Corporate Director (Law and Governance) and Monitoring Officer, T W Mortimer LLB Solicitor AU

AUDIT COMMITTEE

ASHFORD BOROUGH COUNCIL

Notice of a Meeting, to be held in the Council Chamber, Civic Centre, Tannery Lane, Ashford, Kent, TN23 1PL on Tuesday, 17th March, 2020 at 7.00 pm.

The Members of the Audit Committee are:-

Councillor Krause (Chairman)
Councillor Link (Vice-Chairman)

Cllrs. Hayward, Mulholland, Shorter, Smith, Suddards and Wright

Supplementary Agenda

DS
10 March 2020

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ASHFORD
BOROUGH COUNCIL

Agenda Item No:	4
Report To:	Audit Committee
Date of Meeting:	17 March 2020
Report Title:	Audit Progress Report and Sector Update 2020
Report Author & Job Title:	Grant Thornton
Portfolio Holder Portfolio Holder for:	N/A

Summary:

The attached report provides the Audit committee with an update on progress in delivering the responsibilities of the external auditor

The reports also details the findings of the 2018/19 Audit of the Councils Housing Benefit Subsidy Claim.

Work is now complete on the claim, there are no amendments to the claim

Key Decision:	No
Significantly Affected Wards:	None
Recommendations:	**The Committee is recommended to:-** **I. Note the Report**
Financial	None
Financial Implications:	The report includes the fee outturn to perform the work for the Housing Benefit Subsidy Claim 2018/19 is £15,000.
Legal Implications	N/A
Equalities Impact Assessment	N/A
Other Material Implications:	N/A
Exempt from Publication:	NO
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Grant Thornton

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Audit Progress Report and Sector Update

Ashford Borough Council
Year ending 31 March 2020

March 2020

Contents

Introduction

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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a Council.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk .

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at March 2020

2018/19 housing benefit subsidy claim

Introduction

Certain claims and returns submitted by local authorities require work by a Reporting Accountant to help confirm the authority's entitlement to funding. We have completed our work as Reporting Accountant on the Council's 2018/19 housing benefit subsidy claim.

Our work was performed under a framework for Reporting Accountants issued by the Department for Work and Pensions (DWP) in accordance with the International Standard on Related Services (ISRS) 4400 "Engagements to perform agreed-upon-procedures regarding financial information". Our engagement required us to complete the work specified under the Housing Benefit (Subsidy) Assurance Process (HBAP).

The Council's 2018/19 claim was for total Housing Benefit Subsidy of £34.3 million. We issued our report prior to the deadline of 30 November 2019 stipulated by DWP.

There were no amendments to the 2018/19 claim. Details of the issues arising from our work are given below.

Errors identified from claims testing

The HBAP framework requires sample testing of benefit claims to confirm benefit has been awarded in accordance with regulations and correctly recorded for subsidy purposes. Three initial samples are tested (all transactions in the year);

- 20 rent allowance cases

- 20 rent rebate (tenants of HRA properties) cases

- 20 rent rebate (tenants of non-HRA properties) cases.

Where errors are identified and the impact on the overall population cannot be quantified exactly then additional testing is performed on the issue giving rise to the error.

Rent allowances

Our work in 2017/18 had identified errors relating to earned income calculations. Under the HBAP framework auditors are required to perform sample testing to cover previous year issues. We therefore tested earned income calculations for an additional sample of 40 cases in 2018/19. This work identified three errors. The initial testing of 20 cases in 2018/19 also identified three errors relating to earned income calculations, giving a total of six errors. Four errors resulted in an overpayment of benefit and two in an underpayment. Under the HBAP framework we extrapolated the potential impact of these errors on the claim and reported this to DWP. The impact of the extrapolation was to increase the total for local authority overpayments; however, as this total remained below a threshold set by DWP there was no potential impact on subsidy.

Rent rebates (tenants of HRA properties)

Our work identified one case where a payment had been incorrectly classified as back-dated expenditure. Amounts which are incorrectly identified as back-dated expenditure will have no impact on subsidy. Therefore no additional testing was performed.

Fees

Our fee for 2018/19 was £15,000 (2017/18: £12,612).

2019/20 Audit

Audit planning

Our 2019/20 audit plan is included as a separate item on today's agenda.

We will continue to:

- hold discussions with management to inform our risk assessment;
- review minutes and papers from key meetings; and
- review relevant sector information to ensure that we capture any emerging issues and consider these as part of our audit.

Interim audit

Our interim audit work, including early substantive testing, will commence in March 2020.

Local government Accounts workshops

In 2019/20 Grant Thornton is again running technical workshops for the preparers of accounts at local authorities. A local workshop for Kent authorities was held in Ashford on 24 February 2020. The workshop was attended by members of the Council's finance team.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letter Our fee letter confirms the audit fee for 2019/20.	July 2019	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.	March 2020	Included as a separate item on today's agenda
Audit Findings Report The Audit Findings Report summarises the outcomes from our work on the financial statements and to support our value for money conclusion.	July 2020	Not yet due
Auditors Report This is the opinion on your financial statements, annual governance statement and value for money conclusion.	July 2020	Not yet due
Annual Audit Letter The annual audit letter communicates the key issues arising from our 2019/20 work.	September 2020	Not yet due

Sector Update

Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated local government section on the Grant Thornton website at https://www.grantthornton.co.uk/en/industries/public-sector/local-government/

Brydon Review – the quality & effectiveness of audit

The Brydon review is an independent review, led by Sir Donald Brydon, which has looked at the quality and effectiveness of audit, seeking to make proposals that will improve the UK audit 'product'. The review has examined the nature and scope of audit from a user perspective and seeks to clarify and potentially close the 'expectation gap' (ie what stakeholders and society expect from audit compared to what it delivers today).

A full list of Sir Donald's recommendations can be found online, and a brief summary is provided below:

Redefinition of audit and its purpose

- Creation of a corporate auditing profession, governed by principles
- Introduction of suspicion into the qualities of auditing
- Extension of the concept of auditing to areas beyond financial statements
- Mechanisms to encourage greater engagement of shareholders with audit and auditors
- Change in language of the opinion given by auditors
- Introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
- Greater clarity around the roles of the audit committee
- A package of measures around fraud detection and prevention
- Improved auditor communication and transparency
- Obligations to acknowledge external signals of concern
- Extension of audit to new areas including Alternative Performance Measures
- Increased use of technology

On the auditor's responsibility to detect fraud, Jonathan Riley, Grant Thornton Head of Quality and Reputation, said: "We are pleased to note that Sir Donald Brydon makes it clear that not only is there an expectation gap in relation to the purpose of audit and the detection of fraud but that the current ISAs need revision, and training of corporate auditors need to be enhanced, in order to allow auditors to better detect fraud. This is further reinforced by the new ability to make it easier for users of accounts, not just management, to inform the auditor of concerns relating to financial statements."

"Notwithstanding these proposals, it is neither possible or desirable for an auditor to test in detail every transaction of the company and so materiality will still exist. In addition, a fraud involving collusion and sophistication may still prove extremely hard to detect."

Grant Thornton welcomes the consideration given by Sir Donald on the quality and effectiveness of audit. These recommendations should bring far greater clarity and transparency to the profession and ultimately result in an audit regime that allows auditors to better assess, assure and inform all users of financial accounts.

Crucially, the Government must now consider these recommendations not just in context of earlier inquiries into the profession, but also against the backdrop of global trade and Britain's future role as a pillar of global commerce. The report places new obligations not only on auditors, but also on company directors. Together with other regulations such as the revised Ethical Standard and wider corporate governance requirements, the proposed changes need to strike the right balance and not dent our place on the world's financial stage. Careful explanation particularly of what this means to those fast growing mid-sized public entities seeking capital will be necessary.

The public perception of audit remains weak and failures continue to happen, so we agree that now is the right time to explore what needs to change to ensure that audit is fit for modern day business and meets the public interest. The report should contribute heavily towards this outcome.

Link to the full report and full list of recommendations:

https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review

MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was "working towards improving its approach to local government oversight and support", Brokenshire promised.

"A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy," he said.

"There are potentially far-reaching consequences when audits aren't carried out properly and fail to detect significant problems."

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still "fit for purpose".

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: "Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

"Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure."

He added: "This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole."

Ministry of Housing, Communities & Local Government

In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was "open minded", but believed the Audit Commission was "of its time".

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts "must be of the highest level of transparency and quality", the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, was expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.

The terms of reference focus on whether there is an "expectation gap" between the purpose of external audit and what it is currently delivering. It will examine the performance of local authority audit, judged according to the criteria of economy, effectiveness and efficiency.

