



Annual Audit Letter

Year ending 31 March 2018

Year ended 31 March 2018

August 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Gravesham Borough Council (the Council) for the year ended 31 March 2018.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 24 July 2018.

Respective 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) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality to be £1.705m which equates to 2% of gross expenditure for the year. We are required to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial was set at £85k.
Financial Statements opinion	We gave an unqualified opinion on the council's financial statements on 27 th July 2018.
Use of statutory powers	We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. None of these powers have been exercised.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 27 th July 2018.
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 2018. We will report the results of this work to the Finance and Audit Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Gravesham Borough Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

- An efficient audit – we delivered an efficient audit with you in June and July, delivering the audit opinion 4 days before the deadline, releasing your finance team for other work.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports.

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 UKLLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 £1.705million, which is 2% of the Council's gross revenue expenditure. 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 set a lower threshold of £85,000, 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 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 included in the Statement of Accounts on which we gave 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

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition Under ISA 240 (UK) 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>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have 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 Gravesham Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we did not consider this to be a significant risk for Gravesham Borough Council.</p>	<p>Findings</p> <p>Our audit work did not identify any issues in respect of improper revenue recognition.</p>
<p>Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<ul style="list-style-type: none"> • Our audit work included, but was not restricted to: <ul style="list-style-type: none"> – gaining an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness; – obtaining a full listing of journal entries, identifying and testing unusual journal entries for appropriateness; and – evaluating the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Findings</p> <p>Our audit work did not identify any issues in respect of management override of controls.</p>

Audit of the Accounts

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment The Council revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from current or fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Considered the competence, expertise and objectivity of any management experts used; • Discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions; • Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; • Tested revaluations made during the year to ensure they are input correctly into the Council's asset register; • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>Our audit work did not identify any material issues in respect of the valuation of property, plant and equipment.</p>
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	<p>We have:</p> <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 have assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out • Undertaken procedures to confirm the reasonableness of the actuarial assumptions made. • Checked 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>Our audit work did not identify any issues in respect of the valuation of pension fund net liability.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 27 July 2018, in advance of the 31 July 2018 national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, 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 24 July 2018.

We did not identify any adjustments affecting the Council's financial position. We identified a few presentation and disclosure issues that were amended for in the Council's final financial accounts.

Annual Governance Statement and Narrative Report

We are 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.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not had to undertake any work in this area.

Certificate of closure of the audit

We have certified the closure of the 2017-18 audit.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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.

Risk assessment

We carried out an initial risk assessment in February 2018 and did not identify any significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2018.

We have continued our review of relevant documents up to the date of giving our report.

On the 27 March, Senior officers made us aware of a potential development proposal being considered by the Council. The proposal involves St George's Shopping Centre, Western Quarter and Eastern Quarter. In respect of the St George's Shopping Centre, the Council would retain the freehold of the development site and grant a long term lease (50 years) to the developer. Proposals for the development of Eastern Quarter and Western Quarter are still being considered. Given the long term nature of the proposal and our lack of understanding of the Council's arrangements, we undertook some work to understand the proposals.

Key Considerations

AGN 03 requires us to disclose our views on significant qualitative aspects of your arrangements for delivering economy, efficiency and effectiveness. In arriving at our conclusion, our main considerations were:

- Over recent years the Council has managed its finances well developing a 10 year medium term financial plan to help identify and mitigate threats to its financial health. To address shortfalls in funding the Council has been undertaking a Bridging the Gap programme formed of service reviews of all its services, combined with other initiatives such as a property acquisition strategy, shared services, budget challenge and fees and charges review. The Council has set a balanced budget for 2018/19, having reflected £1.9million of activity to address the budget gap identified in the Medium Term Financial Strategy prepared in 2016. The Council's medium term financial plan has identified that further activity totalling £2million is required by 2020/21, with £1million to be delivered from furtherance of the Bridging the Gap programme. The Council will be seeking to identify ways to deliver the residual £1m during 2018/19.
- The Council works appropriately with partners and its strategic plans clearly identifies commitment to supporting these partnerships.
- The framework of governance arrangements continues to operate with the corporate risk register updated and considered appropriately. The Council's strategic and operational planning framework has arrangements directly linked to address the key risks from this register.

Overall Value for Money 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 2018.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	13 March 2018
Audit Findings Report	24 July 2018
Annual Audit Letter	17 August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	£53,294	£53,294	£53,294
Housing Benefit Grant Certification	£14,526	TBC	£14,526
Total fees	£67,820	TBC	£67,820

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

Fees for non-audit services

Service	Fees £
Audit related services	£1,500
- Pooling Capital Receipts Grant	

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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