

Tonbridge & Malling BC: 2011/12 Financial statements**Compliance with International Standards on Auditing: Information required from management****ISA 240: (The auditor's responsibilities relating to fraud in an audit of financial statements**

Management Processes

Please explain how management;

1	Undertakes an assessment of the risk that the financial statements may be materially misstated due to fraud. Is there such a risk for 2011/12?	<p>We consider that the potential for material misstatement within the financial statements due to fraud is negligible. This assessment is based upon the use of budgetary control, risk management and significant peer review by senior officers during the accounts close-down process.</p> <p>Management review financial statements as part of the year end closedown.</p> <p>This review includes the completion of a checklist on what reviews have been undertaken in order for the Section 151 Officer to be satisfied that the accounts have been prepared with a minimal risk of financial misstatement.</p> <p>No material risks have been identified for 2011/12.</p>
2	Identifies and responds to the risk of fraud in the organisation.	<p>The zero-tolerance culture of the organisation towards fraud is reinforced by use of Anti-Fraud and Corruption policies supported by a Confidential Reporting Code with outcomes being reported to Members. Any reported allegations of fraud will be investigated and dealt with according to the relevant policies. There is a comprehensive internal audit programme that covers all of the main accounting systems on an annual basis. These reviews result in an assurance level being given to Members for each individual audit and this is used by the Chief Internal Auditor to give an overall assurance level to Members in his Annual Report. In addition, all reports and recommendations are reported to relevant Chief Officers and management with comprehensive follow-up procedures that monitor improvement.</p>

3	Communicates to employees its views on business practice and ethical behaviour.	<p>The Anti-fraud Policy is communicated to staff on an annual basis.</p> <p>The Council have Netconsent software which requires all PC users to read and acknowledge understanding of all security policies at log-in point.</p> <p>At the present time there is no suspicion of actual, suspected or alleged fraud that could materially affect the financial statements.</p>
4	Communicates to those charged with governance the processes for identifying and responding to fraud.	<p>All policies relating to governance are regularly reviewed by those charged with governance. Any breaches, together with action taken to prevent future breaches are reported to the relevant Committee.</p>

As part of audit planning the Audit Commission are also asked to consider the following issues in discussion with management. It is suggested that a response is received from the Director of Finance.

5	Are you aware of any instances of fraud, either within the organisation as a whole or within your department during the period 1 April 2011 – 31 March 2012?	<p>There was one allegation of fraud in relation to a cafeteria that was investigated and as a result additional security measures were introduced.</p> <p>There was also one allegation of fraud investigated that resulted in disciplinary action being taken. The allegation concerned concealing a processing error that has been addressed.</p>
6	Do you suspect fraud may be occurring, either within the organisation or within your department?	<p>There has been no indication from any internal controls to suspect fraud is currently occurring.</p>
7	Have you identified any specific fraud risks within the organisation or your department, or are there locations where fraud is more likely to occur?	<p>Both the risk management system and audit planning consider areas that are more likely to be subject to fraud and internal controls are considered sufficiently robust to minimise the risk of fraud occurring. The 2012/13 audit plan has been developed following a risk assessment exercise.</p>
8	Are you satisfied that internal controls, including segregation of duties, exist and work effectively? If not where are the risk areas?	<p>As stated in the previous paragraph steps are taken to ensure that internal controls are robust in these areas.</p>
9	What other controls are in place to help prevent, deter or detect fraud?	<p>The authority undergoes regular budgetary control reporting to management and Members, this should identify potential fraud as being a variation to the set budget. Internal Audit testing of risk areas is designed to identify potential anomalies. All services are required to complete risk registers and to consider the risk of fraud in this exercise.</p>

10	How do you encourage staff to report their concerns about fraud, and what type of concern are they expected to report?	Whistle blowing and confidentiality codes are promoted to staff, via methodology explained within question 3.
11	From a fraud and corruption perspective, what are considered to be high risk posts within your department?	<p>All posts that have the authority to authorise unlimited payments, enter into contracts, process large automated payments e.g. BACS or make investments are considered high risk.</p> <p>Where these post holders are making transactions involving large sums there are internal controls in place to minimise the risk. Written procedures are in place that are designed to provide a separation of duty when undertaking these transactions.</p> <p>The risk management process also concentrates on areas considered to be high risk. This process is aimed at minimising risk and where it is considered that there is an area that might be at a higher risk of fraud or corruption then it will be identified and scored accordingly. Areas scored as high risk in risk registers will be reported to Management Team and included in the annual audit plan to ensure that internal controls are being observed and remain robust.</p> <p>Where there are frauds that have happened elsewhere reported in forums such as the Kent Audit Group then action will be taken to review the internal controls in place to ensure that they are sufficient to minimise the opportunity for similar frauds to occur at TMBC.</p>
12	How are the risks relating to these posts identified, assessed and managed?	Through the risk management process supported by internal controls such as separation of duty.
	How do you mitigate the risks associated with fraud related to related party relationships and transactions?	Staff are required to complete a declaration of interest where there is any potential for a related party transaction. There is also a requirement for benefits assessment and reception staff to declare any related party clients and they have instructions that they are not allowed to deal with them. Any breaches of this are considered to be a disciplinary offence. This is included in the staff Code of Conduct and this was circulated using Netconsent with a specific reminder about the requirement to disclose interests. All Chief Officers receive an annual form which gives them an explanation of related party transactions and requires them to sign a declaration detailing any such transaction.
	Are you aware of any related party relationships or transactions that could give rise to instances of fraud?	There is no awareness of any related party relationships that could give rise to instances of fraud. Chief Officers are required to complete a form annually declaring any such interests and each service maintains a record of disclosures of staff within the section. Staff were reminded