Other key areas of the review include whether:

1) audit recommendations are effective in helping councils to improve financial management
2) auditors are using their reporting powers appropriately
3) councils are responding to auditors appropriately
4) Financial savings from local audit reforms have been realised
5) There has been an increase in audit providers
6) Auditors are properly responding to questions or objections by local taxpayers
7) Council accounts report financial performance in a way that is transparent and open to local press scrutiny

Redmond Review – Review of local authority financial reporting and external audit

The independent review led by Sir Tony Redmond sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019.

Grant Thornton provided a comprehensive submission, We believe that local authority financial reporting and audit is at a crossroads. Recent years have seen major changes. More complex accounting, earlier financial close and lower fees have placed pressure on authorities and auditors alike. The target sign-off date for audited financial statements of 31 July has created a significant peak of workload for auditors. It has made it impossible to retain specialist teams throughout the year. It has also impacted on individual auditors' well-being, making certain roles difficult to recruit to, especially in remote parts of the country.

Meanwhile, the focus on Value for Money, in its true sense, and on protecting the interests of citizens as taxpayers and users of services are in danger of falling by the wayside. The use of a black and white 'conclusion' has encouraged a mechanistic and tick box approach, with auditors more focused on avoiding criticism from the regulator than on producing Value for Money reports that are of value to local people.

In this environment, persuading talented people to remain in the local audit market is difficult. Many of our promising newly qualified staff and Audit Managers have left the firm to pursue careers elsewhere, often outside the public sector, and almost never to pursue public audit at other firms. Grant Thornton is now the only firm which supports qualification through CIPFA. It is no longer clear where the next generation of local auditors will come from.

We believe that now is the time to reframe both local authority financial reporting and local audit. Specifically, we believe that there is a need for:

- More clearly established system leadership for local audit;
- Simplified local authority financial reporting, particularly in the areas of capital accounting and pensions;
- Investing in improving the quality of financial reporting by local bodies;
- A realistic timescale for audit reporting, with opinion sign off by September each year, rather than July;
- An increase in audit fees to appropriate levels that reflect current levels of complexity and regulatory focus;
- A more tailored and proportional approach to local audit regulation, implementing the Kingman recommendations in full;
- Ensuring that Value for Money audit work has a more impactful scope, as part of the current NAO Code of Audit Practice refresh;
- Introducing urgent reforms which help ensure future audit arrangements are sustainable and attractive to future generations of local audit professionals.

We note that Sir Donald Brydon, in his review published this week, has recommended that *"the Audit, Reporting and Governance Authority (ARGA)* (the proposed new regulatory body) *should facilitate the establishment of a corporate auditing profession based on a core set of principles. (This should include but not be limited to) the statutory audit of financial statements*." Recognising the unique nature of public audit, and the special importance of stewardship of public money, we also recommend that a similar profession be established for local audit. This should be overseen by a new public sector regulator.

As the reviews by John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

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National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO consulted on potential changes to the Code in two stages:

Stage 1 involved engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO stated that they considered carefully the views of respondents in respect of the points drawn out from the Issues paper and this informed the development of the draft Code. A summary of the responses received to the questions set out in the Issues paper can be found below.

Local audit in England Code of Audit Practice – Consultation Response (pdf – 256KB)

Stage 2 of the consultation involved consulting on the draft text of the new Code. To support stage 2, the NAO published a consultation document, which highlighted the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. The draft Code incudes three specific criteria that auditors must consider:

a) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;

b) Governance: how the body ensures that it makes informed decisions and properly manages its risks; and

c) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

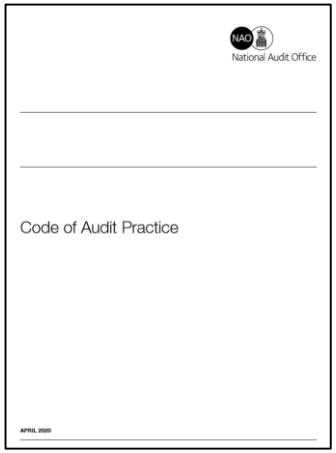
The auditor will be required to provide a commentary on the arrangements in place to secure value for money. Where significant weaknesses are identified the auditor should make recommendations setting out

- Their judgement on the nature of the weakness identified
- The evidence on which their view is based
- The impact on the local body
- The action the body needs to take to address the weakness

The consultation document and a copy of the new Code can be found on the NAO website. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the new Code:

https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf



Financial Reporting Council – Summary of key developments for 2019/20 annual reports

On 30 October the Financial Reporting Council (FRC) wrote an Open Letter to Company Audit Committee Chairs. Some of the points are relevant to local authorities.

The reporting environment

The FRC notes that, "In times of uncertainty, whether created by political events, general economic conditions or operational challenges, investors look for greater transparency in corporate reports to inform their decision-making. We expect companies to consider carefully the detail provided in those areas of their reports which are exposed to heightened levels of risk; for example, descriptions of how they have approached going concern considerations, the impact of Brexit and all areas of material estimation uncertainty." These issues equally affect local authorities, and the Statement of Accounts or Annual Report should provide readers with sufficient appropriate information on these topics.

Critical judgements and estimates

The FRC wrote "More companies this year made a clear distinction between the critical judgements they make in preparing their accounts from those that involve the making of estimates and which lead to different disclosure requirements. However, some provided insufficient disclosures to explain this area of their reporting where a particular judgement had significant impact on their reporting; for example, whether a specific investment was a joint venture or a subsidiary requiring consolidation. We will continue to have a key focus on the adequacy of disclosures supporting transparent reporting of estimation uncertainties. An understanding of their sensitivity to changing assumptions is of critical value to investors, giving them clearer insight into the possible future changes in balance sheet values and which can inform their investment decisions." Critical judgements and estimates also form a crucial part of local authority statements of account, with the distinction often blurred.

IFRS 16 Leases

The FRC letter also comments on the introduction of IFRS 16. Please refer to pages XX for more information on this topic.

FRC Financial Reporting Council

Financial Reporting

Challenge question:

Will you have the opportunity to review and comment on your authority's statement of accounts before they are published at the end of May?

Financial Reporting Council – aid to Audit Committees in evaluating audit quality

On 19 December the Financial Reporting Council (FRC) issued an update of its Practice Aid to assist audit committees in evaluating audit quality in their assessment of the effectiveness of the external audit process.

The FRC notes that, "The update takes account of developments since the first edition was issued in 2015, including revisions of the UK Corporate Governance Code, the requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors after at least 20 years, and increasing focus generally on audit quality and the role of the audit committee. It also takes account of commentary from audit committees suggesting how the Practice Aid could be more practical in focus and more clearly presented.

The framework set out in the Practice Aid focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgments made throughout the audit and how these might be supported by evidence of critical auditor competencies. New sections have been added addressing the audit tender process, stressing that high-audit quality should be the primary selection criterion, and matters to cover in audit committee reporting.

As well as illustrating a framework for the audit committee's evaluation, the Practice Aid sets out practical suggestions on how audit committees might tailor their evaluation in the context of the company's business model and strategy; the business risks it faces; and the perception of the reasonable expectations of the company's investors and other stakeholders. These include examples of matters for the audit committee to consider in relation to key areas of audit judgment, and illustrative audit committee considerations in evaluating the auditor's competencies.

The FRC encourages audit committees to use the Practice Aid to help develop their own approach to their evaluation of audit quality, tailored to the circumstances of their company. Audit committees are encouraged to see their evaluation as integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the auditor's judgments made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues."

The Practice Aid can be obtained from the FRC website:

https://www.frc.org.uk/getattachment/68637e7a-8e28-484a-aec2-720544a172ba/Audit-Quality-Practice-Aid-for-Audit-Committees-2019.pdf

Implementation of International Financial Reporting Standard 16 *Leases*

IFRS 16 *Leases,* as interpreted and adapted for the public sector, will be effective from 1 April 2020.

Background

IFRS 16 Leases was issued by the International Accounting Standards Board (IASB) in January 2016 and is being applied by HM Treasury in the Government Financial Reporting Manual from 1 April 2020. Implementation of the Standard will be included in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) for 2020/21.

The new Standard replaces the current leasing standard IAS 17 and related interpretation documents IFRIC 4, SIC 15 and SIC 27 and it sets out the principles for the recognition, measurement, presentation and disclosure of leases. The IASB published IFRS 16 because it was aware that the previous lease accounting model was criticised for failing to provide a faithful representation of leasing transactions.

