

# The Audit Findings for Gravesham Borough Council

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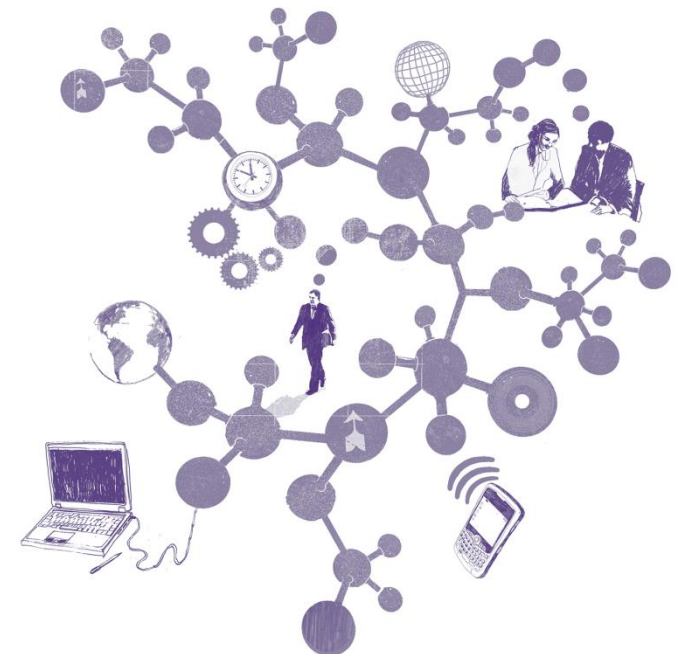
**Year ended 31 March 2016**

September 2016

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September 2016

Dear Members of the Finance and Audit Committee

**Audit Findings for Gravesham Borough Council for the year ending 31 March 2016**

This Audit Findings report highlights the key findings arising from the audit for the benefit of the Finance and Audit Committee as those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with senior officers and will be presented to the Finance and Audit Committee on 13 September 2016.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

**Darren Wells**

**Engagement Lead**

**Chartered Accountants**

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# Section 1: Executive summary

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# Executive summary

## **Purpose of this report**

This report highlights the key issues affecting the results of Gravesham Borough Council ("the Council") and the preparation of the Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## **Introduction**

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan presented to the Finance and Audit Committee on 16 June 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- completion of work over property, plant and equipment revaluation and accounting and journal entries;
- review of the final version of the financial statements;
- final review and quality control procedures;
- obtaining and reviewing the management letter of representation;
- review of the signed version of the Annual Governance Statement; and
- updating our post balance sheet events review, to the date of signing the opinion; and

We received draft financial statements on the 30 June 2016 and accompanying working papers were received over the course of our audit. We set out later in this section the progress made in relation to early closure of the accounts.

# Executive summary (continued)

## Key audit and financial reporting issues

### Financial statements opinion

We have identified the need for adjustments as a result of errors within the property, plant and equipment (PPE) valuation and underlying asset registers. The correcting entries are subject to final confirmation and review by audit. The draft financial statements for the year ended 31 March 2016 recorded net income of £23,606k. The audited financial statements are expected to show net income of £22,676k. Until these items are finalised we cannot confirm the final impact on the net expenditure, but the entries do not have an impact on the Council's underlying general fund balance. We have also recommended a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of financial statements are:

- the draft financial statements were submitted for audit on the 30 June, in line with the current statutory deadlines;
- working papers were provided in accordance with the agreed protocol. The overall quality of the working papers were good with improvements noted in some areas but continuing issues with PPE;
- The Council has been unable to resolve on-going issues around PPE with similar challenges being experienced in the current year to those experienced in the prior year;
- there were a number of presentation and disclosure errors in the draft financial statements which have been subsequently amended.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

We have nothing to report in this regard.

## Controls

### Roles and responsibilities

Management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

### Findings

No control issues have been identified.

### Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

## Executive summary (continued)

### **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

### **Grant certification**

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until November 2016. We will report the outcome of this certification work through a separate report to the Finance and Audit Committee in February 2017.

### **The way forward**

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director (Corporate Services).

### **Early close**

The Council continues to have an ambition to prepare and publish audited financial statements earlier than the current 30 September statutory deadline. From 2017/18, the statutory deadlines themselves will be brought forward and the Council will be required to produce draft statements by 31 May, and secure an audit opinion by 31 July.

