

**Agenda Item No:** 5

**Report To:** Audit Committee

**Date of Meeting:** 10 July 2018

**Report Title:** **2017/18 Financial Statements – Letters of Assurance to the External Auditor**

**Report Author & Job Title:** Ben Lockwood  
Director Finance and Economy  
**Portfolio Holder** Cllr Shorter - Portfolio Holder for Finance & 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**

**Policy Overview:** N/A

**Financial Implications:** N/A

**Legal Implications** N/A

**Equalities Impact Assessment** N/A

**Other Material Implications:** N/A

**Contact:** Ben Lockwood Tel:- 01233 330540,  
Ben.lockwood@ashford.gov.uk

## Cllr C Waters

Ask For: Cllr Waters  
Email: [chris.waters@ashford.gov.uk](mailto:chris.waters@ashford.gov.uk)



**ASHFORD**  
BOROUGH COUNCIL

Trevor Greenlee  
Audit Manager  
Grant Thornton UK LLP  
Grant Thornton House, 30 Finsbury Sq,  
London  
EC2A 1AG

Civic Centre  
Tannery Lane  
Ashford, Kent  
TN23 1PL  
(01233) 331111  
[www.ashford.gov.uk](http://www.ashford.gov.uk)  
Twitter: [@ashfordcouncil](https://twitter.com/ashfordcouncil)

Date: 10 July 2018

Dear Trevor

### **Ashford Borough Council Audit of Accounts 2017/18: Information from those charged with Governance**

I respond here to your letter of 16<sup>th</sup> April 2018. 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 2018.

This letter and the management assurance letter from the Director Finance & Economy will go to the Audit Committee on 10 July 2018. At that meeting, I will ask the Committee to approve my responses.

#### **Q1: How does the Audit Committee exercise oversight of management's processes in relation to: (a) undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error?**

A1: (a) Management complete and keep an assessment of risks across the Council, including the risk of material misstatement in the accounts. In conducting those assessments, Management follow the Council's Risk Policy. That Policy receives periodic oversight from the Committee of individual key risks identified and efficiency of the overall approach.

Specifically on the risk of misstatement, I note the Committee has received training on the financial statements. The training, and experience of the Committee's members, enable a robust examination.

**Q1: (b) identifying and responding to the risk of breaches of internal control?**

A1: (b) I set out Management's response to risk in general and the Committee's oversight above.

Specifically on internal controls, the Committee also draws assurance on internal control from Mid Kent Audit; the Council's Internal Auditors.

Mid Kent Audit set out their work for 2017/18 in a plan approved by the Committee in March 2017. The Committee has also received an interim update on progress and tracked specific issues through dedicated agenda items.

In tracking those issues, the Committee has developed a culture of accountability. This means the relevant Manager attends to explain the reasons for an identified control weaknesses and outlines improvement plans.

**Q1: (c) identifying and responding to risks of fraud in the organisation (including any specific risks of fraud which management has 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)?**

A1: (c) I set out the general response to risk above. On fraud risks, I note the Committee receives an annual report from the Council's investigation team.

The Committee has had no specific risks of fraud brought to its attention in 2017/18 that would have a material or significant impact on the financial statements or value for money conclusion.

**Q1: (d) communicating to employees its views on appropriate business practice and ethical behaviour?**

A1: (d) The Council's Local Code of Corporate Governance explains how management seek to set up and keep a transparent and ethical culture. Each year, the Committee receives an Annual Governance Statement setting out conformance with that Code and any matters of concern.

The Committee also receives frequent follow-up reports tracking developments to address matters of concern. None of those matters cover business practice or unethical behaviour.

The Committee also receives assurance from the work of Mid Kent Audit

**Q2: For the period from 1 April 2017, do you have any knowledge of: (i) any actual, suspected or alleged frauds or (ii) any whistleblower tips or complaints?**

A2: None which have any material or significant impact on the financial statements or value for money conclusion.

**Q3: (i) How do those charged with governance gain assurance that all relevant laws and regulations have been complied with?**

A3: (i) See responses above referring to the Council's Local Code of Corporate Governance and its Risk Management Policy. I also note as a source of assurance the reports the Committee receive from management on governance and risk plus the work of Mid Kent Audit.

**Q3: (ii) For the period from 1 April 2017, do you have any knowledge of any instances of non-compliance or suspected non-compliance with laws and regulations?**

A3: (ii) None that would have any material or significant impact on the financial statements or value for money conclusion.

**Q4: How have those charged with governance satisfied themselves that it is appropriate for the Council to adopt the going concern basis in preparing the financial statements?**

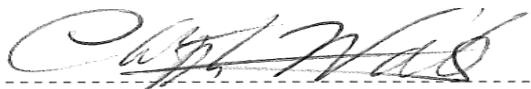
A4: The Committee received a report from management on 20 March 2018 setting out the reasons for adopting the going concern basis for the Council's financial statements. The Committee approved the report.

**Q5: Are you aware of any actual or potential litigation or claims that would affect the financial statements?**

A5: None beyond those disclosed in the management assurance letter.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Waters', is written over a horizontal dashed line.

Councillor Christopher Waters

Chairman of the Audit Committee



Ben Lockwood  
Director Finance and Economy  
Ashford Borough Council  
Civic Centre  
Tannery Lane  
Ashford  
Kent TN23 1PL

Grant Thornton UK LLP  
Grant Thornton House  
30 Finsbury Square  
London EC2A 1AG  
T +44 (0)20 7383 5100

[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

16 April 2018

Dear Ben,

**Ashford Borough Council audit of accounts 2017/18: Information from management**

Each year to comply with auditing standards external auditors need to refresh their understanding of certain management processes and how "Those Charged With Governance" gain assurance on the working of those processes.

