



The Annual Audit Letter for Gravesham Borough Council

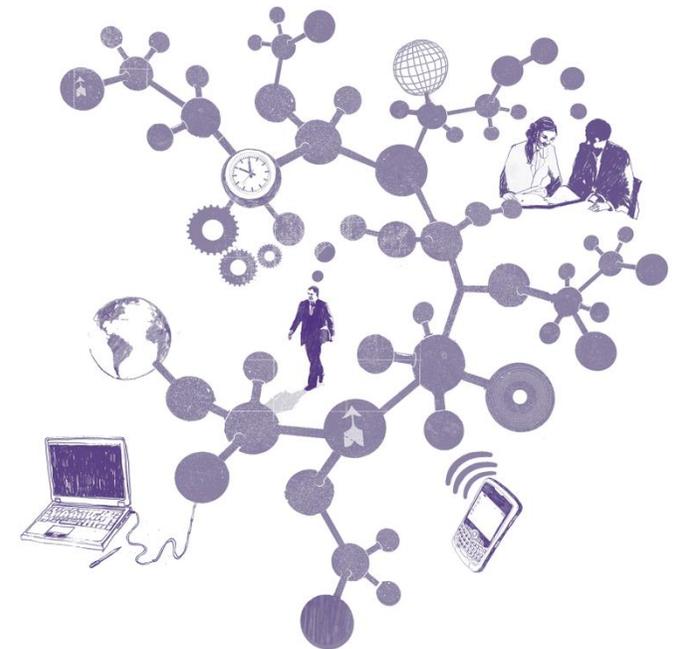
Year ended 31 March 2016

October 2016

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Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	4
3. Value for Money conclusion	7
4. Working with the Council	10
Appendices	
A Reports issued and fees	11

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Gravesham Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Finance and Audit Committee as those charged with governance in our Audit Findings Report on 13 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 22 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 22 September 2016.

Certificate

We certified that we had completed the audit of the accounts of Gravesham Borough Council in accordance with the requirements of the Code on 22 September 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Finance and Audit Committee in our Annual Certification Letter.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1,901,000, which is 2% of the Council's gross revenue expenditure from the prior year. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for cash and cash equivalents of £500,000 as the balance is affected by all transactions made by the Council.

We set a lower threshold of £95,000, above which we reported errors to the Finance and Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts - Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work. Please note that this is not a complete list of the risks identified during the audit. These are set out in our Audit Findings Report dated September 2016.

Risks identified in our audit plan	How we responded to the risk
<p>Revaluation measurements not correct 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"> the Council is undertaking a full revaluation of council dwellings; and 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 	<p>As part of our audit work we completed the following:</p> <ul style="list-style-type: none"> Assessment of the revaluation control environment and a walkthrough to confirm controls have been implemented; Obtained and reviewed instructions issued to the valuer setting out the scope of their work; Assessment of the valuer's competence, expertise and objectivity and inquired about the basis on which the valuation was carried out and the key assumptions used; Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding; Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register; Evaluation of the assumptions made by management and how management has satisfied themselves that the carrying value at the balance sheet date is not materially different from current value; 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. <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. We carried out sufficient work to enable us to conclude that the balances were not materially misstated. We raised a recommendation to ensure these issues are resolved for 2016/17.</p>

Audit of the accounts – Council (continued)

Risks identified in our audit plan	How we responded to the risk
<p>Employee remuneration Employee remuneration and benefit obligations and expenses understated (Remuneration expenses not correct)</p>	<p>As part of our audit work we completed the following:</p> <ul style="list-style-type: none"> • We identified and walked through controls; • We completed a trend analysis of employee remuneration expenses; • We substantively tested employee remuneration expenses. <p>We did not identify any issues to report.</p>
<p>Operating expenses Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>As part of our audit work we completed the following:</p> <ul style="list-style-type: none"> • We identified and walked through controls; • We substantively tested expenses processed through the purchase ledger; • We assessed the method of allocating/apportioning expenses to functional categories for compliance with the Service Reporting Code of Practice; • We tested for unrecorded liabilities. <p>We did not identify any issues to report.</p>
<p>Valuation of pension fund net liability Valuation of the pension fund assets and liabilities have been incorrectly valued</p>	<p>As part of our audit work we completed the following:</p> <ul style="list-style-type: none"> • 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; • 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; • We undertook procedures to confirm the reasonableness of the actuarial assumptions made; • 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. <p>We did not identify any issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 22 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Finance and Audit Committee on 14 September 2016.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money conclusion

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Medium term financial resilience 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: Optimisation of Income Generation Innovation in Service Delivery Financial Discipline</p>	<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>Our summary findings were;</p> <ul style="list-style-type: none"> • 2015/16 outturn position of £255k surplus, with healthy general fund and earmarked reserve balances. • Balanced budget set for both 2016/17 and 2017/18, with generally robust underlying assumptions and 1.98% council tax increase planned. • 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. • The Service Review and Change Strategy provide a sound basis for identifying opportunities to transform services and address future funding gaps. <p>Further details are set out in our Audit Findings Report issued September 2016.</p> <p>On the basis of our work completed, we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

Sharing our insight – we provided regular Finance and Audit Committee updates covering best practice. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – We have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services.

Providing training – we provided your teams with training on financial accounts and annual reporting in conjunction with CIPFA FAN.

We will also continue to work with you and support you over the next financial year and beyond.

Locally our focus will be on:

- An efficient audit – continuing to deliver an efficient audit, including improving the fixed asset register and associated accounting to resolve issues identified in 2015/16.
- Understanding your operational health – we will focus our value for money conclusion work on your financial position and financial forecasting.

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	53,294	60,000	77,309
Housing Benefit Grant Certification	14,526	TBC	9,860
Total fees (excluding VAT)	67,820	TBC	87,169

A fee variation of £6,706 was agreed in relation to additional work over the issues identified surrounding property, plant and equipment balances. Our work in relation to the Housing Benefits Grant Certification is ongoing.

Fee variations are subject to approval by Public Sector Audit Appointments Ltd.

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016

Fees for other services

Service	Fees £
Audit related services:	
• Pooling of Housing Capital Receipts Certification	2,025



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