This year, the Council presented us with draft financial statements on the 30 June. This was followed by working paper submissions in late June and July. At this time, the Council is not yet in a position to deliver early close, however, good progress has been made with regards to the quality of work papers (with the exception of PPE). The accounts themselves were prepared earlier than the 30 June, with the additional time used for review. It will be important to make sure there is still adequate time for internal review when the deadlines are brought forward.

There has been turnover of staff in the finance team this year as well as some restructuring, which has led to the need for learning of new processes and management responsibilities. It will be important to ensure there is good communication between the valuations team and the finance team to avoid ongoing issues with PPE. This causes delays to both the accounts preparation and to the audit process and its resolution is critical to delivering early close.

Achieving these earlier deadlines, particularly within the more complex environment within which the Council now operates, will require an element of redesign of some of the closedown processes, arrangements and internal business processes. The audit is also an important part of this. We have worked with many clients to successfully implement faster close and will continue to work with the Council during the coming year to provide support in achieving the earlier deadlines before the statutory deadlines are brought forward.

### **Acknowledgement**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
September 2016

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## Section 2: Audit findings

01. Executive summary

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05. Communication of audit matters



# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,901k (being 2% of gross revenue expenditure from the prior year). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £95k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following item where we decided that separate materiality levels were appropriate

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	All transactions made by the Council affect the balance and therefore a lower materiality level is appropriate.	£500k

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1	<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p><b>The expenditure cycle also includes fraudulent transactions</b></p> <p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially where the body is required to meet targets.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Gravesham Borough Council, we determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited;</li> <li>• the culture and ethical frameworks of local authorities, including Gravesham Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>We considered the expenditure cycle risk and do not consider it to require additional audit procedures. The lack of specific financial performance targets which Gravesham Borough Council is required to meet means there is limited incentive for fraudulent manipulation. The culture within Gravesham Borough Council means that such manipulation would be seen as unacceptable. The nature of expenditure streams also means that material expenditure recognition fraud would be difficult to perpetrate and conceal. Our normal substantive procedures, including the work done in relation to the risk of management override of controls, adequately address the risk of fraud through provisions and accruals.</p>	<p>Subject to completion of outstanding matters, our audit work has not identified any significant issues in relation to the risk identified</p>
2	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Assessment of the journal control environment and a walkthrough to confirm that controls have been implemented;</li> <li>• Review of accounting estimates, judgments and decisions made by management;</li> <li>• Testing of journal entries;</li> <li>• Review of unusual significant transactions.</li> </ul>	<p>Our audit work did not find any significant issues in relation to journal entries.</p> <p>We have not been made aware of nor identified any unusual significant transactions during the audit.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

## Audit findings against significant risks (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>3 Revaluation measurements not correct</b> Material adjustments were made to the financial statements in the last two years resulting from issues with the revaluation of other land and buildings.</p> <p>The Code requires the Council ensures the carrying value at the balance sheet date is not materially different from current value. The valuation of property, plant and equipment is a significant estimate by management in the financial statements.</p> <p>Additionally in 2015/16:</p> <ul style="list-style-type: none"> <li>the Council is undertaking a full revaluation of council dwellings; and</li> <li>the CIPFA Code of Practice (the Code) has implemented IFRS13. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13. The basis on which fair value is defined for investment property is also different to that used in previous years. This represents a significant change in the basis for estimation of these balances in the financial statements. There are also extensive disclosure requirements under IFRS 13 which the Council needs to comply with.</li> </ul>	<ul style="list-style-type: none"> <li>Assessment of the revaluation control environment and a walkthrough to confirm that controls have been implemented;</li> <li>Obtained and reviewed instructions issued to the valuer setting out the scope of their work;</li> <li>Write to the valuer and assess their competence, expertise and objectivity and inquire about the basis on which the valuation is carried out and the key assumptions used;</li> <li>Review and, where applicable, challenge of the information used by the valuer to ensure it is robust and consistent with our understanding;</li> <li>Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register;</li> <li>Evaluation of the assumptions made by management and how management has satisfied themselves that carrying value at the balance sheet date is not materially different from current value;</li> <li>Review of the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS 13.</li> </ul>	<p>We identified significant issues with regard to differences between the valuation reports and asset registers, the de-recognition of nil value vehicles and the presence of debit balances within the revaluation reserve. Further details are set out on pages 17 to 19..</p> <p>Subject to completion of other outstanding matters, our audit work has not identified any other significant issues in relation to the risk identified</p>




# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Employee remuneration</b>	Employee remuneration and benefit obligations and expenses understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• We identified and walked through controls;</li> <li>• We completed a trend analysis of employee remuneration expenses;</li> <li>• We substantively tested employee remuneration expenses.</li> </ul>	Subject to completion of outstanding matters, our audit work has not identified any significant issues in relation to the risk identified.
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• We identified and walked through controls;</li> <li>• We substantively tested expenses processed through the purchase ledger;</li> <li>• We assessed the method of allocating/apportioning expenses to functional categories for compliance with the Service Reporting Code of Practice;</li> <li>• We tested for unrecorded liabilities.</li> </ul>	Subject to completion of outstanding matters, our audit work has not identified any significant issues in relation to the risk identified.
<b>Valuation of pension fund net liability</b>	Valuation of the pension fund assets and liabilities have been incorrectly valued	<ul style="list-style-type: none"> <li>• We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement;</li> <li>• We reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation and gained an understanding of the basis on which the valuation is carried out;</li> <li>• We undertook procedures to confirm the reasonableness of the actuarial assumptions made;</li> <li>• We reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	Subject to completion of outstanding matters, our audit work has not identified any significant issues in relation to the risk identified.




# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with your financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>The Council's primary sources of income are from government and non government grants, contributions, fees and charges as well as collection fund income.</li> <li>This is recognised appropriately when the risks and reward of ownership have transferred and when it is probable that the economic benefits or service potential have transferred.</li> </ul>	<ul style="list-style-type: none"> <li>The Council's accounting policy is appropriate and consistent with IAS 18 Revenue and the CIPFA Code of Practice on Local Authority Accounting.</li> <li>The extent of judgement involved in revenue recognition is minimal as information is generally readily available.</li> <li>The accounting policies as disclosed are adequate.</li> </ul>	 <b>Green</b>
<b>Judgements and estimates</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>useful life of capital assets;</li> <li>pension fund valuations and settlements;</li> <li>revaluations of property;</li> <li>Impairments;</li> <li>provisions, including provision for business rate appeals;</li> <li>accruals of income and expenditure.</li> </ul>	<ul style="list-style-type: none"> <li>The Council's accounting policies are appropriate and consistent with accounting standards and the CIPFA Code of Practice on Local Authority Accounting.</li> <li>The Council have exercised judgement in the recognition and valuation of estimates. These are generally based on the best available information (e.g. contracts, previous invoices, schedule of activities etc) or the work of an expert (e.g. actuary, valuer etc). We have reviewed the judgements made and confirmed they have been reasonably applied.</li> <li>Individual consideration over property, plant and equipment and business rates are set out later in this report.</li> </ul>	 <b>Green</b>
<b>Going concern</b>	<p>The Director (Corporate Services) has a reasonable expectation that the services you provide will continue for the foreseeable future. Members concur with this view. For this reason, you continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.</p>	 <b>Green</b>

**Assessment**

# Accounting policies, estimates and judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
<b>Business rates provision</b>	The Council have provided for appeals made by businesses to the Valuation Office Agency over the local rateable value and the impact of the business rates collectable. This is based on anticipated success rates and properties under appeal at the year end.	The Council's overall approach to business rate appeals provisions is sound and provides a reasonable analysis of the provision required.	 <b>Green</b>
<b>Estimates and judgements - property plant and equipment</b>	The accounts sets out the Council's programme of revaluations, whereby it has revalued certain assets in line with the rolling policy and pre-established asset classes.	We identified significant issues with regard to differences between the valuation reports and asset registers, the de-recognition of nil value vehicles and the presence of debit balances within the revaluation reserve. Further details are set out later in this section.	 <b>Green</b>
<b>Other accounting policies</b>	We have reviewed your policies against the requirements of the CIPFA Code and accounting standards.	We have reviewed your policies against the requirements of the CIPFA Code of Practice. your accounting policies are appropriate and consistent with previous years. Minor enhancements have been made to the accounting policies for 2015/16.	 <b>Green</b>

**Assessment**

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Finance and Audit Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>The Council has not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested, with specific representation around the property plant and equipment issues.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmations from the PWLB and other commercial lenders for loans and requested from management permission to send confirmation requests to various institutions for bank and investment balances. This permission was granted and the requests were sent. All responses required were returned with no issues identified.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> <li>For 2015/16, the Explanatory Foreword to the accounts is now known as the Narrative Statement. We are satisfied that the Narrative Statement meets the requirements of the Code.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>The information in the Narrative Statement is materially inconsistent with the information in the audited financial statements or apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.</li> </ul> <p>We have not identified any issues we would be required to report by exception.</p>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>As the Council does not exceed the specified group reporting threshold, we are not required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p>

## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out earlier in this report.

