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| <b>Agenda Item No:</b>                              | 5  | <br><b>ASHFORD</b><br>BOROUGH COUNCIL |
| <b>Report To:</b>                                   | Audit Committee  |  |
| <b>Date of Meeting:</b>                             | 30 July 2019   |  |
| <b>Report Title:</b>                                | 2018/19 Financial Statement – Letters of Assurance to the External Auditor |  |
| <b>Report Author &amp; Job Title:</b>               | Ben Lockwood<br>Director Finance and Economy                               |  |
| <b>Portfolio Holder &amp; Portfolio Holder for:</b> | Cllr Bell – Portfolio Holder for Finance and IT                            |  |

**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**

**Financial:** None

**Financial Implications:** N/A

**Legal Implications** N/A

**Equalities Impact Assessment** N/A

**Other Material Implications:** N/A

**Exempt from Publication:** NO

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## Cllr C Krause

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Trevor Greenlee  
Audit Manager  
Grant Thornton UK LLP  
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Date: 30 July 2019

Dear Trevor

### **Ashford Borough Council Audit of Accounts 2018/19: Information from those charged with Governance**

I respond here to your letter of 4<sup>th</sup> July 2019. In that letter you pose several questions on the Committee's views on the Council's governance.

You will of course be aware that there were full elections for this council in May 2019 and there has been a change in personnel on the Audit Committee, with the previous chair (Cllr Waters) stepping down as a Councillor. I have therefore sought advice from officers and members in pulling together this response to ensure a comprehensive response. I understand you will use this response in your audit of the Council's financial statements for the year ended 31 March 2019.

This letter and the management assurance letter from the Director Finance & Economy will go to the Audit Committee on 30th July 2019. At that meeting, I will ask the Committee to approve my responses.

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

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

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 2018/19 in a plan approved by the Committee in March 2018. 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: (iii) 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)?**

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 2018/19 that would have a material or significant impact on the financial statements or value for money conclusion.

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

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

The Committee receives assurance from the work of Mid Kent Audit

**Q2: How do those charged with governance gain assurance that all relevant laws and regulations have been complied with?**

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: 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?**

The Committee received a report from management on 19th March 2019 setting out the reasons for adopting the going concern basis for the Council's financial statements. The Committee approved the report.

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

Yours sincerely

Councillor Larry Krause

Chairman of the Audit Committee

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11 June 2019

Dear Ben,

**Ashford Borough Council audit of accounts 2018/19: Information from management**

Each year to comply with auditing standards external auditors need to update 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 to support our work on the financial statements.

Could I ask you to provide a response by 21 June 2019?

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

Yours sincerely,



Trevor Greenlee

Audit Manager  
For Grant Thornton UK LLP

# Director of Finance and Economy

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Date: 30 July 2019

Dear Trevor

## Ashford Borough Council Audit of Accounts 2018/19: Information from management

I respond here to your letter of 11<sup>th</sup> June 2019. 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 2019.

| <b>Auditor question</b>  | <b>Response from management</b>   |
|--|---|
| <b><i>Financial statements</i></b>   |   |
| What do you regard as the key events or issues that will have a significant impact on the financial statements for 2018/19?  | Elwick Place – The Council has purchased a cinema, hotel and eateries from Stanhope PLC. The complex partly opened in December 2018.<br><br>College – The Council lent £3m to the college for the development of the new campus during 2017/18. £2m was converted to a grant in year. |
| 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 2019   |
| Are you aware of any changes to the Councils regulatory environment that may have a significant impact on the Council's financial statements?  | No  |

| <b>Auditor question</b>  | <b>Response from management</b>   |
|--|---|
| <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 estimate on the pensions liabilities</li> <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>We have been working with Auditors and the Councils Actuaries to agree a position on accounting for the impacts of the McCloud judgement.</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>None that are not quantified by professionals, such as valuation of assets.</p>  |
| <p>Are you aware of any significant transactions outside the normal course of business?</p>  | <p>No</p>   |
| <p>Are you aware of any changes in circumstances that would lead to impairment of non-current assets?</p>  | <p>No</p>   |
| <p>Is there any use of financial instruments, including derivatives?</p>   | <p>No</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>Currently the Council and the Leisure Trust are procuring a new operator for the centre. This has the potential to affect the guarantee but an actuarial report suggests that a cessation with the Council as guarantor will not trigger a payment.</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><b>Internal control</b></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.</p>   |

| <b>Auditor question</b>  | <b>Response from management</b>   |
|--|---|
|  | 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.   |
| 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?                          | 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.   |
| <b><i>Fraud risk assessment</i></b>  |   |
| 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).</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> |

| Auditor question  | Response from management   |
|---|--|
|   | The statutory financial statements are informed by all of these various processes and where necessary disclosures are made.  |
| 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"> <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> </ul> <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 positive outcomes for the HRA that helps to manage this risk.</p> |
| Are you aware of any related party relationships or transactions that could give rise to risks of fraud?                            | No   |
| How does the Council communicate to its employees and contractors its views on appropriate business practice and ethical behaviour? | The council has a number of policies in place  |
| As a management team, how do you communicate risk issues (including fraud) to those charged with governance?                        | <p>For 2018/19 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.</p> <p>In addition each service has an operational risk register that was reported through to management team.</p>  |

| <b>Auditor question</b>  | <b>Response from management</b>   |
|--|---|
| Are you aware of allegations of fraud, errors, or other irregularities during the period?  | <p>We have an Investigation Team whose remit is to provide a professional proactive investigation service; preventing and detecting financial irregularity, avoidance, evasion and fraud, across the authority.</p> <p>All referrals and investigations are recorded on the case management system.</p> <p>Referrals can be made online, by telephone or in person, both anonymously or otherwise.</p> <p>For the period concerned 363 referrals were raised.</p> |
| Have any whistleblower tips or complaints been made since 1 April 2018? If so please provide details, including information on management's response.  | No  |
| Have any reports been made under the Bribery Act since 1 April 2018? If so please provide details, including information on management's response.   | No  |
| 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  |
| <b>Impact of law and regulations</b>   |   |
| Have there been any suspected breaches of the legal and regulatory framework reported to the Monitoring Officer since 1 April 2018, or earlier with an on-going impact on the 2018/19 financial statements, including any instances reported by service providers? | No  |
| 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  |
| What are your policies and procedures for identifying, assessing and accounting for litigation and claims?   | These are in the accounting policies:   |
| Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?   | No  |
| 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>Crips Harries Hall - GDPR and Data Protection issues</p> <p>Trowers &amp; Hamblins – ALT contract/procurement</p> <p>Sharpe Pritchard – Hatchentan, Spot Acre</p>  |

| <b>Auditor question</b>   | <b>Response from management</b>  |
|---|--|
|   | <p>Anthony Collins – Chilmington CMO<br/>           TLT LLP – Data Protection and FOI<br/>           Thomson Snell and Passmore – Commercial Quarter leases<br/>           Weightmans – Monitoring Officer Advice<br/>           Thompsons – Employment legal advice<br/>           Womble Bond Dickinson (UK) LLP – Deed of covenant Repton Park<br/>           Landmark Chambers – Site Wye College<br/>           Brachers – Employment advice<br/>           Schulmans – Advice wayleave International House</p>     |
| <b>Going Concern considerations</b>   |  |
| <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).</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>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> |

Yours sincerely

A handwritten signature in black ink that reads "Ben Lockwood". The signature is written in a cursive style with a large, stylized initial "B" and a long, sweeping underline.

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