

The Audit Findings for Gravesham Borough Council

Year ended 31 March 2017

12 September 2017

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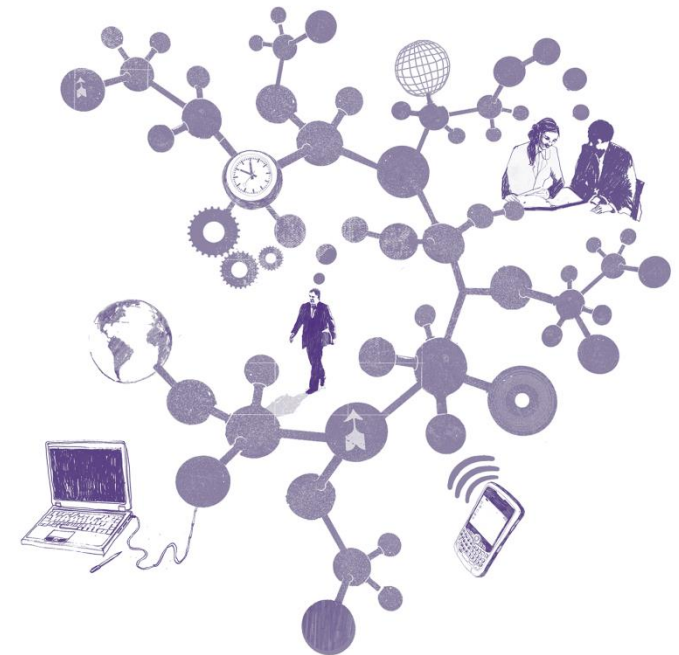
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12 September 2017

Dear Members of the Finance and Audit Committee

Audit Findings for Gravesham Borough Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Gravesham Borough Council, the Finance and Audit Committee), to oversee the financial reporting process, 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 officers.

As your auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements 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 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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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 2017. It is also used to report our audit findings to management and the Finance and Audit Committee in accordance with the requirements of ISA (UK&I) 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 whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is consistent with the financial statements, 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.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has 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 year.

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 dated March 2017.

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

- obtaining and reviewing the management letter of representation;
- updating our post balance sheet events review, to the date of signing the opinion.

Key audit and financial reporting issues

Financial statements opinion

We anticipate providing an unqualified audit opinion in respect of the financial statements. Our draft opinion is at Appendix A.

We agreed two adjustments in respect of Property Plant and Equipment (PPE) balances which had an impact on the primary statements;

- we identified a prior year error relating to assets under construction which had resulted in the NBV for PPE at 31.3.16 being overstated by £1705k. Following work to resolve historic issues the Council had identified other prior year errors resulting in the NBV for PPE at 31.3.16 being overstated by £519k. Taken together the impact of these errors was material and it was agreed to make a prior period adjustment to the accounts.
- some assets transferred out of assets under construction in 2016/17 had been omitted from the valuation for council dwellings. We agreed an adjustment to increase the NBV for PPE at 31.3.17 by £416k.

These adjustments led to a series of amendments on the Balance Sheet, the Comprehensive Income & Expenditure Statement, the MIRS and the notes to the accounts. There was no impact on the Council's General Fund balances.

We have also agreed a number of minor amendments to disclosure notes.

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

Working papers to support the financial statements were provided in accordance with the agreed protocol. The overall quality of the supporting working paper trails was good.

From 2017/18 the statutory deadlines for preparing accounts will be brought forward and the Council will be required to produce draft statements by 31 May. The Council has made substantial progress in preparing for this accelerated timetable, with the 2016/17 draft accounts published on 6 June 2017.

Other financial statement responsibilities

As well as an opinion on the financial statements we are required to consider whether other information published with the audited financial statements is consistent with the financial statements.

We have concluded that the other information published together with the financial statements in the Annual Governance Statement and the Narrative Report is consistent with the audited financial statements.

We are required to report to you if in our opinion 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 respect.

Controls

Roles and responsibilities

The Council's 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

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Value for Money

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

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

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.

Grant certification

In addition to our responsibilities under the Code we are required to certify your Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. We will complete our work on this claim ahead of the certification deadline of 30 November 2017. We will report the outcomes to the Finance and Audit Committee in our 2016/17 Certification Report.