The matters we report are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to the Council in accordance with auditing standards.

We did not identify any findings requiring reporting.

### Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement



# Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	<p><b>Property, plant and equipment – differences between valuation report and asset register</b> Our audit testing of the fixed asset register identified a number of differences to the valuation report for assets that had been identified as revalued in 2015/16. This was due to multiple versions of the valuation report being issued, and a lack of communication between the valuations team and the finance team over the revisions made. The correcting entries are;</p> <p>Cr PPE Note 13.5 Revaluation movements recognised in the Revaluation Reserve (3,346) Dr PPE Note 13.5 Revaluation movements recognised in the CIES 7,231 Dr PPE Note 13.5 Depreciation written out to the Revaluation Reserve 4,049 Dr PPE Note 13.5 Depreciation written out to the CIES 48 Cr PPE Note 13.5 Accumulated Depreciation (148) Cr PPE Note 13.5 Other Movements in Cost/Valuation (8,014) Dr PPE Note 13.5 Impairment losses recognised in Revaluation Reserve 1,698 Cr PPE Note 13.5 Other (15) Cr PPE Note 13.5 Impairment reversals recognised in the CIES (8,160) Dr PPE Note 13.5 Other Movements in Depreciation and Impairment 8,130</p> <p>Dr Cost of Services for Depreciation Charge and CIES valuation 1,030 Cr Other Operating Expenditure for Other Movements (100)</p> <p>Dr Capital Adjustment Account for valuation movements 930 Dr Capital Adjustment Account - identified movements between RR and CAA 443 Cr Revaluation Reserve for valuation movements (2,402) Cr Revaluation Reserve - identified movements between RR and CAA (443)</p>			930

## Adjusted misstatements (continued)

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
2	<p><b>Property, plant and equipment – de-recognition of fully depreciated assets</b> Our analysis of the PPE note per the statement of accounts identified that the de-recognition of fully depreciated vehicles which are no longer held by the Council were not removed from either the cost of accumulated depreciation part of the PPE note. There is nil impact on the net book value, the CIES or the balance sheet overall. The correcting entries are;</p> <p>Cr Note 13.5 Cost – Vehicles, Plant and Equipment Dr Note 13.5 Accumulated Depreciation - Vehicles, Plant and Equipment</p>		(2,634) 2,634	
	<b>Overall impact</b>	<b>£930</b>	<b>£0</b>	<b>£930</b>

# Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Finance and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	<b>Detail</b>	<b>Comprehensive Income and Expenditure Statement £'000</b>	<b>Balance Sheet £'000</b>	<b>Reason for not adjusting</b>
<b>1</b>	<p><b>Property, plant and equipment – debit balances within the revaluation reserve</b> Our analysis of the fixed asset register identified a number of debit balances within the revaluation reserves for individual assets. This is incorrect, as all revaluation reserve balances should be credits. This is driven by historic issues with regard to revaluation calculations produced by the asset registers. We are satisfied there is no material impact from this issue on the net book value of the assets held.</p> <p>The Council conducted an analysis of the issue which confirmed that the identified potential error arising is £1,227k. The correcting entries would be between the Revaluation Reserve and Capital Adjustment account.</p>			The error identified is an immaterial misstatement that management feel they cannot fully process all required adjustments in the current period, and will work to amend the asset registers in 2016/17.
	<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	

## Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £000	Account balance	Impact on financial statements
1	Disclosure	Various	Various	The audit identified a number of typographical and disclosure adjustments which management has agreed to amend.
2	Disclosure	Various	Various	The audit identified a number of low level casting and rounding differences that management has either agreed to amend or has confirmed are immaterial.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non-audit services and independence

05. Communication of audit matters

# Value for Money

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in May 2016 and identified one significant risk, relating to medium term financial resilience, which we communicated to the Council in our Audit Plan.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and on-going risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

## Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the financial position, including the 2015/16 outturn;
- the medium term financial strategy, with a balanced budget set for 2016/17 and 2017/18 and budget gaps identified to 2019/20;
- the corporate plan 2015-19 and performance against key targets; and
- the approach to resolving future budget gaps through the Service Review and property strategies.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work over the following pages.