Impact on 2019/20 financial statements

Whilst the new Standard is effective from 1 April 2020, authorities are required by the Code to *'disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted'.* This requirement of the Code (3.3.4.3) reflects the requirements of paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

In the 2019/20 financial statements we would therefore expect to see authorities make disclosures including:

- the title of the Standard
- the date of implementation
- the fact that the modified retrospective basis of transition is to be applied, with transition adjustments reflected through opening reserves
- known or reasonably estimable information relevant to assessing the possible impact that application will have on the entity's financial statements, including the impact on assets, liabilities, reserves, classification of expenditure and cashflows
- the basis for measuring right of use assets on transition
- the anticipated use of recognition exemptions and practical expedients recognising that what is sufficient disclosure for one body may not be sufficient for another

Information needed for 2019/20 financial statements

In order to make disclosures in 2019/20, a significant amount of data will be needed, most significantly:

- a complete list of leases previously identified under IAS 17 and IFRIC 4
- details of non-cancellable lease terms, purchase options, extension and termination options
- details of lease arrangements at peppercorn or NIL rental
- anticipated future cash flows and implicit interest rates or incremental borrowing rates to enable calculation of lease liabilities

Audit work on IFRS 16 transition

At this stage, we would expect you to have:

- determined whether the impact of IFRS 16 will be material for your authority
- raised awareness of the new Standard across the authority, potentially including procurement, estates, legal and IT departments
- assessed the completeness and accuracy of your lease register and taken action if necessary
- formalised and signed existing lease documentation
- identified leases of low value assets and leases with short terms
- considered whether liaison with valuation experts is necessary
- started to draft your 2019/20 disclosure note
- started to embed processes to capture the data necessary to manage the ongoing accounting implications of IFRS 16

and that you are monitoring progress against an approved IFRS 16 implementation plan. Your local engagement team will be in touch to discuss your progress with IFRS 16 implementation and audit working paper requirements.

Implementation of International Financial Reporting Standard 16 *Leases*

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Further information and guidance

CIPFA published their 2020/21 Code consultation on 12 July 2019, including an Appendix concerned with IFRS 16 implementation, further details can be found at:

https://www.cipfa.org/policy-and-guidance/consultations-archive/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202021?crdm=0

HM Treasury published IFRS 16 Application Guidance in December 2019 which can be found at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853238/IFRS_16_Application_Guidance_December_2019.pdf

CIPFA's IFRS 16 'Early guide for local authority practitioners' is available at:

https://www.cipfa.org/policy-and-guidance/publications/i/ifrs-16-leases-an-early-guide-for-local-authority-practitioners

IFRS 16 has been adopted a year earlier in the commercial sector. The Financial Reporting Council has published an IFRS 16 Thematic Review *'Review of Interim Disclosures in the First Year of Application',* containing key findings from their review and providing helpful insights into important disclosure requirements. The FRC's publication is available at:

https://www.frc.org.uk/getattachment/a0e7c6e7-67d0-40fe-b869-e5cc589afe79/IFRS-16-thematic-review-2019-optomised.pdf.

Financial Reporting

Challenge question:

Does your authority have a project plan in place in relation to IFRS 16 *Leases* implementation?

Is your authority's progress against the project plan on track?

What is the future for local audit?

Paul Dossett, Head of local government at Grant Thornton, has written in the Municipal Journal "Audit has been a hot topic of debate this year and local audit is no exception. With a review into the quality of local audit now ongoing, it's critical that part of this work looks at the overarching governance and management of the audit regime. We believe there is a strong need for new oversight arrangements if the local audit regime is to remain sustainable and effective in the future."

Paul goes on to write "Local (local authority and NHS) audit has been a key part of the oversight regime for public services for more than a century. The National Audit Office (NAO) has exercised this role in central government for several generations and their reporting to Parliament via the Public Accounts Committee is a key part of the public spending accountability framework.

Local audit got a significant boost with the creation of the Audit Commission in 1983 which provided a coordinated, high profile focus on local government and (from 1990) NHS spending and performance at a local level. Through undertaking value for money reviews and maintaining a tight focus on the generational governance challenges, such as rate capping in the 1980s and service governance failings in the 1990s, the Commission provided a robust market management function for the local audit regime. Local audit fees, appointments, scope, quality and relevant support for auditors all fell within their ambit.

However, the Commission was ultimately deemed, among other things, to be too expensive and was abolished in 2010, as part of the Coalition Government's austerity saving plans. While the regime was not perfect, and the sector had acknowledged that reform of the Commission was needed, complete abolition was not the answer.

Since then, there has been no body with complete oversight of the local audit regime and how it interacts with local public services. The Ministry of Housing, Communities and Local Government; Department of Health; NHS; NAO; Local Government Association (LGA); Public Sector Audit Appointments Ltd (PSAA); the Financial Reporting Council (FRC); the Chartered Institute of Public Finance & Accountancy (CIPFA), audit firms and the audited bodies themselves all have an important role to play but, sometimes, the pursuit of individual organisational objectives has resulted in sub-optimal and even conflicting outcomes for the regime overall.

These various bodies have pursued separate objectives in areas such as audit fee reduction, scope of work, compliance with commercial practice, earlier reporting deadlines and mirroring commercial accounting conventions – to name just a few.

This has resulted in a regime that no stakeholder is wholly satisfied with and one that does not ensure local audit is providing a sufficiently robust and holistic oversight of public spending.

To help provide a more cohesive and co-ordinated approach within the sector, we believe that new oversight arrangements should be introduced. These would have ultimate responsibility for ensuring the sustainability of the local audit regime and that its component parts – including the Audit Code, regulation, market management and fees – interact in an optimal way. While these arrangements do not need to be another Audit Commission, we need to have a strategic approach to addressing the financial sustainability challenges facing local government and the NHS, the benchmarking of performance and the investigation of governance failings.

There are a number of possible solutions including:

1) The creation of a new arm's length agency with a specific remit for overseeing and joining up local audit. It would provide a framework to ensure the sustainability of the regime, covering fees, appointments, and audit quality. The body would also help to create a consistent voice to government and relevant public sector stakeholders on key issues arising from the regime. Such a body would need its own governance structure drawn from the public sector and wider business community; and

2) Extending the current remit of the NAO. Give it total oversight of the local audit regime and, in effect, establish a local audit version of the NAO, with all the attendant powers exercised in respect of local audit. In this context, there would be a need to create appropriate governance for the various sectors, similar to the Public Accounts Committee.

While the detail of the new arrangements would be up for debate, it's clear that a new type of oversight body, with ultimate responsibility for the key elements of local audit, is needed. It would help to provide much-needed cohesion across the sector and between its core stakeholders.

The online article is available here:

https://www.themj.co.uk/What-is-the-future-for-audit/214769

Grant Thornton's Sustainable Growth Index Report

Grant Thornton has launched the Sustainable Growth Index (formerly the Vibrant Economy Index) – now in its third year. The Sustainable Growth Index seeks to define and measure the components that create successful places. Our aim in establishing the Index was to create a tool to help frame future discussions between all interested parties, stimulate action and drive change locally. We have undergone a process of updating the data for English Local Authorities on our online, interactive tool, and have produced an updated report on what the data means. All information is available now on our online hub, where you can read the new report and our regional analyses.

The Sustainable Growth Index provides an independent, data-led scorecard for each local area that provides:

• businesses with a framework to understand their local economy and the issues that will affect investment decisions both within the business and externally, a tool to support their work with local enterprise partnerships, as well as help inform their strategic purpose and CSR plans in light of their impact on the local social and economic environment

• policy-makers and place-shapers with an overview of the strengths, opportunities and challenges of individual places as well as the dynamic between different areas

• Citizens with an accessible insight into how their place is doing, so that they can contribute to shaping local discussions about what is important to them

The Index shows the 'tip of the iceberg' of data sets and analysis our public services advisory team can provide our private sector clients who are considering future locations in the UK, or wanting to understand the external drivers behind why some locations perform better than others.

Our study looks at over 50 indicators to evaluate all the facets of a place and where they excel or need to improve.

Our index is divided into six baskets. These are:

1 Prosperity

2 Dynamism and opportunity

3 Inclusion and equality

4 Health, wellbeing and happiness

5 Resilience and sustainability

6 Community trust and belonging

This year's index confirms that cities have a consistent imbalance between high scores related to prosperity, dynamism and opportunity, and low scores for health, wellbeing, happiness inclusion and equality. Disparity between the richest and poorest in these areas represents a considerable challenge for those places.

Inclusion and equality remains a challenge for both highly urban and highly rural places and coastal areas, particularly along the east coast from the North East to Essex and Kent, face the most significant challenges in relation to these measures and generally rank below average.

Creating sustainable growth matters and to achieve this national policy makers and local authorities need to do seven things:

1 Ensure that decisions are made on the basis of robust local evidence.

2 Focus on the transformational trends as well as the local enablers

3 Align investment decisions to support the creation of sustainable growth

4 Align new funding to support the creation of sustainable growth

5 Provide space for innovation and new approaches

6 Focus on place over organisation

7 Take a longer-term view

The online report is available here:

https://www.grantthornton.co.uk/en/insights/sustainable-growth-index-how-does-your-place-score/

Institute for Fiscal Studies – English local government funding: trends and challenges in 2019 and beyond

The Institute for Fiscal Studies (IFS) has found "The 2010s have been a decade of major financial change for English local government. Not only have funding levels – and hence what councils can spend on local services – fallen significantly; major reforms to the funding system have seen an increasing emphasis on using funding to provide financial incentives for development via initiatives such as the Business Rates Retention Scheme (BRRS) and the New Homes Bonus (NHB)."

