported through to the Audit committee. During the year updates on each strategic risk were presented to the committee. Each service has an operational risk register that was reported through to management team.
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	Training on eLearning, face to face and the council's policies are in place and available on the intranet for staff to access.
Other Accounting Areas	
Is there any use of financial instruments, including derivatives?	We have financial instruments, not derivatives.
Are you aware of any significant transaction outside the normal course of business?	Purchase of Matalan retail unit, Brookfield Road for £5m, Sale of CQ38 office building resulted in an overage receipt of £703,904.
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No – assuming the UK's exit from the EU which has a potential to have an impact on assets will be reviewed later this year.
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. The Council has entered into a lease to underwrite the lease of 2 floors of the new commercial quarter office development.
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?	No The NHS claim for charitable business rates relief was unsuccessful, it was a judgement not to accrue for this last year. Whilst the NHS has stated an intention to appeal the case a judgement will be needed to consider the accounting treatments
Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the	Note 4 of the Financial statement details of these items, in summary the main areas are: <ul style="list-style-type: none"> • Pensions – the accounts include an estimate on the pensions liabilities

<p>data used, and the degree of estimate uncertainty inherent in the estimate?</p>	<ul style="list-style-type: none"> • 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>Going Concern</p>	
<p>Is the going concern basis of accounting a fundamental principle in the preparation of the financial statements? Has a preliminary assessment of the entity's ability to continue as a going concern been performed?</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>What is the basis for the intended use of the going concern assumption, and whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern?</p>	<p>The intended use of the going concern assumption is to provide stakeholders most importantly the tax payers in the borough that essential services will continue for the foreseeable future.</p> <p>There are no conditions or events that currently exist that cast doubt on this authority continuing to function for the next 12 months.</p>
<p>Law and Regulations</p>	
<p>What are your policies and procedures for identifying, assessing and accounting for litigation and claims?</p>	<p>Any litigation and claims would be assessed using our usual accounting policies to assess the appropriate accounting treatment.</p>
<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>	<p>Cripps – employment Trowers & Hamblins – procurement Sharpe Pritchard – litigation Anthony Collins – community management Wilkin Chapman – member conduct</p>
<p>Can you provide details of other advisors consulted during the year and the issues on which they were consulted?</p>	<p>Various counsel for litigation and general advice</p>
<p>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?</p>	<p>No</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>Nothing other than a few pre-action protocol letters regarding individual planning decisions</p>
<p>Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?</p>	<p>No</p>

Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
Accounting Estimates	
How do you identify transactions, events, and conditions that may give rise to the need for accounting estimates to be recognized or disclosed in the financial statements?	<p>Budget managers are emailed each year to remind them of the process to accrue for income or expenditure.</p> <p>Some accrual will be made on estimations and these are attached with the accrual, where these are material they would be disclosed in Note 4.</p>
Are there changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates?	No
Related Parties	
How do you identify the entity's related parties, including changes from the prior period?	<p>All Councillors and Heads of Service are requested each year to declare if they have any related party transactions.</p> <p>Any material considerations would be declared through this process are reported in Note 31 in the Statement of Accounts.</p> <p>There is a standing item on each Committee agenda requiring Members to declare any interest in any item to be discussed. The Democratic Services Manager keeps a record of all declarations made at meetings and a Register of Members Interests is available for public inspection.</p>
What is the nature of the relationships between the entity and these related parties?	<p>The related party transaction declaration captures relationships between the Council and ;</p> <p>Individuals</p> <p>Members of the individuals close family or the individuals household or</p> <p>Partnerships, companies, trusts or any entities (eg charities) in which the individual or close family or same household has a controlling interest.</p>
Has the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions?	This work is completed following the 31 March and will be updated accordingly.

Yours faithfully/sincerely



Ben Lockwood
Director Finance and Economy