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 Assistant Director of Corporate Services.

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 2017

Section 2: Audit findings

01. Executive summary

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Materiality

In performing our audit we apply the concept of materiality, following the requirements of ISA (UK&I) 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, for the purposes of planning our audit we determined overall materiality to be £1,910k (being 2% of gross revenue expenditure in 2015/16, excluding the impact of HRA revaluations). We have considered whether this level remained appropriate during the course of the audit. We have updated our materiality to take account of the values in the Council's draft accounts. Our overall materiality used for our financial statements audit was £1713k (being 2% of gross revenue expenditure, excluding the impact of HRA revaluations).

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. For our financial statements audit we have defined the amount below which misstatements would be clearly trivial to be £86k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

ISA (UK and Ireland) 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. As reported in our audit plan, we identified the following item where we decided that a separate materiality level was 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>The revenue cycle includes fraudulent transactions</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>The expenditure cycle also includes fraudulent transactions</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 the Council, we determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable. <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 the Council is required to meet means there is limited incentive for fraudulent manipulation. The culture within the 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>Our audit work has not identified any significant issues in relation to the risk identified.</p>
2	<p>Management over-ride of controls</p> <p>Under ISA (UK&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"> • assessment of the journal control environment and a walkthrough to confirm that controls have been implemented; • review of accounting estimates, judgments and decisions made by management; • testing of journal entries; • review of unusual significant transactions. 	<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>3 Revaluation measurements not correct You revalue your assets on a rolling basis. The Code requires that you ensure the carrying value at the balance sheet date is not materially different from current value. The valuation techniques applied by your valuation experts represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> assessment of the revaluation control environment and a walkthrough to confirm that controls have been implemented; obtained and reviewed instructions issued to the valuer setting out the scope of their work; assessing the competence, expertise and objectivity of the valuer and inquiring about the basis on which valuations were carried out and the key assumptions used; review and, where applicable, 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 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 agreed an adjustment to increase the NBV for PPE (council dwellings) at 31.3.17 by £416k. We also agreed a prior period adjustment which</p> <ul style="list-style-type: none"> reduced the NBV of PPE at 31.3.16 by £2224k increased the value of intangible assets by £74k. <p>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
Employee remuneration	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"> • identified and walked through controls; • completed a trend analysis of employee remuneration expenses; • substantively tested employee remuneration expenses. 	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	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"> • identified and walked through controls; • substantively tested expenses processed through the purchase ledger; • assessed the method of allocating/apportioning expenses to functional categories for compliance with the Service Reporting Code of Practice; • tested for unrecorded liabilities. 	Our audit work has not identified any significant issues in relation to the risk identified.
Valuation of pension fund net liability	Valuation of the pension fund assets and liabilities have been incorrectly valued	<ul style="list-style-type: none"> • 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; • 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; • undertook procedures to confirm the reasonableness of the actuarial assumptions made; • 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. 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements • reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure • reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) • tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES • tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger • tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>We agreed with management that a narrative disclosure would be made to describe a prior period adjustment (see page 19).</p>




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
Revenue recognition	<ul style="list-style-type: none"> The Council's primary sources of income are from government and non government grants, contributions, fees and charges and collection fund income. 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. 	<ul style="list-style-type: none"> The Council's accounting policy is appropriate and consistent with IAS 18 Revenue and the CIPFA Code of Practice on Local Authority Accounting. The accounting policies as disclosed are adequate. 	 Green
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> useful life of capital assets; pension fund valuations and settlements; revaluations of property; impairments; provisions, including provision for business rate appeals; accruals of income and expenditure. 	<ul style="list-style-type: none"> The Council's accounting policies are appropriate and consistent with accounting standards and the CIPFA Code of Practice on Local Authority Accounting. The Council have exercised judgement in the recognition and valuation of estimates. These are generally based on the best available information (e.g. contracts or previous invoices) or the work of an expert (e.g. an actuary or valuer). We have reviewed the judgements made and confirmed they have been reasonably applied. 	 Green
Going concern	<p>The Director (Corporate Services) has a reasonable expectation that the services provided by the Council 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 management's assessment and are satisfied that the going concern basis is appropriate for the 2016/17 financial statements.</p>	 Green

