
DRAFT AUDIT COMMITTEE ASSURANCE STATEMENT

To: **Audit and Governance Committee – 2nd September 2015**

By: **Monitoring Officer**

Classification: **Unrestricted**

Ward: **Thanet wide**

Summary: **In accordance with auditing standards, the external auditor needs to establish an understanding of the management processes in place at the Council. The Committee is asked to endorse the contents of the draft responses to the auditors.**

For Decision

1.0 Introduction and Background

- 1.1 To comply with international auditing standards the external auditor needs to establish an understanding of the management processes in place to detect fraud and to ensure compliance with law and regulation. The external auditor is also required to make enquiries of management as to their knowledge of any actual, suspected or alleged fraud.
- 1.2 The external auditor also needs to gain an understanding of how the Audit and Governance committee maintains an oversight of the above processes.
- 1.3 The questions and draft response, which are required to come from the Chairman of the Committee are shown at Appendix A and B.

2.0 Corporate Implications

2.1 Financial and VAT

- 2.1.1 The grounds for the request and responses are set out in the Appendix and there are no direct financial implications from this report.

2.2 Legal

- 2.2.1 This is a statutory requirement.

2.3 Corporate

- 2.3.1 This is part of the external audit process.

2.4 Equity and Equalities

- 2.4.1 The report has taken into account the public sector equality duty and there are no specific issues arising from this report.

3.0 Options

3.1 The requirement to approve the Statement of Accounts is a statutory requirement and therefore no alternative action is recommended as the Committee needs to be assured that the information submitted to the external auditor is sufficiently robust for their purposes.

3.2 Failure to achieve an unqualified opinion represents a reputational risk to the Council.

4.0 Recommendation

4.1 That the committee notes and endorses the responses to the letter from the external auditor.

Contact Officer:	Tim Howes, Head of Legal and Democratic Support & Monitoring Officer
Reporting to:	Madeline Homer, Chief Executive

Appendix List

Appendix A	Letter from Grant Thornton
Appendix B	Draft Audit Committee Assurance Statement

Corporate Consultation Undertaken

Finance	Nicola Walker, Head of Financial Services
Legal	Tim Howes, Head of Legal and Democratic Support & Monitoring Officer



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Appendix A

Clr John Worrow
Chair of Governance and Audit Committee
Thanet District Council
PO Box 9
Cecil Street
Margate
Kent
CT9 1XZ

Grant Thornton UK LLP
Fifth Floor,
Grant Thornton House
Melton Street
London NW1 2EP
T +44 (0)20 7383 5100
www.grant-thornton.co.uk

30 March 2015

Dear John,

Thanet District Council Financial Statements for the year end 31 March 2015 Understanding how the Audit Committee gains assurance from management

To comply with International Auditing Standards, we need to establish an understanding of how the Governance and Audit Committee, as the Governing Body, gains assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me in your role as Chair of the Governance and Audit Committee, with your responses to the following questions in respect of the Council's financial statements.

- 1 How does the Governing Body oversee management's processes in relation to:
 - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
 - identifying and responding to the risk of breaches of internal control
 - identifying and responding to risks of fraud in the organisation (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)
 - communicating to employees its views on appropriate business practice and ethical behaviour (for example by updating, communicating and monitoring against the codes of conduct)?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does the Governing Body gain assurance that all relevant laws and regulations have been complied with?
- 4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

I have attached a separate schedule which explores these areas in more detail, and this is included as an Appendix. Could you please complete this schedule and return it to me at your earliest convenience.

Chartered Accountants

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Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

For information, we are also required to make enquiries of management and recently sent a letter and schedule of questions to Paul Cook. Please could you provide a response by 6 May 2015 and please contact me if you wish to discuss anything in relation to this request, either via telephone on 020 7728 3194 or by the following e-mail address: terry.blackman@uk.gt.com. Alternatively, please contact Matt Dean, Assistant Manager on 020 7728 3181 or matthew.dean@uk.gt.com.

Yours sincerely

Terry Blackman
Audit Manager

For Grant Thornton UK LLP

Appendix

Response from Governance and Audit Committee Chair

Fraud risk assessment

Auditor Question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	
What are the results of this process?	
What processes does the Council have in place to identify and respond to risks of fraud?	
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	
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?	
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)?	
Are there any areas where there is a potential for misreporting?	
How does the Governing Body exercise oversight over management's processes for identifying and responding to risks of fraud?	
What arrangements are in place to report fraud issues and risks to the Governing Body?	
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	
How do you encourage staff to report their concerns about fraud?	
Have any significant issues been reported?	
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	
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 2014?	

Laws and Regulations

Auditor Question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	
How does management gain assurance that all relevant laws and regulations have been complied with?	
How is the Governing Body provided with assurance that all relevant laws and regulations have been complied with?	
Have there been any instances of non-compliance or suspected non-compliance with laws and regulations since 1 April 2014?	
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	
Is there any actual or potential litigation or claims that would affect the financial statements?	
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	

Mr D Wells
Assurance Director
Grant Thornton UK LLP
Fleming Way,
Manor Royal,
CRAWLEY
RH10 9GT

24 August 2015

Dear Mr Wells

Re: Understanding How the Audit Committee Gains Assurance from Management

Thank you for requesting my assistance with your current work on the 2014-15 accounts.

