



# The Annual Audit Letter for Ashford Borough Council

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**Year ended 31 March 2016**

October 2016

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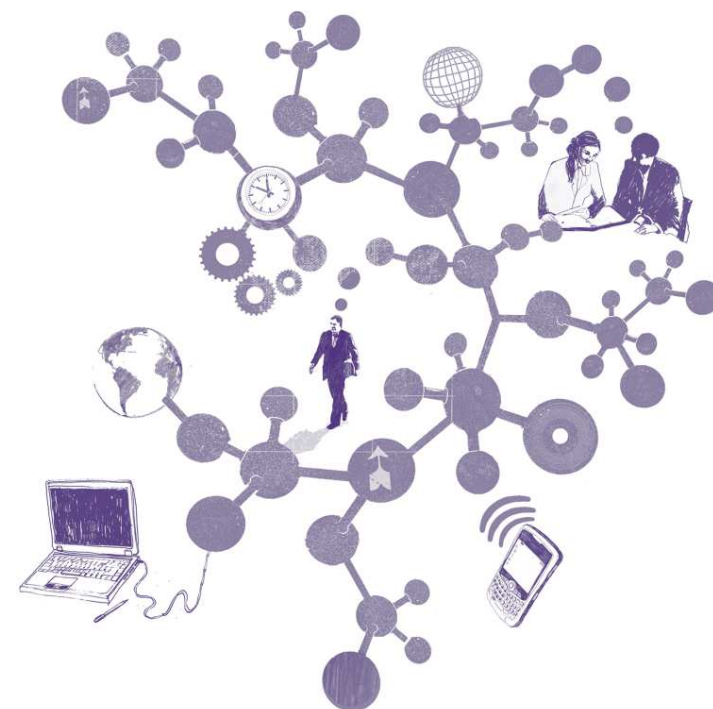
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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Ashford 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 Audit Committee as those charged with governance in our Audit Findings Report on 28 July 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 28 July 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 28 July 2016.

### **Certificate**

We certified that we had completed the audit of the accounts of Ashford Borough Council in accordance with the requirements of the Code on 20 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 Audit Committee in our Annual Certification Letter.

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**

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# 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 £1,169,000, which is 1.8% 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 also set a lower level of specific materiality for certain areas such as cash, senior officer remuneration and auditors' remuneration.

We set a lower threshold of £1,459,000, above which we reported errors to the 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 – Ashford Borough Council

These are the 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
<p><b>Valuation of property plant and equipment</b></p> <p>The Council's property, plant and equipment, including its housing stock, represents 90% of its total assets. Their value is estimated by property valuation experts.</p> <p>The Council revalues these assets annually.</p>	<p>As part of our audit work we have undertaken:</p> <ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate.</li> <li>• Review of the competence, expertise and objectivity of any management experts used.</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>• Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>• Evaluation how management satisfied themselves that these were not materially different to current value.</li> </ul> <p><b>We did not identify any issues to report.</b></p>
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts and comprises 29% of its total liabilities.</p> <p>The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>As part of our audit work we have undertaken:</p> <ul style="list-style-type: none"> <li>• Documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated.</li> <li>• Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>• Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul> <p><b>We did not identify any issues to report</b></p>

# Audit of the accounts – Ashford Borough Council

Risks identified in our audit plan	How we responded to the risk
<p><b>Operating expenditure</b> The Council reported £13,058,000 creditors as at 31 March 2016. Of this, 51% were sundry creditors.</p>	<p>As part of our audit work we have undertaken:</p> <ul style="list-style-type: none"><li>• Documented our understanding of processes and key controls over the transaction cycle</li><li>• Walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li><li>• Cut off testing to assess whether transactions are recorded in the correct period</li><li>• Substantive testing of operating expenditure payments</li><li>• Substantive testing of year end payable balances</li><li>• Review of accruals</li></ul> <p><b>We did not identify any issues to report .</b></p>
<p><b>Employee Remuneration</b> The Council's expenditure on employees, represents 19% of its total expenditure.</p>	<p>As part of our audit work we have undertaken:</p> <ul style="list-style-type: none"><li>• documented our understanding of processes and key controls over the transaction cycle</li><li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li><li>• trend analysis and risk identification for monthly payroll costs</li><li>• substantive testing f payroll payments</li></ul> <p><b>We did not identify any issues to report.</b></p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 28 July 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable which was the end of May 2016, 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. This enabled us to issue the audit opinion two months before the statutory deadline which is a great achievement.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Audit Committee on 28 July 2016.