Assessment

Accounting policies, estimates and judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
Business rates provision	The Council has 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 estimating the provision for business rate appeals is reasonable.	 Green
Estimates and judgements - property plant and equipment	The accounts set out the Council's programme of revaluations, whereby it has revalued certain assets in line with a rolling policy and pre-established asset classes.	We identified the need for adjustments relating to the NBV of PPE as reported in our findings against "Significant risks". Subject to these adjustments we concluded that the valuations for PPE were not materially misstated.	 Green
Other accounting policies	We have reviewed your accounting policies against the requirements of the CIPFA Code and accounting standards.	Your accounting policies are appropriate and consistent with previous years.	 Green

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.	Matters in relation to fraud	<ul style="list-style-type: none"> 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.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> Our work has not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have 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.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from the PWLB and other commercial lenders for loans and requested permission from management 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.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. We agreed a number of minor amendments to disclosure notes.
7.	Matters on which we report by exception	<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"> 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 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. <p>We have not identified any issues we would be required to report by exception.</p>
8.	Specified procedures for Whole of Government Accounts	<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 which required 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

The adjusted misstatements are set out 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>Property, plant and equipment The amendments below are as at 31.3.17. They incorporate a prior period adjustment and a 2016/17 amendment relating to the treatment of assets under construction.</p> <p>Dr PPE Cr Capital Adjustment Account</p> <p>Cr Net Cost of Services Cr Other Operating Expenditure Cr Surplus or Deficit on revaluation of non-current assets</p>		416 (416)	
		(1729) (812) (25)		(2566)
	Overall impact	(2566)		(2566)

Unadjusted misstatements

We did not identify any misstatements during the audit above the level we are required to report which management has decided not to adjust.

Misclassifications and disclosure changes

We agreed that a narrative note would be added explaining the prior period adjustment required as a result of the “Telling the Story” changes to the format of accounts for 2016/17. We also agreed a number of other minor changes and narrative amendments.

Officers have agreed to make the amendments in the final set of financial statements. Other than changes at disclosure notes which relate to the adjusted misstatements considered earlier in our report there are no disclosure changes for amounts above our triviality level.

Section 3: Value for Money

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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 at the Council. 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 2016. AGN 03 identifies one single 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.

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

In our initial risk assessment performed in March 2017 we did not identify any significant risks.

We have continued our review of relevant documents up to the date of giving our report, in particular considering issues relating to the Council's financial position and medium term financial resilience. In common with other local

authorities the Council continues to face significant financial pressures, and uncertainty around future funding arrangements, for example in respect of business rates. We noted that the Council;

- is reporting a revenue underspend of £737k for 2016/17
- has agreed a balanced budget for 2017/18, and currently anticipates it will produce a balanced budget for 2018/19
- has a history of delivering planned savings, and has made substantial progress in implementing savings plans and the re-design of services arising out of the major service reviews completed in 2016
- continues to have a robust medium term financial planning framework which is aligned to the annual budget-setting process.

From our review up to the date of giving our report we have not identified any significant risks where we would need to perform further work.

Overall conclusion

Based on the work performed we concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our auditor's report can be found at Appendix B.

Section 4: Fees, non-audit services and independence

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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	*61,294
Grant Certification	14,526	TBC
Total audit fees (excluding VAT)	67,820	TBC

*The proposed fee was the scale fee set by Public Sector Audit Appointments Ltd (PSAA). In our 2015/16 Audit Findings Report we reported on a number of historic issues relating to the Council's fixed asset records. The Council has taken action to resolve these issues in 2016/17, resulting in a number of adjustments to the valuation of PPE assets. We agreed on an additional fee of £8,000 to review the work performed by the Council. The variation to the fee is subject to approval by PSAA, which is required to approve all variations to the scale fee.

Fees for other services

Service	Fee £
Audit related services:	
• Pooling of Housing Capital Receipts Return	TBC

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.

Section 5: Communication of audit matters

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Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

A. Audit Opinion

A: 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 2017 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 2016/17.

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 Authority's 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 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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

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 Resources); and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report 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 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared 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: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing 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 for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. 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 for securing economy, efficiency and effectiveness in its use of 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 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

Darren Wells
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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Xx September 2017



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