

**Agenda Item No:** 5

**Report To:** **AUDIT COMMITTEE**

**Date:** **3 DECEMBER 2013**

**Report Title:** **The Annual (External) Audit Letter (for the year ended 31 March 2013)**

**Report Author:** Andy Mack, Director, Grant Thornton UK LLP (external auditor)  
Paul Naylor, Deputy Chief Executive (covering summary)



**Summary:** This is the first full annual audit letter from Grant Thornton UK, our external auditors. The letter covers the auditor's findings and opinions arising from the 2012-2013 audit.

Detailed findings are not re-stated as these were reported previously to the committee. The letter restates the unqualified opinion on last year's accounts and the audit conclusion on efficiency and effectiveness. It also highlights the auditor's positive conclusions about the council under the financial resilience test. This test applies to all councils and 2012-2013 was the first year such an examination was carried out. The auditor's overall opinion on the council's arrangements for securing value for money was again positive.

Other than the matter concerning an incomplete set of members' third party declarations for the purposes of auditing the final accounts (advised to the committee at its previous meeting) there are no further matters highlighted for attention.

Andy Mack and his colleagues will be present at the meeting to introduce the report and take questions.

**Key Decision:** NO

**Affected Wards:** None specifically

**Recommendations:** **The Committee is asked to note the annual audit letter for 2012-2013, after making any comment it feels is appropriate.**

**Policy Overview:** The council is by law subject to external audit, which, therefore, forms a very necessary part of the statutory governance framework for councils. From November 2012 the Audit Commission outsourced all of its audit work and from that date the responsibility was carried out by Grant Thornton UK LLP.

**Financial  
Implications:**

The audit fee for the 2012-2013 audit was as planned. The core audit fee for next year will be similar and providing audit risks and demands remain stable, the fee will remain fixed for the current five-year term of Grant Thornton's initial contract with the Audit Commission.

**Background  
Papers:**

None

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# The Annual Audit Letter for Ashford Borough Council

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**Year ended 31 March 2013**

**8 October 2013**

**Andy Mack**

Director

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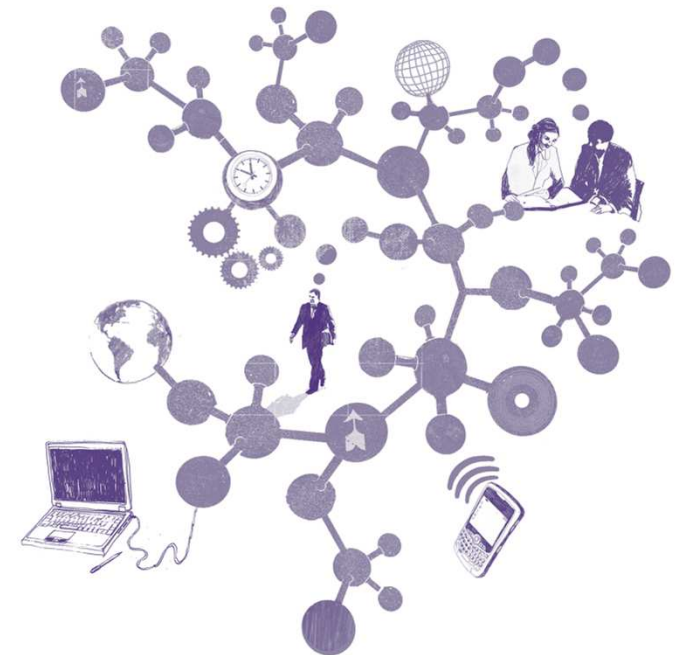
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# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	3
2. Audit of the accounts	6
3. Value for Money	8
4. Certification of grant claims and returns	11
<b>Appendices</b>	
A Reports issued and fees	14

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## Section 1: Executive summary

**01. Executive summary**

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

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# Executive summary

## **Purpose of this Letter**

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Ashford Borough Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 26 September 2013.

## **Responsibilities of the external auditors and the Council**

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in April 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

## **Audit conclusions**

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified opinion on the council's Whole of Government Accounts submission
- we have certified two claims and returns by the end of September deadline. Our work on the Housing Benefits Subsidy claim, which has a deadline of 30 November, is still in progress.