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

- Our testing identified a material amendment to disclosures within the balance sheet. A £1.7 million payment was incorrectly included in creditors, overstating creditors and understating cash. This has been corrected.
- Our audit identified a number of presentational and disclosure adjustments to the financial statements.

## **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.

## **Other statutory duties**

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 been required to apply these for the Council in 2015/16.

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# 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.

As part of our Audit Findings report agreed with the Council in July 2016, we agreed recommendations to address our findings. We recommended that the Council should consider whether there are any gaps in skills and capacity and how these will be addressed, if they are to maintain their commercial ambitions.

Management agreed and noted that interim arrangements have been put in place and are being monitored.

## 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

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Commercial development</b> The Council is involved in a number of new commercial activities such as Park Mall and International House. The Council's business programme includes a number of key projects and investments, which are significant both in scale and financial terms.</p>	<p>We reviewed the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council is identifying, managing and monitoring these risks.</p>	<p>In line with its Corporate Plan, the Council is increasingly involved in a number of commercial developments. Historically, although these were managed appropriately by the team involved, these were largely led by individuals with limited oversight by management team of the full programme. In January 2016, the Council introduced a programme manager and has developed a clear process for overall project management information to be monitored, recently agreed at the Director away day. This includes review of projects by management team, project initiation and evaluation documents and consideration of resources required from across the Council to support the projects. The introduction of this aims to strengthen corporate processes. The former Chief Executive had significant experience in commercial developments, particularly in valuation and property surveying and a significant focus of his time was in this area. As part of the overall programme review, the Council need to consider whether there are any gaps in skills and capacity if they are to maintain their commercial ambitions. The next steps for the Council are to embed their project management approach, including project management training.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</b></p>
<p><b>Changes to the management team</b> There are a number of changes in senior officers this year including CE, DoF, Head of IT and Head of Culture and Environment. The Council has put in place succession plans to address the loss of Council knowledge and experience.</p>	<p>We reviewed the Council's succession plans to establish how the Council is identifying, managing and monitoring the impact of changes to the management team.</p>	<p>The Council has a clear approach to succession planning, with proposals agreed at Cabinet meetings, It has a leadership and management development programme across Heads of Services in the Council. The majority of the changes in senior managers have been expected and transition arrangements well planned. These changes have allowed for the Council to reassess its directorate structure, alongside its member portfolios. Changes have been well communicated throughout teams with the introduction of regular Chief Executive walkabouts which include presentation of key Council issues and developments.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</b></p>

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# Working with the Council/Authority

## **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 two months before the deadline, 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.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non- pay expenditure and property plant and equipment. We worked with you to streamline your processes, making particular comments over fixed asset documentation and accruals processes.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted that as part of the overall programme review for commercial projects, the Council need to consider whether there are any gaps in skills and capacity if they are to maintain their commercial ambitions. The next steps for the Council are to embed their project management approach, including project management training.

Sharing our insight – we provided regular audit committee updates covering best practice. Areas we covered included: Knowing the Ropes – Audit Committee: Effectiveness Review; Making devolution work; Reforging local government; and Building a successful joint venture.

Providing training – we provided your teams with training on financial accounts and annual reporting. The courses were attended by your finance officers.

Providing information – we provided you with Health and Wellbeing data for the Ashford providing a socio-economy context, compared across the country.

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

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and **confirm there were no fees for the provision of non audit services.**

## Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Ashford BC	60,311	60,311	80,415
Audit of subsidiary company "A Better Choice for Property Limited (excl VAT)	10,000	**tbc	3,000
Audit of subsidiary company "A Better Choice for Building Consultancy Limited (excl VAT)	6,000	**tbc	6,500
Housing Benefit Grant Certification	8,112	*tbc	14,200
<b>Total fees (excluding VAT)</b>	<b>84,423</b>	<b>tbc</b>	<b>104,115</b>

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

\* Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'. This work is due to be completed by 30 November deadline and we will confirm the final fee in our Grant Certification report to Committee in December 2016.

\*\* Our audit of the Local Authority owned trading companies is scheduled for August 2016 and we will confirm the final fee in the Audit Findings Report to the directors of the trading companies on completion.

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• Certification of housing pooling capital receipts return	2,000

## Reports issued

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



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