

## Tonbridge & Malling BC

### 2014/15 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:	2014/15 Responses:
1	Undertakes an assessment of the risk that the financial statements may be materially misstated due to fraud. Is there such a risk for 2014/15? 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.</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 2014/15.</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 Whistleblowing Charter with</p>

		<p>outcomes being reported to Members. Any reported 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 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> <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 greater 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 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>
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.</p> <p>Where staff have computer access they are required to acknowledge reading and understanding the policies by the use of NETconsent at log in point. These policies have recently been reviewed and will be distributed to staff after they are approved.</p> <p>The Council web pages on fraud will be updated and the latest versions of Anti-Fraud Policies will be distributed through NETconsent.</p>
4	Communicates to TCWG the processes for identifying and responding to fraud.	<p>All policies relating to governance are regularly reviewed by TCWG. Any significant breaches, together with action taken to prevent future breaches are reported to the relevant Committee.</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.

5	Are you aware of any instances of fraud, errors or other regularities within the organisation during the year?	<p>There have not been any reports of fraud or significant error reported to the Director of Finance and Transformation during this period.</p>
6	Do you suspect fraud may be occurring within the organisation?	<p>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. All Directors are required to submit an annual assurance statement</p>

		<p>which includes a requirement to declare any suspicions of significant fraud or error within their service. Fraud work has been targeted towards additional areas of investigation as promoted by the annual "Protecting the Public Purse" publication.</p>
7	<p>How do you encourage staff to report their concerns about fraud, and what type of concern are they expected to report?</p>	<p>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.</p> <p>During 2013/14 all staff with computer access were given the opportunity to undertake on-line fraud awareness training. A total of 151 members of staff undertook the training. It was available to 390 staff but this included a number of leisure staff who had email addresses for pay slips but no access to a PC for the training so a %age would be misleading.</p> <p>The Council has approved a Whistleblowing Charter that enables staff to report concerns on a confidential basis. This refers to the Anti-Fraud and Corruption Statement to identify concerns that should be raised.</p>
8	<p>Are you aware of any whistleblower tips or complaints during the year and what was your response?</p>	<p>There were two issues raised under the Whistleblowing Charter during the period that were referred to senior management. These were investigated and it was concluded that one case was unfounded, the other case was a breach of the Code of Conduct which was subject to a disciplinary hearing but there was no element of fraud involved. The Charter is currently being reviewed and will be circulated to staff once agreed.</p>
9	<p>Have any reports been made during the year under the Bribery Act?</p>	<p>There have not been any reports of breaches reported.</p>
10	<p>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>	<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 Charter that enables staff to raise concerns in line with the Public Disclosure Act 1998.</p>
11	<p>Are you aware of any organisational or management pressure to meet financial or operating targets?</p>	<p>Regular reporting of the Council's financial position is made to the Management Team. The Director of Finance and Transformation 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.</p> <p>Budget monitoring takes place constantly and any issues are identified at an early stage. As a result of the Government's public sector savings targets, the Council continues to manage pressures for further savings and efficiencies. Management Team does not believe that this pressure on the organization as a whole compromises internal controls increasing the risk of fraud or error. Changes to procedures must be agreed by Management.</p>

## 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.

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?	<p>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.</p>

## Accounts planning risk

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

14	The processes in place to identify risks which relate to financial reporting.	<p>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.</p>
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>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.</p> <p>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.</p>
16	Where there are such risks, the likelihood of those risks materialising.	<p>As stated above there are no risks that have been deemed to fall into this category.</p>
17	Matters and events which occurred during the year that could influence our audit approach or the entity's financial statements.	<p>None to the best of our knowledge.</p>
18	The appropriateness of the	<p>Review of accounting policies recently undertaken with</p>

	accounting policies to be used in the period and whether any changes in the entity's activities could require them to be updated.	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 audit and report accordingly to Management Team. Recommendations are made to chief officers, and at least once a year, a complete summary of recommendations is given to the whole Management Team.  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.

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 that would give rise to a material misstatement.
24	Have there been any inquiries or examinations performed by licensing, tax or other authorities and other regulators during the year?	The only enquiry from an external regulator requiring management input was a return to the Communications Commissioner relating to use of RIPA Communications powers. This was a nil return.
25	Please identify any external solicitors used during the year or who were working on open litigation or contingencies from prior years.	Bevan Britton.

## 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.

26	What controls does the Council have	All staff are required to disclose any interests and this
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	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?)	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.
27	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.

28	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 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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