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### **Key areas for Council attention**

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

We have now concluded our audit for 2012/13. We issued an unqualified opinion on the Council's financial statements on 27 September 2013. We also issued an unqualified value for money conclusion, and completed the certification of the Whole of Government Accounts return, on the same date.

The accounts were prepared to a sound standard and were supported by good working papers. The Council also maintains a sound financial position despite the difficult external environment.

### **Acknowledgements**

This Letter has been agreed with the Chief Executive and Deputy Chief Executive and will be presented to Audit Committee on 3 December 2013.

We would like 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 2013**

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## Section 2: *Audit of the accounts*

01. Executive summary

**02. Audit of the accounts**

03. Value for Money

04. Certification of grant claims and returns



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# Audit of the accounts

## **Audit of the accounts**

The key findings of our audit of the accounts are summarised below:

### **Preparation of the accounts**

The Council presented us with draft accounts on 24 June 2013, in advance of the national deadline of 30 June. Appropriate working papers were made available from the start of the audit fieldwork, which commenced in July 2013.

The key messages arising from our audit of the Council's financial statements are:

We identified four adjustments to the statements. These related primarily to classification errors, and did not impact upon the Council's net expenditure or revenue balances. We also agreed a number of changes to the disclosure notes to the accounts, to aid the clarity and presentation of the statements.

We noted that declaration forms in respect of related party transactions remained outstanding from two Councillors. We have recommended that action is taken to ensure all Members comply with requirements for next year.

## **Conclusion**

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our report to the Audit Committee on 26 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 27 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

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## Section 3: Value for Money

01. Executive summary

02. Audit of the accounts

**03. Value for Money**

04. Certification of grant claims and returns

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# Value for Money

## Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

**The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

We found that:

- The Council's key financial indicators demonstrate a track record of strong performance and a healthy financial position. The working capital ratio is high, useable reserve levels are healthy and budgetary control is strong. Whilst long term borrowing is high for the statistical group, this is entirely due to the HRA debt. Tax revenues are slightly below the group average. Working days lost to sickness remain well below the national average.
- The Council has a strong financial planning framework. The Medium Term Financial Plan clearly sets out savings plans and risks for the coming years, and is aligned with the 5 year Business Plan.. Zero based budgeting and option appraisals have been applied as part of the budget setting process. The Council has good arrangements for financial governance. A robust audit & scrutiny framework is in place, and is operating effectively
- The Council has a strong track record on delivering budgets and savings plans, with the Budget Scrutiny Task Group playing a crucial role in budget setting and monitoring achievement of savings targets. Internal audit has given a positive opinion on controls for 2012/13 .

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# Value for Money

## **Challenging economy, efficiency and effectiveness**

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

We found that:

- The Council has good arrangements for financial governance. A robust audit & scrutiny framework is in place, and is operating effectively. It has a strong track record on delivering budgets and savings plans, with the Budget Scrutiny Task Group playing a crucial role in budget setting and monitoring achievement of savings targets.
- The Council has a strong financial planning framework. The Medium Term Financial Plan clearly sets out savings plans and risks for the coming years, and is aligned with the 5 year Business Plan.

## **Overall VFM conclusion**

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, 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 2013.

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## Section 4: Certification of grant claims and returns

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

# Certification of grant claims and returns

## Introduction

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified the NNDR and Housing Capital Receipts returns for the financial year 2012/13. Our work on the Housing Benefits Subsidy claim, which has a deadline of 30 November, is still in progress.

## Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

## Key messages

The key messages from our certification work are summarised in the table below. Further details will be provided in our certification report planned for January 2014.

## Summary of the Council's arrangements

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification		● green
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)		● Green
Supporting working papers		● green

# Appendices

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## Appendix A: Reports issued and fees

We confirm below the fee charged for the audit.

### Fees

	Per Audit plan £	Actual fees £
Audit Fee	79,515	79,515
Grant certification fee	12,700	tbc
<b>Total fees</b>		<b>TBC</b>

**Our grant claim work is still in progress. We will confirm the fee for this work once our work on the Housing Benefit Subsidy claim has been completed.**

### Fees for other services

Service	Fees £
Review the assumptions of the financial model for the Property Company	10,000

### Reports issued

Report	Date issued
Audit Plan	Apr 2013
Audit Findings Report	Sep 2013
Certification report	Planned Jan 2014
Annual Audit Letter	Oct 2013





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