## Overall conclusion

Based on the work we performed to address the significant risks, we concluded that the Council has proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p><b>Medium term financial resilience</b> In recent years the Council has managed its finances well by developing a 10 year medium term financial plan to help identify and mitigate threats to its financial health. The updated Medium Term Financial Strategy (MTFS) that went to Cabinet in November 2015 anticipates annual deficits commencing from 2018/19 (£0.8m) with a cumulative effect by 2024/25 of £19.9m.</p> <p>To address the shortfalls the Council has been undertaking service reviews of all its services. All the front line service reviews have been completed. Options will be put forward to members with associated savings where applicable.</p> <p>In March 2016 a revised MTFS was taken to cabinet. This sets out an increase in the funding gap following the Local Government settlement, estimated to be £1.5m in 2018-19 rising to £2.5m by 2019-20. The MTFS sets out a number of actions to address this gap under the following headings:</p> <ul style="list-style-type: none"> <li>• Optimisation of Income Generation</li> <li>• Innovation in Service Delivery</li> <li>• Financial Discipline</li> </ul>	<p>We reviewed the Council's arrangements for updating and developing its medium term financial planning, including the actions proposed to address the medium term financial shortfall.</p>	<p><b>Summary findings</b></p> <ul style="list-style-type: none"> <li>• 2015/16 outturn position of £255k surplus, with healthy general fund and earmarked reserve balances.</li> <li>• Balanced budget set for both 2016/17 and 2017/18, with generally robust underlying assumptions and 1.98% council tax increase planned.</li> <li>• Financial settlement changes placed additional budget pressures that will impact medium term finances, but there are plans in place to address gaps through property investment, shared services and the outcomes from the Service Review planned for October 2016.</li> <li>• The Service Review and Change Strategy provide a sound basis for identifying opportunities to transform services and address future funding gaps.</li> </ul> <p><b>2015/16 Financial Performance</b> The Council continued to demonstrate sound financial management in 2015/16, delivering a full year surplus of £255k. This outturn includes the budgeted use of £0.1m of working balances as well as a £1.0m transfer into reserves. Members received an analysis of the budget variances in June. A significant contribution to the positive outcome was achieved through expedient management of staff costs and vacancies which generated savings of £0.6m on top of an original target of £0.35m. Business Rate income was £0.3m above expectations due to growth in the business rate base exceeding government funding levels. However, the Business Rate Fund deficit from 2014/15 was higher than budgeted and resulted in a £0.65m adverse variance. The Council's General Fund working balance was £6.1m with a further £6.7m held in earmarked reserves at 31 March 2016. This represents a healthy reserve position and increases the Council's resilience to financial shocks going forward.</p> <p>The successful delivery of the budget was matched by encouraging progress against performance measures set in the Corporate Plan for 2015-2019. By quarter four, the Council was meeting ten of the fifteen targets with reasonable explanations for missing four of the residual ones. The exception is staff sickness where corrective measures are to be taken. This highlights the good progress made in delivering the Council's strategic objectives.</p> <p><b>Looking towards 2016/17 and beyond</b> The Council's budget setting arrangements for 2016/17 and beyond have had to incorporate and respond to the significant challenges emerging from the provisional local government finance settlement announced by the government in December 2015. This is a planned four year settlement that will provide relative certainty to future income levels from central government, but will require a further period of tightening financial constraints.</p> <p>The 2016/17 budget and the Medium Term Financial Strategy (MTFS), approved in February 2016, provides a basis for managing the Council's finances through to 2019/20. The Council projects that the settlement will see Revenue Support Grant reduce by 43%. Combined with changes to the New Homes Bonus, this has meant that the Council has had to respond to a further reduction in the overall settlement of £1.5m above that anticipated prior to December 2015.</p>

