

### **Tonbridge & Malling BC: 2012/13 Financial statements**

### **Compliance with International Standards on Auditing: Information requested from management**

#### **Introduction**

As part of our risk assessment procedures external auditors are required to obtain an understanding of management processes and the oversight of management processes by Those Charged With Governance (TCWG) in the following areas:

- fraud
- laws and regulations
- going concern
- litigation and claims
- related parties

We therefore request responses from management and TCWG to the questions set out below.

For Tonbridge & Malling BC responsibility for approving the accounts falls to the General Purposes Committee. It is suggested that the responses in respect of TCWG are initially provided by the Audit Committee and then confirmed by the General Purposes Committee.

#### **Fraud**

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks and how TCWG oversee these processes. As part of the oversight process TCWG should consider the potential for override of controls and inappropriate influence over the financial reporting process.

We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud.

	<b>Please explain how management</b>	<b>2012/13 Responses</b>
1	Undertakes an assessment of the risk that the financial statements may be materially misstated due to fraud. Is there such a risk for 2012/13?	<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 on a regular basis throughout the year as well as 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 2012/13.</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 with outcomes being reported to Members of the Audit Committee.</p> <p>There is a strong risk management culture within the organisation. Management are required to consider fraud and error within their services as part of the risk management process. Management have a duty to report any changes in movement towards greater risk and are also required to report any concerns of fraud for investigation.</p> <p>The audit plan is prepared annually on a risk basis with areas of high fraud risk being examined regularly. All outcomes of audit reviews are reported to management and Members with any areas of concern requiring high priority action where significant improvement is required.</p>
3	Communicates to employees its views on business practice and ethical behaviour.	<p>Anti-Fraud Policies are frequently reviewed and distributed to staff. These include a statement of zero-tolerance towards fraudulent behaviour. Where staff have computer access they are required to acknowledge reading and understanding the policies by the use of NETconsent at log in point.</p> <p>There is the planned distribution of an on-line fraud awareness package during 2013/14 that all staff with computer access will be required to read and undertake a short test.</p> <p>The Council web pages on fraud will be updated and the latest versions of Anti-Fraud Policies will be distributed through NET consent.</p>

4	Communicates to those charged with governance the processes for identifying and responding to fraud.	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.
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To support audit planning we would also like to obtain the following information. It is suggested a response is agreed by the management team.

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 2012 to 31 March 2013?	There have not been any reports of fraud or significant error reported to the Director of Finance and Transformation during this period.
6	Do you suspect fraud may be occurring, either within the organisation or within your department?	There have not been any areas of concern raised or any evidence of fraud referred to the Director of Finance and Transformation during this period.
7	Have you identified any classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist?	All management are required to identify areas at risk of fraud within their service within their operational risk registers. These are reviewed by the Audit Manager when completing the annual audit plan. The annual audit plan uses a risk based approach and the draft plan is presented to management to ensure that all areas of risk are considered as having satisfactory risk management controls in place to minimise the risk of fraud. The audit plan will include all areas identified as high risk.
8	How are these risks assessed and managed?	The Council has a robust system of risk management in place with all management having a responsibility to raise areas of concern as soon as they become aware of them.

9	What other controls are in place to help prevent, deter or detect fraud?	The Council has a monthly budgetary control reporting system that highlights significant variation from the budget. This covers income and expenditure with individual managers and budget holders being required to explain any significant differences. The budget situation is also monitored by the Medium Term Financial plan that is regularly updated and considers any growth items.
10	How do you encourage staff to report their concerns about fraud, and what type of concern are they expected to report?	Staff are presented with all updated policies on a regular basis and are required to acknowledge reading them and understanding them by the use of NETconsent. All staff are made aware that a failure to raise concerns is not acceptable. There is a fraud awareness desktop package that will be distributed to all staff with computer access during 2013/14 timed to coincide with the release of the new policies and updated web pages.

		There is a Confidential Reporting Code “Whistleblowing” that enable staff to report concerns on a confidential basis. This refers to the Anti-Fraud and Corruption Statement to identify concerns that should be raised.
11	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 have not been any suspicions raised with the Director of Finance and Transformation nor have there been any indicators within the budget monitoring process. The Council has a Confidential Reporting Code that enables staff to raise concerns in line with the Public Disclosure Act 1998. No concerns have been raised during 2012/13.
12	Are there particular balances where fraud is more likely to occur?	The Council has a robust budget monitoring system in place and this covers all areas of expenditure and income. Any significant variances require explanation at Management Team level. Internal controls are in place such as separation of duty in order to minimise this risk.
13	Are you aware of any assets, liabilities or transactions that you believe have been improperly included or omitted from the accounts of the organisation?	The accounts are prepared in accordance with the current regulations and guidance and there is no evidence to suggest that this has happened.
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?	Most financial and operating targets are under pressure. The emphasis by Management Team is to identify specific areas and identify reasons for pressure on specific areas. Management Team will then take appropriate action to manage the situation in line with resources available. The Director of Finance and Transformation will regularly revise the Medium Term Financial Strategy as changes occur Budget monitoring takes place constantly and any issues are identified at an early stage. This Council does not operate a performance related pay scheme that could steer individuals to concentrate effort on inappropriate areas.
16	Are you satisfied that internal controls, including segregation of duties, exist and work effectively? How do you identify and respond to the risk of breaches of internal control?	Regular audit reviews and budgetary control should provide an indication of the adequacy of internal control. Management are also required to report any breaches of internal control within their service. Any breaches reported or found would be examined to see if they are control weaknesses or

		deliberate acts. Control weaknesses found are reviewed for recommended improvement. Deliberate acts would be dealt with under disciplinary procedures.
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**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.

17	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.
18	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 The Monitoring Officer has confirmed that there have been no suspected breaches reported to him, nor any evidence of significant unreported concerns

**Accounts planning risk**

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

19	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.
20	Where there are such risks, the	As stated above there are no risks that have been

	likelihood of those risks materialising.	deemed to fall into this category.
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### Litigation and claims

Under ISA(UK&I)501 auditors are required to perform audit procedures to identify litigation and claims involving the entity which may give rise to a risk of material misstatement

21	Are there litigation and claims involving the Council which may give rise to a risk of material misstatement?	None that would give rise to a material misstatement.
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### Related Parties

Under ISA(UK&I)501 auditors are required to to inquire of management and TCWG to obtain an understanding of the controls over related parties.

22	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.
23	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.

### Going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Under ISA 570 we are required to obtain from management an assessment of the organisation's ability to continue as a going concern.

24	How do management satisfy themselves that it is appropriate to adopt the going concern basis in preparing the financial statements?	<p>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.</p> <p>The council currently holds sufficient levels of reserves that could be used in the event of emerging financial difficulties in the short term, allowing for more detailed plans to be considered and put in place for the longer term.</p>
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Agreed by Management Team 19 March 2013