The IFS goes on to report "Looking ahead, increases in council tax and additional grant funding from central government mean a boost to funding next year – but what about the longer term, especially given plans for further changes to the funding system, including an expansion of the BRRS in 2021–22?

This report, the first of what we hope will be an annual series of reports providing an up-to-date analysis of local government, does three things in this context. First, it looks in detail at councils' revenues and spending, focusing on the trends and choices taken over the last decade. Second, it looks at the outlook for local government funding both in the short and longer term. And third, it looks at the impact of the BRRS and NHB on different councils' funding so far, to see whether there are lessons to guide reforms to these policies.

The report focuses on those revenue sources and spending areas over which county, district and single-tier councils exercise real control. We therefore exclude spending on police, fire and rescue, national park and education services and the revenues specifically for these services. When looking at trends over time, we also exclude spending on and revenues specifically for public health, and make some adjustments to social care spending to make figures more comparable across years. Public health was only devolved to councils in 2013–14, and the way social care spending is organised has also changed, with councils receiving a growing pot of money from the NHS to help fund services."

The IFS reports a number of key facts and figures, including

1) Cuts to funding from central government have led to a 17% fall in councils' spending on local public services since 2009–10 – equal to 23% or nearly £300 per person.
2) Local government has become increasingly reliant on local taxes for revenues.
3) Councils' spending is increasingly focused on social care services – now 57% of all service budgets.

The IFS report is available on their website below:

https://www.ifs.org.uk/publications/14563

Institute for Fiscal Studies

English local government funding: trends and challenges in 2019 and beyond

CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "The index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement. The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."

At the launch of the index in December, CIPFA commented " the index analyses council finances using a suite of nine measures including level of reserves, rate of depletion of reserves, external debt, Ofsted judgements and auditor value for money assessments."

CIPFA found that against these indicators the majority of councils are not showing signs of stress. But around 10% show "some signs of potential risk to their financial stability.

The Financial Resilience tool is available on the CIPFA website below:

https://www.cipfa.org/services/financial-resilience-index/

Financial Resilience

Challenge question:

Has your Authority used the CIPFA index and fed back the key messages?

Grant Thornton

An instinct for growth™

grantthornton.co.uk

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Agenda Item No:	5
Report To:	Audit Committee
Date of Meeting:	17 March 2020
Report Title:	Presentation of Financial Statements
Report Author & Job Title:	Maria Hadfield Senior Accountant
Portfolio Holder **Portfolio Holder for:**	Cllr. Bell Finance & ICT

Summary:

The Council is required to follow statutory guidance for the publication of its accounts. Each year, this guidance is reviewed and updated. This report will look at the impact of these updates on the Council's accounts for 2019/20. In addition, the report reviews on the lessons learnt from the accounts process in 2018/19.

The Council has completed a review of its accounting policies that will be used for the publication of the statement of accounts; they are presented in Appendix A.

The accounts will be prepared on a 'going concern' basis.

Key Decision:	No
Significantly Affected Wards:	None specifically
Recommendations:	**The Committee is recommended to:-** **I. Note the report** **II. Approve the accounting policies for the 2019/20 accounts in Appendix A**
Financial Implications:	None
Legal Implications	The Council is required to produce an annual set of accounts
Equalities Impact Assessment	Not Required
Other Material Implications:	None
Exempt from Publication:	**NO**
Contact:	Maria.hadfield@ashford.gov.uk – Tel: (01233) 330545

Report Title: Presentation of Financial Statements

1. This report is to update members on the progress of the production of the Statement of Accounts 2019/20 (the Statement) and how changes are to be managed and implemented.

2. Members are asked to note the report and approve the 2019/20 Accounting Policies.

Introduction and Background

3. The Council is required to produce an annual statement of accounts for the financial year ending the 31 March by the end of May. These are then audited by the Council's external auditor and an opinion issued by the end of July.

4. The timetable for early closing is now embedded within the Accountancy team and the annual statement of accounts for the financial year ending the 31 March 2020 will therefore be produced by the end of May. The Accounts will then be audited by Grant Thornton during early June with an opinion issued by the end of July.

5. This year there are minor changes to the code (Code of Practice on Local Authorities Accounting) for consideration, if the impact is significant, into the final accounts for 2019/20 and these are detailed in the Accounting Changes/Updates for 2019/20 section below.

2018/19 Statement of Accounts Audit

6. During the audit officers and the external auditors identified some issues and both sides have introduced strategies to manage them for this year. Regular meetings throughout the audit were held so any finding could be fed back and worked through together. These meetings will be maintained for the 2019/20 closing process to ensure the process runs as efficiently this year.

7. The Grant Thornton audit team this year, retains the Audit Manager Trevor Greenlee and has a new Principle Auditor, Ke Ma. This team will be headed up for the second year by the Council's Audit Lead; Darren Wells (Director).

8. Principal auditor Ke Ma has already been in the office conducting pre-audit testing and officers are confident that the transition will run smoothly.

9. Internally the accounts close-down process will be co-ordinated by Senior Accountant, Maria Hadfield, with the Head of Finance overseeing the process.

10. Last year the accountancy team achieved the closedown target of 31 May to publish an unaudited set of accounts. These accounts were signed off at Audit Committee on the 30 July 2019. Grant Thornton issued an unqualified audit opinion on 14 August 2019.

11. The target is to have a completed final draft by 22 May, key deadlines below:
    a. Service Accounts and Collection Fund to be closed by 17 April
    b. Balance Sheet Codes to be closed by 11 May
    c. Draft Statement by 22 May

Going Concern Principle

12. The Council has set a budget for 2020/21 and has a Medium Term Financial Plan that demonstrates that the Council is a 'going concern' and will operate

for the foreseeable future. As such the accounts will be prepared on this basis.

Changes to Accounting Policies for 2019/20

13. During the year work was undertaken to review the de-minimis limit at which manual accruals are processed and it has been decided to increase this limit from £5,000 to £10,000. This change has been agreed with Grant Thornton.

14. The accounting policy for accrual of revenue has been updated to reflect the change to ***IFRS 15 Revenue from Contract with Customers.***

15. The policy for financial instruments has been updated to reflect changes arising from ***IFRS9 Financial Instruments*** which was implemented last year.

Accounting Changes/Updates for 2019/20

There are no major changes to the Code this year.

Looking ahead Accounting Changes

16. Looking beyond the next set of accounts there are further changes to the accounting standards that manage the accounting for Financial Instruments and Leases.

17. IFRS 16 Leases change from finance leases to Right of Use Assets. Fundamentally this change will see all leases recognised on the balance sheet where the Council is the lessee.

18. A review is ongoing to assess the impact of this accounting change and the impact on the accounts, it is not expected to be significant.

Next Steps in Process

19. There will be a Members training session and the presentation of the draft statement on 16 June, where any questions or issues from Members can be discussed with officers.

20. In July the Statement of Accounts will be submitted for signing to the Audit Committee and the external auditors audit findings will be presented.

Conclusion

21. Members are asked to note the changes to the final accounts process and approve the Accounting Policies in **Appendix A**.

Portfolio Holder's Views

22. To be given at the meeting

Contact and Email

23. Maria Hadfield

24. Maria.hadfield@ashford.gov.uk

Accounting Policies

General Principles

The Statement of Accounts summarises the Authorities transactions for the 2019/20 financial year and its position at the year ending 31 March 2020. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require being prepared in accordance with proper accounting practices. These practices primarily comprise the 'Code of Practice on Local Authority Accounting in the United Kingdom 2019/20' (the Code), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1. Accounting Concepts and Conventions

The Going Concern basis has been selected for the preparation of these accounts based on the assumption that the Council will operate for the foreseeable future.

Qualitative characteristics are the attributes that make the information provided within this Statement of Accounts useful to users. The International Accounting Standards Board (IASB) Framework, sets out the two fundamental qualitative characteristics and four enhancing qualitative characteristics of financial statements, which have been adopted by the Code:

- Fundamental
  - Relevance
  - faithful representation
- Enhancing
  - comparability
  - verifiability
  - timeliness
  - understandability

The Code also includes consideration of materiality as a qualitative characteristic, and the Framework considers it as part of the fundamental characteristic of relevance.

2. Accruals of Income and Expenditure

With the exception of the Cash Flow Statement, including its notes, and the Collection Fund, the Statement of Accounts is presented on an accruals basis.

The accruals basis of accounting requires the non-cash effect of transactions to be reflected in the Statement of Accounts for the year in which those effects are experienced, and not in the year in which the cash is actually received or paid. In particular: fees, charges, revenue from contract with service recipients and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services; interest payable on borrowings and receivable on investments is accounted for on the basis of the

effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where income and expenditure have been recognised, but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet, where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. There is a de minimis limit for manual accruals (not automatic accruals) of £10,000 to aid faster closing, transactions below this limit are not accrued for as they are deemed not material to the understanding of these accounts.