The Governance and Audit Committee, which was formed in 2006, has a comprehensive and varied remit which includes oversight of the council's governance and risk management processes, internal audit findings and other matters, such as the council's Treasury Management Strategy and Anti-Fraud and Corruption Policy. Within the detailed Terms of Reference assurance is given that the Committee will follow the CIPFA best practice model.

In order to adequately discharge their role to ensure that the processes are not only adequate but are complied with and weaknesses remedied in a timely manner, new Committee Members are provided with induction training and a supporting guidance booklet and copy of which is attached below.



Governance and
Audit Guidance 2015

At the last Governance and Audit Committee meeting, Members agreed to continue with utilising the first half hour of every meeting for training time as required. Additional training sessions have been organised to deal with particularly complex topics, such as the Statement of Accounts (mid -September) and Treasury Management provided by CAPITA the Council's external provider for Treasury Services (21 September).

The specific work that the Committee considered at its meetings during 2014-15 financial year under the previous Chairman, which relate to the points that your raise within your letter included:

- Approving the council's Local Code of Corporate Governance and Governance Framework
- Approving the council's Risk Management Strategy and Process and discussing emerging key business risk

- Reviewing reports on progress against the Audit Plan and implementation of agreed Internal Audit recommendations
- Discussion as to how internal audit work is undertaken and in particular how key risks are managed and
- Considering the action plan to address matters of concern arising from the Annual Governance Statement.
- Regular Treasury Management updates including the mid- year and end of year outturn.

These can be evidenced from the Council's published meeting agendas and minutes available from the website, link provided below:

<http://democracy.thanet.gov.uk/ieListMeetings.aspx?CId=114&Year=0>

Initial meetings under for the Governance and Audit Committee of which I am Chair for 2015-16 onwards have already considered the following:-

- Discussing the Internal Audit Manager's Annual Audit Report and agreeing the Annual Audit Plan, ensuring that high-risk areas and measures to ensure ethical behaviour are adequately covered.
- Reviewing reports on progress against the Audit Plan and implementation of agreed Internal Audit recommendations
- Annual Fraud Report
- Update on the Corporate Risk Register and emerging key business issues.
- Discussion as to how internal audit work is undertaken and in particular how key risks are managed
- Annual Treasury Management Review 2014/15
- External Funding Grants Protocol

<http://democracy.thanet.gov.uk/ieListDocuments.aspx?CId=114&MId=4076&Ver=4>

The aforementioned details go some way in answering your enquiry as to how the Governing Body oversees management's processes. With regard to the assessment of the risk of the financial statements being materially misstated due to fraud or error, management have put in place measures to assess the risk that include the operation of a robust key control framework within the council's financial procedures that has met with favourable internal audit reports, which gives sufficient assurance that the risk is negligible. The key control framework includes adequate segregation of duties within the Finance team and an active personal development plan which means that sufficient members of the section are adequately skilled to not only perform the functions of their role, but be alert to any anomalies that could indicate a misstatement due to fraud. A devolved budget management system is operated which means that managers at all levels have sight of financial transactions being passed through the Income and Expenditure Accounts, which will minimise any rogue payments going un-noticed. Senior management reviews of the draft financial statements are also undertaken which would aid with the identification of any material inconsistencies.

Over and above the controls built into the financial procedures, further assurance can be gained from the thorough review programme undertaken by Internal Audit, who offer a proactive, independent and effective scrutiny of the council's financial processes. The Head of Internal Audit has access to me as the Chair of Governance and Audit at all times, to further strengthen their freedom to report any suspicions of fraud.

In terms of communicating to staff and members the commitment to good governance and anti-fraud principles, a number of different media are used including the Thanet Online Matters (TOM) Intranet site, the Managers' Forums and formal staff and member development sessions. Issues relating to the process of identifying and reporting the risk of fraud, possible breaches of internal control and other business proactive and ethical behaviour regularly feature as part of these.

In reply to your question about reported frauds within the financial year; to my knowledge there have been no actual frauds reported. There is however an investigation into a grant payment which may lead to an allegation of fraud.

I can confirm that as Chair of the Governance and Audit Committee through making enquiries of relevant officers I have gained assurance that the relevant laws and regulations have been complied with by having regard to:

- An experienced, well-resourced in-house legal team with a budget to commission specialist advice as and when required
- Legal implications of key decisions and actions being included in reports wherever necessary, with draft reports being considered by the legal team and Corporate Management Team prior to being published
- The council having comprehensive Financial Regulations and Contract Procedure Rules in place to ensure that they meet best practice standards. These documents, along with the Scheme of Delegation, set the framework for ensuring that transactions are undertaken and decisions are made in accordance with statutory requirements

<http://democracy.thanet.gov.uk/documents/s39458/Constitution%20for%20Governance%20of%20the%20Council%20-%20Updated%20%20October%202014.pdf>

With regard to your question as to whether I am aware of any actual or potential litigation of claims that would affect the financial statements. I can confirm that I have been made aware of the animal export claim. With regard to Dreamland the settlement in relation to the CPO action also remains outstanding at this moment in time.