I would therefore be grateful if a management response could be provided to the questions contained in the annex to this letter. I will write separately to Councillor Waters to obtain a response on behalf of the Audit Committee covering the period from 1 April 2017.

As this information is used to support audit planning could I ask to provide a response by 11 May 2018?

Please do not hesitate to contact me if there is anything here which it would be helpful to discuss.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Trevor Greenlee", written over a horizontal line.

Trevor Greenlee  
Audit Manager  
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**  
BOROUGH COUNCIL

Civic Centre  
Tannery Lane  
Ashford  
Kent TN23 1PL  
01233 331111

[www.ashford.gov.uk](http://www.ashford.gov.uk)



@ashfordcouncil



AshfordBoroughCouncil

Trevor Greenlee  
Audit Manager  
Grant Thornton UK LLP  
Grant Thornton House, 30 Finsbury Sq,  
London  
EC2A 1AG

Date: 10 July 2018

Dear Trevor

## Ashford Borough Council audit of Accounts 2017/18: Information from management

I respond here to your letter of 16<sup>th</sup> April 2018. 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 2018.

Auditor question	Response
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2017/18?	<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. This has been under construction for the last year and will open Christmas 2018.</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. Construction is underway and a number of payments have been received.</p> <p>Chilmington – The Council has signed a Section 106 agreement for Chilmington</p>



Auditor question	Response
	<p>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. This will be completed in May 2018.</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 Council has adopted a new strategy to take forward the digital transformation agenda.</p> <p>The Council has put in place a new management structure to support the permanent appointment of the Chief Executive. This has seen a number of changes to the management team.</p> <p>The Council is a national pilot for clamping illegally parked lorries. It has worked closely with Kent County Council and the department of transport.</p> <p>Repton Older persons Living - The Council has entered into an agreement with Cheyne Capital for the construction of older persons accommodation in Retpon Park, the deal will be structured as an investment and at the end of the agreement the site will pass into the councils ownership.</p> <p>The Council has purchased the Mecca Bingo Hall in the town centre for c£1.8m</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 2018
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.</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 do the Council's risk management processes link to financial reporting?	<p>The Council is undergoing a review of its risk management framework and this has been reported through to both the Audit Committee and the Cabinet.</p> <p>For 2017/18 the previous risk management framework was in place with a strategic risk register being kept and reported through to the Audit committee. During the year updates on each strategic risk were presented to the committee.</p> <p>In addition each service has an operational risk register that was reported through as part of the budget scrutiny process.</p>



Auditor question	Response
<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>This year the fraud team has developed its use of data matching and analysis and worked on targeted campaigns and had strong results.</p>



Auditor question	Response
<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"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul>
<p>How does the Council communicate to its employees and contractors its views on appropriate business practice and ethical behaviour?</p>	<p>I am not aware of any new whistle blowing complaints during the year.</p>
<p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The Council's 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>All services have risk registers that are included in the Service plans and are</p>

Auditor question	Response
	reported as part of the budget scrutiny process
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"> <li>• induction for new employees,</li> <li>• staff publication “Root and Branch”</li> <li>• Web based training –for example FOI, Safeguarding, data protection and trips and slips.</li> <li>• the availability through the intranet of expected standards and internal policies (including emphasis on staff conduct).</li> <li>• The Chief Executive’s personal ‘walkabouts’ to services to brief on important issues and progress against important plans,</li> <li>• Leadership and management development programmes,</li> <li>• and our regular staff appraisal processes</li> </ul>
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	As part of the closing process we write to the Monitoring Officer to identify what litigation the Council has engaged in and to open a discussion about accounting for these cases
Is there any use of financial instruments, including derivatives?	<p>The Council uses pooled investment funds such as:</p> <ul style="list-style-type: none"> <li>• money market funds</li> <li>• property fund,</li> <li>• corporate bonds</li> <li>• invested in equities based funds.</li> </ul> <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>
Are you aware of any significant transaction outside the normal course of business?	No – other than the items mentioned in the first response.
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	None
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

Auditor question	Response
	<p>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>
<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 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>Have any whistleblower tips or complaints been made since 1 April 2017? If so please provide details, including information on management's response.</p>	<p>No</p>
<p>Have any reports been made under the Bribery Act since 1 April 2017? If so please provide details, including information on management's response.</p>	<p>No</p>
<p>Have there been any suspected breaches of the legal and regulatory framework reported to the Monitoring Officer since 1 April 2017, or earlier with an on-going impact on the 2017/18 financial statements, including any instances reported by service providers? 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>No</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"> <li>• Pensions – the accounts include an</li> </ul>

Auditor question	Response
	<p>estimate on the pensions liabilities</p> <ul style="list-style-type: none"> <li>• NNDR appeals – an estimate has been made to provide for liabilities relating to NNDR appeals.</li> </ul> <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>The Council approves appropriately qualified surveyors who make estimates of the value of works completed on construction contracts.</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>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</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</p>



Auditor question	Response
<p>consider whether there are any material uncertainties that cast doubt on the Council's ability to continue as a business).</p> <p>What is the process for undertaking an assessment of going concern?</p> <p>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>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>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 Harries Hall – GDPR and Data Protection issues</p> <p>Trowers – ALT contract/procurement issues</p> <p>Sharpe Pritchard – Hatchentan – London agents – planning expertise, bank holiday cover and assistance with High Court planning injunction</p> <p>Anthony Collins - Chilmington CMO</p>
<p>Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>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.</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>

Yours faithfully/sincerely



**Ben Lockwood**  
**Director Finance and Economy**