**Key findings (continued)**

Significant risk	Work to address	Findings and conclusions
<b>Medium term financial resilience (continued)</b>		<p>Against this backdrop, the Council approved a balanced budget for 2016/17 incorporating a 1.98% increase in Council Tax and an application of £2.5m of working balances. The Council has set a balanced plan for 2017/18. The underlying assumptions within the budget include 1% for pay awards, £0.15m to meet pension costs changes and an element to meet contractual inflation, all of which are reasonable. The key challenges to delivering the 2016/17 budget will revolve around managing staff vacancies and generating £0.75m of investment income.</p> <p>The Council draws on a wide range of informed sources to formulate the economic assumptions which underpin the MTFS projections. The main components are growth in salary costs, vacancy rates and the inflationary impact on the Council's supply chain. The MTFS also incorporates changes to government funding, including the New Homes Bonus regime and the business rate retention scheme. The projected growth in Council Tax assuming adoption of the revised referendum principles is also factored in. The MTFS reinforces the established principles of maintaining an adequate level of reserves for the General Fund and Housing Revenue Account.</p> <p>The Council's policy of applying New Homes Bonus funds to working balances in recent years has provided a buffer by which the shortfalls in funding over 2016/17 and 2017/18 can be managed (whilst preserving residual balances at a minimum of £2m in accordance with the Council's assessment of a prudent level of balances). The latest available information (based on the position at 30 June 2016) indicates that these balances will be able to support the 2018/19 budget to a greater extent than previously expected. The focus must be to implement plans to address the budget shortfalls of £0.9m in 18/19, rising to £2.4m in 2019/20 and increasing thereafter.</p> <p>There has already been progress towards the savings needed to deliver the medium term financial plans. There has been active engagement around sharing services with other local authorities in areas such as legal, revenues and benefits, HR and payroll, with potential savings of around £240k. This sits alongside the property acquisition strategy which has or is in the process of purchasing a number of local properties that are looking to generate strong returns for the Council. This is being achieved ahead of the need for the additional income and will contribute to strengthening the financial position. There will be substantial development in and around the borough over the coming years, and the Council is already looking towards maximising the financial and social returns from these projects.</p> <p>In October, Cabinet will receive the Service Review options under the Change Strategy 2016-19, arising from the programme aimed at challenging how services are provided and ensuring delivery of high quality services in line with the Council's objectives. This is based on a wide ranging review carried out since 2014, with potential savings generated in excess of £1.4m. As with any such exercise, difficult decisions will need to be made around the impact of service changes for the wider community, but given the financial context, the Service Review should present an opportunity to focus resources and provide longer term stability to the Council.</p> <p>All of the above measures mean that the Council has put in place adequate financial management arrangements to effectively monitor and plan its finances going forward. The Service Review and Change Strategy provides a sound basis for identifying opportunities to transform services and address future funding gaps.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place.</b></p>



### **Recommendations for improvement**

We discussed findings arising from our work with management and have agreed that no recommendations for improvement are required as management has appropriate processes in place to respond to the medium term financial pressures.

### **Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on the Council's arrangements which we wish to draw to your attention.

### **Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

### **Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non audit services and independence**

05. Communication of audit matters

# Fees, non audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

## Fees

	Proposed fee £	Final fee £
Council audit	53,294	TBC
Grant Certification	14,526	TBC
<b>Total audit fees (excluding VAT)</b>	<b>67,820</b>	<b>TBC</b>

## Fees for other services

Service	Fee £
<b>Audit related services:</b>	
• Pooling of Housing Capital Receipts Return	TBC

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

The Grant Certification fees were reported as £7,395 per the Audit Plan, this has been amended from the Audit Plan to the correct 2015/16 rate.

## Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Address the issues identified with regard to the Fixed Asset Register, through the implementation of a cleansed, consolidated register which incorporates appropriate calculation of valuation movements in line with the CIPFA Code of Practice.	High	The authority has already invested a significant level of resource since February 2016 in addressing this issue, which has been caused by some historical accounting issues going back to 2007 with regards to Property, Plant & Equipment assets. This work will continue to be progressed, and officers are confident that the required changes - which are considered to have no material impact upon the accounts or true monetary impact upon the Council's reserves will be made during the 2016-17 financial year.	2016/17 Sarah Parfitt, Assistant Director (Corporate Services)

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GRAVESHAM BOROUGH COUNCIL**

We have audited the financial statements of Gravesham Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Director (Corporate Services) and auditor**

As explained more fully in the Statement of the Director (Corporate Services) Responsibilities, the Director (Corporate Services) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to

the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director (Corporate Services); and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements: present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

### **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Statement and the Annual Governance Statement is consistent with the audited financial statements.

### **Matters on which we are required to report by exception**

We are required to report to you if: in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or we issue a report in the public interest under section 24 of the Act; or we make a written recommendation to the Authority under section 24 of the Act; or we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**



**Respective responsibilities of the Authority and auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

**Certificate**

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Darren Wells

Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
 The Explorer Building  
 Fleming Way  
 Manor Royal  
 Crawley  
 RH10 9GT

XX September 2016



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