3. **Estimation Techniques**

Estimation techniques are the methods adopted by the Council to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves. Details of where these are used are contained in the relevant Note to the Accounts. Where a change in an estimation technique is material, an explanation is provided of the change and its effect on the results for the current period.

4. **Costs of Internal Support Services**

All costs of management and administration are fully allocated to services, including Corporate Democratic Core. The basis of allocation used for the main costs of management and administration are outlined below:

Cost	Basis of Allocation
Accounting and other services	Budgeted time spent by staff, as predicted by budget managers
Legal services	Actual time spent by staff, as recorded on time recording systems
Administrative Buildings	Area occupied
IT support of corporate financial systems	Actual direct costs (hardware costs etc.) plus cost of estimated staff resources
Network / PC support	Per capita
Executive Support, Call Centre, Customer Contact Centre and Printing	Actual use, as recorded by monitoring systems
Internal Audit	Per audit plan
Payroll and Personnel Costs	Per capita
Debtors and Creditors	Per transaction

5. **Council Tax and National Non-Domestic Rates**

Revenue relating to council tax and business rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions. Revenue is recognised when it is probable that the economic benefits of the transaction will flow to the Council and the amount of revenue can be measured reliably.

The council tax and business rates income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year, which consists of:

- The Council's council tax precept and business rate share from the Collection Fund i.e. the amount billed for the year; and

- The Council's share of the actual council tax and business rates surplus or deficit on the fund at the preceding year end that has not been distributed or recovered in the current year.

The latter is not required by regulation to be credited to the General Fund and so is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves on the General Fund balance.

The Council, as billing authority, recognises the creditor in its balance sheet for cash collected from taxpayers and businesses on behalf of major preceptors but not yet paid to them, or a debtor for cash paid to major preceptors.

6. **Charges to Revenue**

Service and Support Service Accounts are debited with amounts to record the cost of holding non-current assets used in the provision of services.

These amounts include the annual provision for depreciation, certain revaluation gains/losses and impairment losses and the amortisation of intangible assets. The amounts are subsequently reversed in the Movement in Reserves Statement to the Capital Adjustment Account so that they do not impact on the amounts required from local taxation.

Capital charges made to the Housing Revenue Account are the amounts as determined by proper accounting practices.

External interest payable is debited in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement and amounts set aside from revenue for the repayment of external loans are charged to the General Fund Balance in the Movement in Reserves Statement.

7. **Revenue Expenditure Funded from Capital Under Statute**

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a Property Plant and Equipment. The purpose of this is to enable it to be funded from capital resources rather than being charged to the General Fund and have a direct impact upon Council Tax. These items are generally grants and expenditure on property not owned by the Council.

Such expenditure is charged to Cost of Services in the Comprehensive Income and Expenditure Statement but subsequently reversed in the Movement in Reserves Statement to the Capital Adjustment Account.

8. **Government Grants and Contributions**

Grants received are credited to the Comprehensive Income and Expenditure Statement when the income is recognised once conditions have been met. Revenue Grants specific to a particular service will be shown against the service expenditure line. General Revenue Grants, in the form of Revenue Support Grant and the contribution from the National Non-Domestic Rate Pool, and Capital Grants are credited and disclosed separately in the Taxation and Non-specific Grant Income line in the Comprehensive Income and Expenditure Statement.

Capital Grants and Capital Contributions will subsequently be transferred through the Movement in Reserves Statement to the Capital Adjustment Account or the Grants Unapplied Account, if expenditure has not been incurred.

If conditions have not been met, grants will be held as a creditor (Grants received in advance) on the Balance Sheet until conditions are met or grants are repaid.

9. **VAT**

VAT is accounted for separately and is not included in the Comprehensive Income and Expenditure Statement, whether of a capital or revenue nature. Input VAT, which is not recoverable from HM Revenue and Customs, will be charged to Service Revenue Accounts, or added to capital expenditure as appropriate. The Council's partial exemption status is reviewed on an annual basis.

10. **Heritage Assets**

Heritage assets are carried at valuation (e.g. insurance valuation) rather than fair value, reflecting the fact that exchanges of heritage assets are uncommon. Valuations are determined by the insurance valuation, or where not available the historical cost. Although there are no prescribed minimum periods for review, the assets will be reviewed in line with the insurance policy and material changes will be incorporated into the accounts. A de-minimis level has been set at £10,000 for heritage assets based on the method of valuation above.

11. **Assets Held for Sale (Current Assets)**

These assets have been declared surplus to the Council's operational requirements, are being actively marketed for disposal and have an estimated sale date within twelve months of the balance sheet date. They are reported on the Balance Sheet date at the lower of the carrying amount or the fair value (market value) of the asset less the costs to sell the asset. Assets held for sale are not subject to depreciation. Potential 'Right-to-buy' sales are not accounted for until the date of sale as they are not actively marketed in any conventional way.

12. **Intangible Assets**

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will benefit the Council for more than one financial year.

An intangible asset is initially measured at cost but will be revalued where the fair value of the asset differs significantly from its carrying value. The depreciable amount is amortised over its useful economic life to the relevant

service line in the Comprehensive Income and Expenditure Statement but subsequently reversed through the Movement in Reserves Statement to the Capital Adjustment Account.

13. **Investment Assets**

These assets are held solely to earn rentals and/or capital appreciation. The property cannot be used for any other purpose to be classed as an investment asset.

They are held initially at cost and subsequently at fair value being the price that would be received to sell such an asset.

Properties are not depreciated but are revalued annually according to market conditions at the year-end.

14. **Property, plant and equipment**

14.1. **Recognition**
All expenditure on the acquisition, creation, or enhancement of these assets is capitalised on an accruals basis. These assets are depreciated on a straight line basis.

14.2. **Recognition Definition**
Property, plant and equipment are tangible assets (i.e. assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.
The category is split into seven sub categories.

- Council Dwellings;
- Other Land and Buildings;
- Vehicles, Plant, Furniture and Equipment;
- Infrastructure Assets;
- Community Assets;
- Surplus Assets;
- Assets Under Construction.

The Accounting policy for each type of asset is detailed below:

14.3. **Council dwellings**
These assets are held on the balance sheet at fair value but discounted to allow for the Existing Use Value for Social Housing (EUV-SH).

An annual valuation is carried out by a qualified surveyor in accordance with the latest guidance issued by the Royal Institute of Chartered Surveyors (RICS) as at 31 March. Material changes will be reflected in the accounts if they arise after the valuation.

14.4. **Other Land and Buildings**
These assets are held on the balance sheet initially at cost however are revalued and updated with a desktop revaluation annually. All property and land will be fully valued at least once within the 5 year cycle.

IFRS requires the consideration of componentisation for material items of property, plant and equipment, where they are of a material financial nature or have significantly differing life expectancies. The Council has set a minimum asset value of £1,000,000 and a component size of at least 10% of the value.

14.5. **Vehicles, Plant, Furniture and Equipment**
These assets are recognised in the balance sheet at cost and are subject to straight-line depreciation over the expected life of the asset.

14.6. **Infrastructure Assets**
These assets are recognised in the Balance Sheet at cost and are subject to straight-line depreciation over the expected life of the asset.

14.7. **Community Assets**
These are defined as assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and allotments. These assets are held on the Balance Sheet at historic cost and are not subject to revaluation or depreciation.

14.8. **Assets under Construction**
This covers assets currently not yet ready for operational purposes. The Council does not depreciate nor revalue assets under construction. These asset are held at cost on the balance sheet.

14.9. **Surplus Assets**
These assets are not being used to deliver services and are held at fair value which is the price that would be receivable if sold.

14.10. **Valuations**
Increases in valuations are matched by credits to the Revaluation Reserve to recognise revaluation gains. However, where the increased valuation follows a previous reduction in the carrying value below its historic cost, gains would be credited to the service expenditure in the Comprehensive Income and Expenditure Statement to reverse the loss previously charged to a service.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

On revaluation, accumulated depreciation is written out.

14.11. **Depreciation**
Depreciation on assets with a finite useful life, in line with International Accounting Standard (IAS) 16, is calculated on a straight-line basis according to the following policy:

- All assets with a finite useful life are depreciated on a straight-line basis over the asset life. The life of buildings is reviewed as part of the asset revaluation. The life of vehicles, plant and equipment is generally taken to be five years, unless evidence exists to support a longer or shorter life.
- Newly acquired assets are depreciated in year one, assets in the course of construction are not depreciated until they are ready for use.
- In accordance with recognised accounting practice, land owned by this Council is not depreciated.

