

## Tonbridge & Malling BC

### 2015/16 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 certain management processes and the oversight of those processes by Those Charged With Governance (TCWG). 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 Audit Committee.

##### Fraud

ISA (UK&I) 240 covers auditor's 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.

|   | Please explain how management:   | 2015/16 Responses:  |
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| 1 | Undertakes an assessment of the risk that the financial statements may be materially misstated due to fraud. Is there such a risk for 2015/16? If so what are the accounts, classes of transactions, or disclosures where fraud risks have been identified or are likely to exist? | <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 are asked to consider the risk of fraud and error when completing their operational risk registers and any areas that are considered significant risk are reported to Management Team.</p> <p>The Internal Audit planning process carries out a risk assessment in order to score against fraud and error and targets those areas where the risk is considered highest.</p> <p>Management review financial statements as part of the year end closedown. 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 2015/16.</p> |
| 2 | Identifies and responds to the risk of fraud in the organization, including the use of controls and the monitoring of those controls.  | <p>The zero-tolerance culture of the organisation towards fraud is reinforced by use of Anti-Fraud and Corruption Policies supported by a Whistleblowing Policy with outcomes being reported to Members. Any reported</p>   |

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|   |  | <p>allegations of fraud will be investigated and dealt with according to the relevant policies.</p> <p>The Internal Audit planning process carries out a risk assessment in order to score against fraud and error and targets those areas where the risk is considered highest. The subsequent reviews result in an assurance level being given to Management and Members for each audit and this is used by the Chief Audit Executive to give an overall assurance level to Members in their 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> <p>There is a strong risk management culture within the organisation. Management is 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 higher risk and are also required to report any concerns of fraud for investigation.</p> <p>The authority undergoes regular budgetary control reporting to management and Members, and this could 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> |
| 3 | <p>Communicates to employees its views on business practice and ethical behaviour.</p>                                 | <p>In order to make sure that all staff are fully aware of the zero tolerance culture of the organisation to fraud the Anti-Fraud and Corruption Policy and the Whistleblowing Policy are circulated to staff annually via "Netconsent". This is software that requires staff to read policies and acknowledge understanding of them before they can log on to the Council's computer systems. Other relevant policies are also circulated as appropriate.</p> <p>All staff are required to abide by the Officer's Code of Conduct and this is provided on appointment to the Council. Staff in some areas such as Housing Benefits and Internal Audit are also required to sign additional specific Codes of Conduct.</p>  |
| 4 | <p>Communicates to TCWG regarding business risks, including the processes for identifying and responding to fraud.</p> | <p>The Council's standard report template requires Officers and Members to carry out a risk assessment of the action recommended in the report ensuring risk is considered in all decision-making of the authority.</p> <p>Management when completing their operational risk registers are asked to consider those risks relevant to that service area including business risks.</p> <p>Anti-fraud and supporting policies are reviewed and agreed by Members on a regular basis. Any serious breaches are reported to Members with action taken to improve control weaknesses that were identified.</p>  |

To support audit planning we would also like to obtain the following information. It is suggested a response is agreed by the management team.

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| 5  | Are you aware of any instances of fraud, errors or other regularities within the organisation during the year?                                     | 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 within the organisation?   | The Council acknowledge the inherit risk of fraud occurring within the organisation, however, there have been no areas of concern raised or any evidence of fraud referred to the Director of Finance and Transformation during this period. All Directors are required to submit an annual assurance statement which includes a requirement to declare any suspicions of significant fraud or error within their service. Fraud work has been targeted towards areas of investigation as promoted by the annual "Protecting the Public Purse" publication.  |
| 7  | How do you encourage staff to report their concerns about fraud, and what type of concern are they expected to report?                             | <p>The Council has a Whistleblowing Policy for all Members, employees and contractors. This Policy enables concerns to be raised confidentially with an explanation of how concerns raised will be investigated and dealt with. It also gives guidance on the types of concerns to raise. The most recent version of this Policy was circulated to staff using "Netconsent".</p> <p>In addition, fraud awareness training is planned for 2016/17.</p>  |
| 8  | Are you aware of any whistleblower tips or complaints during the year and what was your response?  | There were no concerns raised during the year 2015/16.   |
| 9  | Have any reports been made during the year under the Bribery Act?  | No reports have been made during the year under the Bribery Act.   |
| 10 | Are you aware of any entries made in the accounting records of the organisation that you believe or suspect are false or intentionally misleading? | <p>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 that suggest this has occurred.</p> <p>The Council has a Whistleblowing Policy that enables staff to raise concerns in line with the Public Disclosure Act 1998.</p>  |
| 11 | Are you aware of any organisational or management pressure to meet financial or operating targets?   | <p>There is regular reporting of the Council's financial position to Management Team. The Director of Finance and Transformation will review and update the Medium Term Financial Strategy as financial and operating targets become stretched. The Council does not set income targets for individual officers so as not to unwittingly encourage improper practice. The approach adopted is to recognise trends and revise targets appropriately to respond to change with Management and Members being provided with regular updates.</p> <p>Budget monitoring takes place at regular intervals and any potential issues identified at an early stage. As a result of the Government's budget deficit reduction, the Council continues to manage ever increasing pressure for further savings and efficiencies. Management Team</p> |

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|  |  | does not believe that this pressure compromises internal controls increasing the risk of fraud or error. |
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## 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.