Should you need any further assistance please do not hesitate to contact me.

Yours sincerely

Councillor Munday
Chair of Governance and Audit Committee.

Response from Governance and Audit Committee Chair

Fraud risk assessment

Auditor Question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	Yes, the Internal audit plan includes a risk based audit of the core financial systems that are used in the compilation of the financial statements.
What are the results of this process?	The Council has assessed this risk and considers the risk to be negligible
What processes does the Council have in place to identify and respond to risks of fraud?	The Council operates a robust key control framework within the financial procedures that has met with favourable internal audit reports. This includes ensuring that the finance team are adequately skilled and alert to anomalies that could indicate a misstatement due to fraud; a devolved budget management system which means that managers have sight of financial transactions and can therefore identify any rogue payments; senior management reviews of the financial statements are also undertaken to aid the identification of material inconsistencies.
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	We are aware that the possibility of fraud occurring could be higher in the current economic climate. This is particularly so within the benefits area and therefore specialised staff are employed in this area to deal with fraud.
Are internal controls, including segregation of duties, in place and operating effectively?	Managers are aware of the need for segregation of duties and these are in place wherever resources allow. The Internal Audit Plan looks at the key internal controls on a regular basis and the results of these audits show that the Council has good control measures in place. The authorised signatory forms limit access to systems and certain processes dependent on the nature of an individual's role, thus preventing someone from having inappropriate access to the financial systems. Staff receive regular briefings on being alert to fraud
If not, where are the risk areas and what mitigating actions have been taken?	N/A
Are there any areas where there is a	No

potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	
Are there any areas where there is a potential for misreporting?	No
How does the Governing Body exercise oversight over management's processes for identifying and responding to risks of fraud?	The Governance and Audit Committee receives regular updates from Internal Audit on the results of their audit reviews on the Council's key internal controls. Any instances of fraud are reported to the Governance and Audit Committee. Members of this committee receive regular training on anti-fraud measures and regularly reviews the Council's anti-fraud and corruption policy.
What arrangements are in place to report fraud issues and risks to the Governing Body?	See Above. The Head of the East Kent Audit Partnership also has direct access to the Chair of the Governance and Audit Committee.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	The Council's commitment to good governance and anti-fraud principles are communicated using the Council's intranet site, Managers' development sessions, staff and member development sessions
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	The Council's whistleblowing policy is widely publicised and officers feel comfortable at raising concerns where appropriate. Staff are expected to raise concerns whenever they suspect something untoward is going on. The whistleblowing policy has been used by staff to identify suspected fraud and all such instances have been fully investigated.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	Members are expected to disclose any transactions they have entered into of a related party nature. I am not aware of any such relationships or transactions that have given rise to risks of fraud
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 2014?	There is an investigation into a grant payment which potentially may lead to an allegation of fraud.

Laws and Regulations

Auditor Question	Response
<p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>An experienced, well-resourced in-house legal team with a budget to commission specialist advice as and when required</p>
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>Legal implications of key decisions and actions being included in reports wherever necessary, with draft reports being considered by the legal team and Corporate Management Team prior to being published.</p> <p>An on-going programme of Internal Audit Reviews is undertaken by the East Kent Audit Partnership.</p> <p>The Whistle-blowing policy provides staff with the ability to report to management where laws and regulations have not been complied with.</p>
<p>How is the Governing Body provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>All reports to Cabinet and Council require the Legal Team and Finance Team to review and provide comments on the reports prior to going forward to Members. The council has comprehensive Financial Regulations and Contract Procedure Rules in place to ensure that best practice standards are met. These documents, along with the Scheme of Delegation, set the framework for ensuring that transactions are undertaken and decisions are made in accordance with statutory requirements.</p> <p>The East Kent Audit Partnership prepare audits to ensure compliance with relevant laws and regulations and gather evidence during the audit process. Quarterly monitoring reports produced by the Head of the Audit of the Partnership identify any non-compliance with relevant laws and regulations and agree management actions to remedy the situation</p>
<p>Have there been any instances of non-compliance or suspected non-compliance with laws and regulations since 1 April 2014?</p>	<p>There is an on-going investigation by the HSE which has yet to come to a conclusion.</p>

<p>What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>Council Departments are advised to keep Legal advised of any possible claims. If claims are received these are quantified and risk established and an appropriate notification is made to Finance officers to provide advanced notice of possible liability.</p>
<p>Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Animal Export and outstanding settlement for Dreamland.</p>
<p>Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?</p>	<p>There is an on-going investigation by the HSE which has yet to come to a conclusion.</p>