14.12. **Impairment of Non-current Assets**
A review for impairment of a non-current assets, whether carried at historical cost or valuation, is carried out at year-end to ascertain whether events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Examples of events and changes in circumstances that indicate impairment may have been incurred include:

- a significant decline in the asset's fair value during the period;
- evidence of obsolescence or physical damage to the asset;
- a significant adverse change in the statutory or other regulatory environment in which the authority operates;
- a commitment by the authority to undertake a significant reorganisation.

In the event that an impairment is identified, the value will either be written off to the Revaluation Reserve where sufficient reserve levels for that asset exist, or written off to Service Expenditure through the Comprehensive Income and Expenditure Statement where the carrying value falls below the historic value of the asset. Any impairment at the Balance Sheet date is shown in the notes to the core financial statements, along with the name, designation and qualifications of the officer making the impairment.

If the impairment is identified on an investment property, the value is written out to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

14.13. **Gains or Losses on Disposal of Property Plant and Equipment**

When an asset is disposed of or de-commissioned, the carrying value of the asset and any receipts from the sale, together with the costs of disposal, are shown on the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement which, therefore, bears a net gain or loss on disposal.

Where the receipt is in excess of £10,000, it is appropriated to the Capital Receipts Reserve, via the Movement in Reserves Statement, where it can be used for any approved capital purpose, e.g. for new capital investment. The carrying value of the disposed asset is appropriated to the Capital Adjustment Account from the Movement on Reserves Statement. Costs of disposal are accounted for within the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

15. **Leases**

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease. A definition of a lease includes hire purchase arrangements.

15.1. **Finance Leases**

As lessee, the Council shall recognise finance leases as assets and liabilities at amounts equal to the fair value of the property or, if lower, the present value of the minimum lease payments.

Minimum lease payments are apportioned between the finance charge (interest) and the reduction of the outstanding liability. The finance charge is calculated to produce a constant periodic rate of interest on the remaining balance of the liability.

The Council recognises an asset under a finance lease in the Balance Sheet at an amount equal to the net investment of the lease.

Assets recognised under a finance lease are depreciated; the depreciation policy for leased assets is consistent with the policy for other property, plant and equipment. Where it is not certain that ownership of the asset will transfer at the end of the lease, the asset is depreciated over the shorter of the lease term and its useful economic life. After initial recognition, assets recognised under a finance lease are subject to accounting policies in the same way as any other asset.

As lessor, the Council derecognises the asset and show this as a long term debtor. Lease rentals receivable are apportioned between a charge for the acquisition of capital (applied to write down the lease debtor) and finance income – which is credited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement. The Code required this income to be treated as a capital receipt and therefore, it is reversed out via the Movement in Reserves Statement to the Capital Receipts Reserve. For finance leases that existed at 31st March 2010, regulations allow these capital receipts to remain credited to the Comprehensive Income and Expenditure Statement.

15.2. **Operating Leases**

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the benefits received by the Council.

16. **Current Assets and Liabilities**

16.1. **Short term Debtors and Creditors**

With exception set out above (policy no 2), the Revenue and Capital accounts of the Council are maintained on an accruals basis in accordance with the Code and other relevant IASs. That is, sums due to or from the Council during the year are included, whether or not the cash has actually been received or paid in the year.

16.2. **Impairment Allowance for Bad and Doubtful Debts**

The figure shown in the Statement of Accounts for Debtors is adjusted for bad debts. This amount is to provide for debts that are unlikely to be collected in future years. The percentage used to reduce the Debtors figure is based on historical evidence of collection and management judgements.

17. **Contingent Assets and Contingent Liabilities**

Contingent assets are not recognised in the Statement of Accounts. They are disclosed by way of notes if the inflow of a receipt or economic benefit is probable. Such disclosures indicate the nature of the contingent asset and an estimate of its financial effect.

Contingent liabilities are not recognised in the accounting statements. They are disclosed by way of notes if there is a possible obligation which may require a payment or a transfer of economic benefits. For each class of contingent liability, the nature of the liability is disclosed together with a brief description, an estimate of its financial effect, an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.

18. **Short term and long term Provisions**

The Council sets aside provisions for specific liabilities or losses which are likely or certain to be incurred, but the amounts or the dates on which they will

arise are uncertain. The value of the provision must be the best estimate of the likely liability or loss. When utilised, the payment is charged to Provisions and not to Service Expenditure.

19. **Reserves**

The Council holds Usable and Unusable Reserves. Usable Reserves give the Council discretion to meet expenditure without having a direct impact on Council Tax. In contrast, Unusable Reserves do not give the Council such discretion and are kept to manage the accounting processes for non-current assets, financial instruments and employee benefits.

Usable Reserves are created when the Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. These reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. No expenditure is charged directly to a reserve but is charged to the service revenue account within the Comprehensive Income and Expenditure Statement; this is then offset by a reserve appropriation within the Movement in Reserves Statement. The exception is amounts required for the repayment of external loans and for financing capital expenditure from revenue sources. Where this applies, amounts are appropriated from the General Fund Balance in the Movement in Reserves Statement.

The General Fund Balance acts as a working contingency to meet unforeseen and unforeseeable costs including those relating to emergencies. Earmarked reserves, such as the repairs and renewals reserve, are for specific purposes. The Capital Receipts Reserve can only be used for certain statutory purposes such as financing capital expenditure.

The Major Repairs Reserve is required by statutory provision to be set up in relation to the Housing Revenue Account.

20. **Employee Benefits**

Three categories of employee benefits exist, under IAS 19 and IPSAS 25 Employee Benefits, as detailed below.

20.1. **Benefits payable during employment**

- Short-term employee benefits arise during a financial year or are those due to be settled within 12 months of the year-end. They include wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, and are recognised as an expense for services in the year employees render service to the Council.
- Benefits earned by current employees but payable twelve months or more after the end of the reporting period such as, long-service leave or jubilee payments and long-term disability benefits.

Where considered of a material nature these are accrued.

20.2. **Termination benefits including Exit Packages**

This covers costs that are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits. These are often lump-sum payments, but also include enhancement of retirement benefits, and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

In the event of notice of termination being served on an employee, the costs of redundancy are accrued to the year that the notice is served, but other costs will be charged to the year they are incurred. These costs are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement where the Council is committed to the termination of employment.

20.3. **Post-employment benefits**

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Code requires the Council to account for this benefit at the time that employees earn their future entitlement. The amount charged to the Comprehensive Income and Expenditure Statement for employee's pensions is in accordance with IAS19 Retirement Benefits, subject to the interpretations set out in the Code. This is accounted for in the following ways:

- Pension liabilities, attributable to the Council, are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees based on assumptions about mortality rates, employee turnover rates and projected earnings for current employees etc.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return.
- The assets of the pension fund attributable to the Council are included on the Balance Sheet at their fair value:
  - Quoted securities – current bid price;
  - Unquoted securities – professional estimate;
  - Unitised securities – current bid price;
  - Property – market value.
- The change in net pensions liability is analysed into five components:
  - Current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the service where employees worked.
  - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the net cost of services in the Comprehensive Income and Expenditure Statement as part of the Non Distributable Costs.
  - Net interest on the net defined benefit liability (asset) – the change during the period in the net liability (asset) that arises from the passage of time. This is debited/ (credited) to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

- Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or actions that reduce the expected future service or actuarial benefits of employees - debited to the net cost of services in the Comprehensive Income and Expenditure Statement as part of the Non Distributable Costs.
- Actuarial Gains and Losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the assumptions have been updated - debited to the Comprehensive Income and Expenditure Statement.

Under IAS 19, the Council recognises, as an asset or liability, the surplus/deficit in pension costs calculated in accordance with the standard. This surplus/deficit is the excess/shortfall of the value of assets when compared to the present value of the pension liabilities. Where the contributions paid into the Pension Fund do not match the change in the Council's recognised liability for the year, the recognised cost of pensions will not match the amount required to be raised in taxation. Any such mismatch is to be dealt with by an equivalent appropriation to or from the Pension Reserve together with any actuarial gains/losses. The difference between the recognised net pension liability and the amounts attributed to this Council in Kent County Pension Fund are shown in the Balance Sheet as Pensions Liability and this is offset by the Pensions Reserve (an adverse balance).

The Local Government Pension Scheme, applicable to this Council, is administered locally by Kent County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets over the average future working life of its employees.

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The latest formal valuation of the Kent County Pension Fund was at 31 March 2019 and changes to contribution rates as a result of that valuation did take effect on 1 April 2020.The next valuation will be at 31 March 2022 and will take effect 1 April 2023.

21. Financial Instruments

The Code has significant disclosure requirements relating to Financial Instruments (e.g. loans and investments). They relate to the identification of the various types of Financial Instruments, gains and losses arising from transactions during the year, comparative valuation statements, and the assessment of risks associated with holding Financial Instruments.

Detailed disclosure of the Council's holding of Financial Instruments is included in the note to the accounts.