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| 12 | Please provide a brief summary of the procedures followed by the Council to ensure compliance with legislation and relevant regulatory frameworks.  | <p>The Council's Constitution contains the details of regulatory framework. The Constitution also contains details of delegated responsibilities.</p> <p>All decision making Committee papers include a section for legal consideration and a synopsis of the legal position is included in reports.</p> <p>Any significant breaches of legislation are investigated by the Monitoring Officer and are reported to Members.</p> |
| 13 | Have there been any suspected breaches of the legal and regulatory framework reported to the Monitoring Officer during the year? Is there any indication of significant concerns not reported to the Monitoring Officer, or is the Council on notice of possible instances of non-compliance? | There have been no suspected breaches of the legal and regulatory framework reported to the Monitoring Officer during the year. There is no indication of significant unreported concerns, or possible instances of non-compliance.   |

## Accounts planning risk

Under ISA 260 there is a requirement on auditors to obtain Management's view on:

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| 14 | The processes in place to identify risks which relate to financial reporting.   | Risks which relate to financial reporting are mitigated by a robust financial planning and control framework including budgetary control and ensuring that staff involved in the process have the requisite skills and experience to fulfil their responsibilities.  |
| 15 | 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. | <p>The risk management system requires all Chief Officers to regularly review their risk registers and report any movements into the high area to Management Team. Updates on the outcome of these reviews are reported to the Audit Committee where appropriate. In addition, all reports to Members include an assessment of potential risks and steps taken to minimise the risk.</p> <p>These processes have not identified any significant internal and external operational, financial, compliance or other risks facing the Council which might have an effect on the financial statements.</p> |
| 16 | Where there are such risks, the likelihood of those risks materialising.  | No such risks have been identified.  |
| 17 | Matters and events which occurred during the year that could influence our audit approach or the entity's   | None to the best of our knowledge.   |

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|    | financial statements.   |  |
| 18 | The appropriateness of the accounting policies to be used in the period and whether any changes in the entity's activities could require them to be updated.                    | Review of accounting policies recently undertaken with no major updates considered necessary.  |
| 19 | Their awareness of laws, accounting standards, corporate governance and regulatory requirements (including changes in or new items) that could affect the financial statements. | Management Team kept informed of changes in accounting standards and regulatory requirements that could have a significant effect on the financial statements.   |
| 20 | Their views on the entity's control environment, including the process of reviewing the effectiveness of the system of internal control and the results of any review.          | Internal Audit reviews the effectiveness of internal controls and report accordingly to Management Team. Recommendations are made to chief officers, and at least once a year, a summary of recommendations is given to the whole Management Team.<br><br>Management Team is satisfied as to the effectiveness of internal controls. |
| 21 | Have there been any significant transactions that are outside the Council's normal business activities?   | None to the best of our knowledge.   |

## 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.

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| 22 | What are management's policies and procedures for identifying, evaluating and accounting for litigation claims and assessments?        | Any claims received are reviewed according to the circumstances of the claim.   |
| 23 | Are there litigation and claims involving the Council which may give rise to a risk of material misstatement?                          | None to the best of our knowledge.  |
| 24 | Have there been any inquiries or examinations performed by licensing, tax or other authorities and other regulators during the year?   | There have been no such inquiries or examinations during the year which may give rise to a risk of material misstatement.   |
| 25 | Please identify any external solicitors used during the year or who were working on open litigation or contingencies from prior years. | Bevan Britton.  |
| 26 | Has the Council entered into any guarantee contracts?  | The Council is acting as guarantor for the pension liability of Tonbridge and Malling Leisure Trust to permit its entry into the Kent County Council Superannuation Fund. |

## Related Parties

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

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| 27 | 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. |
| 28 | Are you aware of any related party relationships or transactions that could give rise to instances of fraud?   | We are not aware of any related party relationships or transactions 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.

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| 29 | 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. The aim of the Strategy is to give us a realistic and sustainable plan that reflects the Council's priorities.</p> <p>The Council currently holds adequate 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> <p>Management Team receive regular reports on the financial position of the Council and, in turn, the impact on the Medium Term Financial Strategy and reserve balances.</p> <p>The assessment of going concern will also take into account the Council's status as a tax-raising body.</p> |
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