

Informing the audit risk assessment for Thanet District Council

Year ended 31 March 2014

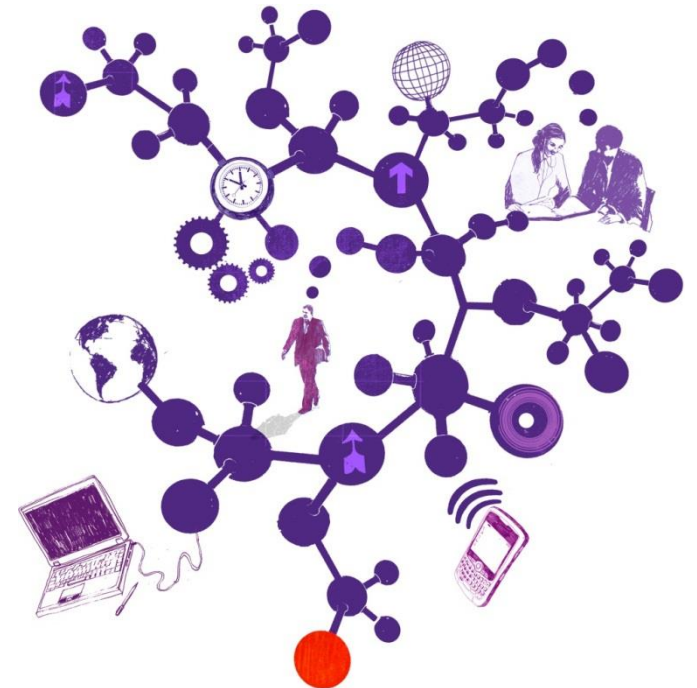
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Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Council's Governance and Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Governance and Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Governance and Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Governance and Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Governance and Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Governance and Audit Committee and supports the Governance and Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Governance and Audit Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern.

This report includes a series of questions on each of these areas and the responses we have received from the Council's management. The Governance and Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

We are aware that there have been a number of significant changes to the Council's management since the responses were agreed in April 2014, and request that the committee considers the responses in this light.

Fraud

Issue

Matters in relation to fraud

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

The primary responsibility to prevent and detect fraud rests with both the Governance and Audit Committee and management. Management, with the oversight of the Governance and Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Governance and Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

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 including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Governance and Audit Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Governance and Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Governance and Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?</p>	<p>Yes. The S151 officer is responsible for the proper administration of the Council's financial affairs. As part of her responsibilities, she is required to prepare the statement of accounts and in order to do this, she has taken reasonable steps to prevent and detect fraud, relying on the processes set out below.</p>
<p>What processes does the Council have in place to identify and respond to risks of fraud?</p>	<p>Processes include: supplier checks; benefit claim checks; separation of duties; policies on anti-fraud, bribery and whistleblowing, and annual training and awareness sessions.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>Internal Audit's annual programme considers fraud risks. Specific fraud risks primarily relate to tenancies and benefits and are responded to with East Kent Audit Partnership, via reviews of the Council's property portfolio, the National Fraud Initiative etc.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>Yes, although this is a challenge with reduced staff numbers. Risks are assessed when reductions occur and discussed with Internal Audit first.</p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>No, as confirmed by substantial assurance from Internal Audit review of financial systems.</p>

Fraud risk assessment

Question	Management response
<p>How does the Governance and Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?</p> <p>What arrangements are in place to report fraud issues and risks to the Governance and Audit Committee?</p> <p>How has the Council ensured that the Governance and Audit Committee are made aware of whistleblower tips or complaints?</p>	<p>The annual Internal Audit plan is reported to, and monitored by, the Governance and Audit Committee.</p> <p>The Council is considering introducing an annual report on fraud and whistleblowing issues.</p>
<p>How does the Council communicate and encourage ethical behaviour of its staff and contractors?</p>	<p>The council has a fraud and bribery response plan. Information and relevant documents are communicated via the intranet site and the council also offers training and awareness on anti-fraud which includes ethical behaviour. Staff are required to declare gifts and hospitality and relevant staff (including those involved in contracting) complete a declaration of interests.</p>
<p>How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?</p>	<p>The Council has a whistleblowing policy and several issues are raised annually; none have been significant to date.</p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p>No, review of RPT returns has not highlighted any such relationships.</p>
<p>Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2013?</p>	<p>We are not aware of any significant frauds since 1 April 2013.</p>

Laws and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Governance and Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Governance and Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	The council's governance framework aims to minimise the risk of non-compliance with laws and regulations. The programme of internal and external audit reviews identifies control weaknesses and action plans are agreed to deal with issues raised. Advice on laws and regulations is provided by the Legal Services division, with specialist external legal advice being bought in as required. The monitoring officer has regular meetings with all strategic directors to identify areas of risk. The council's whistle blowing policy enables staff to report suspected unlawful conduct.
How does management gain assurance that all relevant laws and regulations have been complied with?	Management gains assurance through reports from internal and external audit. Departmental performance monitoring and reporting also provide assurance.
How is the Governance and Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	All reports to Cabinet include a confirmation that legal requirements have been complied with.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2013, or earlier with an on-going impact on the 2013/14 financial statements?	No.

Impact of laws and regulations

Question	Management response
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	<p>All of the Council's legal issues are passed through the Council's Monitoring Officer and/or their Legal Team, who will consider these and provide advice as required. Any issues raised will be covered by the weekly Senior Management Team meetings, along with progress on any on-going items.</p> <p>Where formal reports are issued, all of these are signed off by the Legal Team to ensure that all the relevant legal issues have been covered, and that the report has been written in a way that prevents any legal recourse.</p> <p>The Council makes use of its Legal Team to provide advice and expertise when needed. However they also make use of external legal parties when specialist areas are being considered.</p>
Is there any actual or potential litigation or claims that would affect the financial statements?	Contingent liabilities were disclosed in the 2012/13 accounts for Animal Exports and Dreamland and still apply. The 2013/14 accounts will provide an updated position.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.

Going concern

Issue

Matters in relation to 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.

The code of practice on local Council accounting requires an Council's financial statements to be prepared on a going concern basis. Although the Council is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Council's financial resilience.

The consideration of the going concern assumption is becoming of greater relevance to local Council financial statements. All Councils are facing significant pressures to balance future budgets as the funding from central government continues to reduce. There is a risk, particularly in smaller local authorities, that services will no longer be provided in the way they have historically been delivered. There is an increasing vulnerability of these bodies as a going concern.

As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Council's financial and operating performance.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	Yes – the Council is required to set a balanced budget and to approve a treasury management strategy each year. Revenue and capital monitoring reports are taken to cabinet and reports on treasury management are also taken to cabinet and council assembly.
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	No.
Has management reported on going concern to the Governance and Audit Committee? (if not, what arrangements are in place to report the going concern assessment to the Governance and Audit Committee?)	No specific report, but the Council's financial position is reported in the annual accounts and discloses a healthy reserves balance.
Are the financial assumptions in that report (eg future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	Not applicable.

Going concern considerations

Question	Management response
<p>Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p>Yes. Reports to cabinet throughout the year set out implications of statutory or policy changes and these are also addressed in reports to cabinet on the strategy for future years.</p>
<p>Have there been any significant issues raised with the Governance and Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</p>	<p>No.</p>
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow?</p> <p>If so, what action is being taken to improve financial performance?</p>	<p>No.</p>
<p>Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives?</p> <p>If not, what action is being taken to obtain those skills?</p>	<p>Yes. There is a regular training programme for managers. The Council's management structure is under review with a view to realising efficiencies, but this will ensure there continues to be sufficient senior management resources in place.</p>



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