21.1. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

The reconciliation of amounts charged to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed in the

Movement in Reserves Statement by a transfer to or from Unusable Reserves (Financial Instruments Adjustment Account).

21.2. **Financial Assets**

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are accounted for under the following three classifications:

- Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flow) including cash in hand, deposit accounts, trade receivables for good and services, etc
- Fair value through other comprehensive income (where cash flows are solely payments of principal and interest and the Council's business model is to both collect those cash flows and sell the instrument; and equity investments that the Council has elected into this category) including equity in subsidiary companies. Movements in fair value are reflected in the financial instrument revaluation reserve.
- Fair value through profit and loss (all other financial assets) including pooled funds, money market funds etc. Movements in fair value will be recognised in the income and expenditure statement, however these will then be reversed to the pooled funds revaluation reserve using the statutory override provided by MHCLG.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

Share in the Council subsidiary company shall be valued from the Company's balance sheet

21.3. **Loans and Receivables**

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable, and interest credited to the Comprehensive Income and

Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event and payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (where specific) or to the Financing and Investment Income line of the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Financing and Investment Income line of the Comprehensive Income and Expenditure Statement.

21.4. **Financial Instrument Risk**

The Code requires Authorities to estimate the "Fair Value" of their Financial Instruments and compare them with the carrying amounts which appear on the Balance Sheet. The Fair Value estimate will include the future discounted cash flows associated with the Council's Financial Instruments as at 31 March and should reflect prevailing interest rates as at that date.

The Code identifies the following three types of risk associated with Financial Instruments:
(a) Credit risk
(b) Liquidity risk
(c) Market risk

The Code requires Authorities to produce a sensitivity analysis, detailing the impact of a 1% interest rate change. A full assessment of these risks, including the sensitivity analysis, is included in the note to the accounts.

These disclosure requirements are equally applicable to outstanding debtors, see note to the accounts for an analysis of debtors. In addition to this, a provision for bad debts is also included in the Statement.

Under IFRS 9 impairment allowance have to be calculated on the likely risk of default on financial assets over a 12 month and lifetime basis depending on the risk profile of the asset.

Where impairment allowances are deemed necessary then an appropriate charge is made to provision of services accordingly.

22. **Cash and Cash Equivalents**

Cash and cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and are shown on the Balance Sheet at their nominal value; these include investments that can be accessed immediately without incurring a penalty, such as call accounts. Cash and cash equivalents are shown net of any bank overdraft that form part of the Council's cash management.

23. **Private Finance Initiative (PFI)**

PFI contracts are agreements to receive services, where the responsibility for making available Property Plant and Equipment, needed to provide the services, passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as the ownership of the Property Plant and Equipment will pass to the Council at the end of the contract at no charge, the Council carries the Property Plant and Equipment used under the contract on the Balance Sheet.

The original recognition of these Property Plant and Equipment was balanced by the recognition of a liability for the amounts due to the scheme operator to pay for the assets net of any capital contributions made.

The stock is recognised at market value less the EUV-SH factor and additions are measured at cost as per the contractor model. Lifecycle costs are accounted for when they occur.

Property Plant and Equipment recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators will be analysed into the following elements:

- Fair value of the services received during the year;
- Finance charge – an interest charge on the balance sheet liability;
- Payment towards the liability.

24. Group Accounts

Group Accounts will be prepared in accordance with IFRS 10 (consolidated financial statements) and IFRS 12 (disclosure of interest in other entities), where it is considered that the Council has a material interest in subsidiaries.

Where applicable the following principles will be followed:

Basis of Consolidation
Group Accounts will be prepared on the basis of a full consolidation of the financial transactions and balances of the Council and a relevant subsidiary. Any gains and losses arising from a subsidiary will be fully reflected in the Comprehensive Income and Expenditure Statement, Balance Sheet, Movement in Reserves Statement and Cashflow Statement within the Group column.

Accounting Policies
Group Accounts will be prepared using consistent accounting policies where possible, where there are conflicting policies with IFRS requirements then the requirements of the Code of practice for Local Authority accounting will be adopted for consolidation purposes.

Where Intra-group charges occur they will be removed during consolidation of the accounts

Whether to group account is determined by Qualitative and Quantitative materiality, therefore when considering whether to group not only the values are relevant, the interest to all stakeholders is also taken into account.

25. Exceptional Items and Prior Year Adjustments

Exceptional items are included in the cost of the service to which they relate, or on the face of the Comprehensive Income and Expenditure Account if that degree of prominence is necessary in order to give a fair presentation of the accounts. An adequate description of each exceptional item is given within the notes to the accounts.

Prior year adjustments arise as a result of a change in accounting policies or to correct a material error. When either of the circumstances applies, the Council will show the extent of the adjustment in a table reconciling the adjusted opening and closing balances and/or comparative amounts shown for a prior period.

26. Events after the Balance Sheet Date

Where an event occurs after the Balance Sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the Balance Sheet date, the amounts in the Statement of Accounts and any affected disclosures should be adjusted.

Where an event occurs after the Balance Sheet date and is indicative of conditions that arose after the Balance Sheet date the amounts recognised in the Statement of Accounts should not be adjusted but a disclosure made including:

- the nature of the event;
- an estimate of the financial effect.

Events after the Balance Sheet date should be reflected up to the date when the Statement of Accounts is authorised for issue as per the approved policies by the council.

ASHFORD
BOROUGH COUNCIL

Agenda Item No:	9
Report To:	Audit Committee
Date of Meeting:	17 March 2020
Report Title:	Audit Plan 2019/20
Report Author & Job Title:	Grant Thornton
Portfolio Holder Portfolio Holder for:	N/A

Summary:

The attached Audit Plan provides an overview of the planned scope and timing of the statutory audit of the Council.

The scope of the audit includes responsibilities for forming and expressing an opinion on the:

Financial statements (including the Annual Governance Statement)

Value for money arrangements in place at the Council for securing economy, efficiency and effectiveness in the use of the Council's resources.

Key Decision:	No
Significantly Affected Wards:	None
Recommendations:	**The Committee is recommended to:-**

I. Note the Audit Plan

Financial Implications:	N/A
Legal Implications	N/A
Equalities Impact Assessment	N/A
Other Material Implications:	N/A
Exempt from Publication:	NO
Contact:	Maria.hadfield@ashford.gov.uk – Tel: (01233) 330545

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Grant Thornton

External Audit Plan

Year ending 31 March 2020

Ashford Borough Council
March 2020

Contents

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Ashford Borough Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out *in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Ashford Borough Council. We draw your attention to both of these documents on the* PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Authority 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 Authority is fulfilling these responsibilities.

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

Group Accounts	The Council is required to prepare group financial statements that consolidate the financial information of the Council and the Council's subsidiary, A Better Choice for Property Limited.
Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management override; • Valuation of land and buildings; • Valuation of net pension fund liability. We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £2,345,000 for the group and £2,344,000 for the Council, which equates to approximately 2% of your prior year gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £117,000.
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks; • continuing to maintain an effective financial planning framework to manage the impact of reductions in government funding.
Audit logistics	Our interim visit will take place in March 2020 and our final visit will take place in June/July 2020. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit will be £53,939 (PY: £53,639) for the Council, subject to the Council meeting our requirements set out on page 12.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

2. Key matters impacting our audit

Factors		
The wider economy and financial pressures Local authorities continue to face significant financial pressures associated with reductions in government funding and increasing cost pressures. Your most recent reporting indicates that you are forecasting a small overspend against revenue budget for 2019/20, and have also agreed a balanced revenue budget for 2020/21. However, your medium term financial plan indicates that further action will be required to achieve a balanced position in future years.	**Financial reporting and audit – raising the bar** The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1. Our work in 2018/19 has highlighted areas where local government financial reporting, in particular property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.	**Implementation of IFRS 16 -Leases** International Financial Reporting Standard 16 Leases (IFRS 16) was published by the international Accounting standards (IASB) in January 2016. IFRS 16 is applicable for accounting periods beginning on or after 1 January 2019. For Local Authorities IFRS 16 (as adapted and interpreted by the Code) will be effective from 1 April 2020. The current distinction between operating and finance leases will be removed for lessees next year (2020/21). All leases will therefore be recognised on the balance sheet as a right of use asset and a liability to make the lease payments. There are some exemptions for short term leases and for leases of low value assets. In 2019/20 you will need a disclosure note in your financial statements which explains to the reader the impact of implementing IFRS 16.
Our response		
We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.	As a firm we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Chief Finance Officer and is subject to PSAA agreement.	We will assess the adequacy of your disclosure regarding the financial impact of implementing IFRS 16 - Leases.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Ashford Borough Council	Yes		• We have identified at page 6 the significant risks for the audit of the Council's accounts.	Full scope UK statutory audit.
A Better Choice for Property Limited	No	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of the group financial statements	• Valuation of land and buildings (Investment Properties).	Specific scope procedures to review the valuation of investment properties.