		through Netconsent of the Code of Conduct with specific attention drawn to the requirement to disclose interests.
13	Could a false accounting entry escape detection? If so, how?	Although every effort is made to reduce the chance of this happening by the use of budgetary reporting and robust internal controls there is always a risk that these could occur.
	Are you aware of any entries made in the accounting records of the organisation that you believe or suspect are false or intentionally misleading?	There has been an instance where the accuracy of a claim has been inaccurate due to action by one officer leading to a processing error as at 5 above. Corrective action is being taken to resolve the issue in conjunction with the District Auditor and relevant Government Department.
	Are there particular balances where fraud is more likely to occur?	No
	Are you aware of any assets, liabilities or transactions that you believe have been improperly included or omitted from the accounts of the organisation?	No
14	Are you aware of any organisational or management pressure to meet financial or operating targets?	Regular reporting of financial position takes place to Management Team. The Director of Finance will regularly revise the Medium Term Financial Strategy as financial and operating targets become stretched. The approach adopted is to recognise trends and revise targets appropriately to respond to change with Management and Members being provided with regular updates. Budget monitoring takes place constantly and any issues are identified at an early stage.
15	Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?	There is no indication that this is happening.

SA 250: Compliance with laws and regulations

Under ISA 250 we are required to obtain an understanding of the legal and regulatory framework applicable to the Council. We are also required to obtain from management a general understanding of the procedures followed by the Council to ensure compliance with this framework.

16	Please provide a brief summary of the procedures followed by the Council to ensure compliance with legislation and relevant regulatory frameworks.	The Council's Constitution contains the details of regulatory framework. The Constitution also contains details of delegated responsibilities. All decision making Committee papers include a section for legal consideration and a synopsis of the legal position is included in reports. Any significant breaches of legislation are investigated by the Monitoring Officer and are reported to Members.
17	Have there been any suspected breaches of the legal and regulatory framework reported to the Monitoring Officer during 2011/12? Is there any indication of significant unreported concerns?	No

ISA 501: Audit Evidence

18	Are there litigation and claims involving the Council which may give rise to a risk of material misstatement?	The Borough Solicitor has confirmed that he is not aware of any such claims.
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ISA 570: Going concern

The accounting concept of "going concern" refers to the basis of measurement of an organisation's assets and liabilities in its accounts. It is a key concept in the preparation of the Council's financial statements. Under ISA 570 we are required to obtain from management an assessment of the organisation's ability to continue as a going concern.

19	How do management satisfy themselves that it is appropriate to adopt the going concern basis in preparing the financial statements?	Going concern status is maintained through the use of the medium term financial strategy. This projects the level of financial expenditure and levels of reserves required to provide services.
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		The council currently holds significant levels of reserves that could be used in the event of emerging financial difficulties in the short term, allowing for more details plans to be considered and put in place for the longer term.
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ISA 550: Related Party Transactions

20	What controls does the Council have in place to identify, account for, and disclose, related party transactions and relationships (to include procedures over authorisation, recording and agreement of related party transactions?)	All staff are required to disclose any interests and this includes the potential for related party transactions. If there are any potential conflicts of interest then the person must not deal with the transaction. Failure to comply with this requirement is a disciplinary matter. See response in section 12
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ISA 260: Accounts planning risk

Under ISA 260 there is also a specific requirement on auditors to obtain;

21	Management's view on the nature and extent of any significant internal and external operational, financial, compliance or other risks facing the Council which might have an effect on the financial statements	There is a requirement under the Council's Risk Management system for all risks identified as being "High" risk to be reported to Management Team. These risks have been reported to Management Team and there are none that have been identified as having a significant risk on the financial statements of the Council. The Council has a Medium Term Financial Strategy and risks identified that are likely to have an effect on the finances of the Council are factored into this plan. Regular reviews of the MTFS ensure that financial planning is closely monitored.
22	Where there are such risks, the likelihood of those risks materialising.	As stated above there are no risks that have been deemed to fall into this category.

Management Team

Tonbridge & Malling Borough Council

March 2012