Audit scope

- **Audit of the financial information of the component using component materiality**
- **Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements**
- **Review of component's financial information**
- **Specified audit procedures relating to significant risks of material misstatement of the group financial statements**
- **Analytical procedures at group level**

4. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Group and Council	Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the group, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • the revenue streams for A Better Choice for Property Limited are not material to the group • 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. Therefore we do not consider this to be a significant risk for the group.
Management over-ride of controls	Council	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.	We will: • evaluate the design effectiveness of management controls over journals; • identify and test unusual journal entries for appropriateness; • gain an understanding of the accounting estimates and critical judgements applied and consider their reasonableness; • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Group and Council	The Council revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value at the financial statements date. The investment properties for A Better Choice for Property are revalued annually at fair value. These valuations represent a significant estimate by management in the financial statements.	We will: • review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuers and the scope of their work; • consider the competence, expertise and objectivity of any valuation experts used.; • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • review the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test that revaluations made during the year are input correctly into the Council's asset register; • evaluate the assumptions made by management for those property, plant and equipment assets not revalued during the year and how management have satisfied themselves that these are not materially different to current value.
Valuation of the pension fund net liability	Council	The valuation of the Council's net pension liability as reflected in its balance sheet represents a significant estimate in the financial statements.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

5. Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	Group and Council	The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Council's 2019/20 financial statements. For entities preparing accounts in accordance with the Companies Act 2006 IFRS 16 is effective for annual reporting periods starting on or after 1 January 2019. For 2019/20 any changes arising from IFRS16 in the accounts of A Better Choice for Property Limited will need to be removed on consolidation at group level.	We will: • Evaluate the processes the Council has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements; • Assess the completeness of the disclosures made by the Council in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

6. Other matters

Other work

In addition to our responsibilities under the Code of Practice we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Council
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
    - Issue of a report in the public interest or written recommendations to the Council under section 24 of the Act, copied to the Secretary of State
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
    - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the group’s ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. 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.

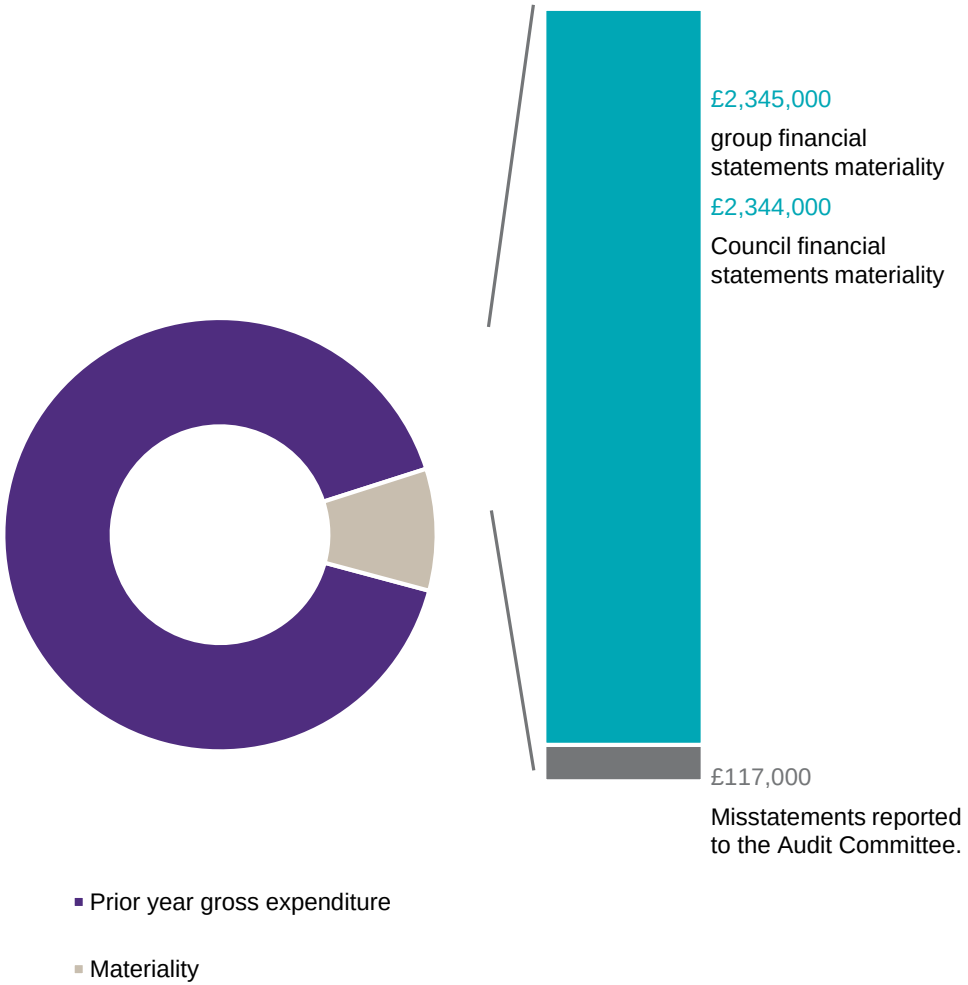
Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £2,345,000 (PY final materiality £2,345,000) for the group and £2,344,,000 (PY final materiality £2,344,000) for the Council, which equates to approximately 2% of your prior year gross expenditure for the year after adjusting for one-off valuation movements. We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £117,000 (PY £117,000).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



8. Value for Money arrangements

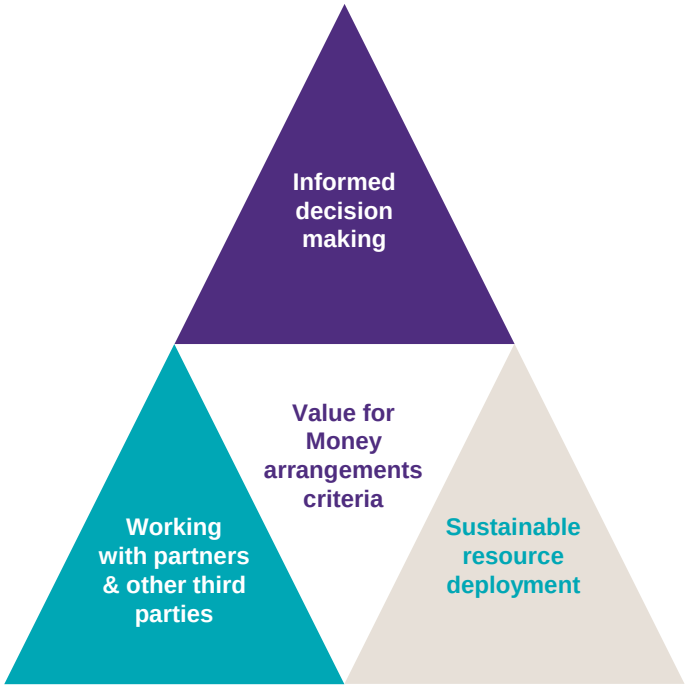
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place to secure value for money.

The guidance 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."

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.

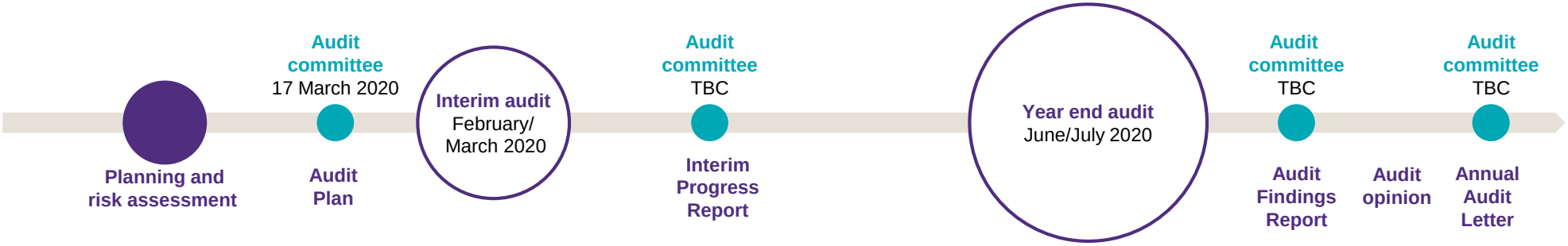
Financial sustainability

You continue to face significant financial pressures associated with reductions in government funding. You have been proactive over recent years in taking measures to address these issues, both to reduce costs and generate additional income, and have again agreed a balanced revenue budget for 2020/21. However, your medium term financial plan indicates that further action is required to achieve a balanced position in future years.

The continued strength of your financial planning framework is key to maintaining a sustainable financial position whilst delivering your key objectives over the medium term.

We will update our understanding of your medium term financial plan and review the supporting information trails.

Audit logistics & team



Darren Wells, Engagement Lead

Trevor Greenlee, Audit Manager

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

10. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Chief Finance Officer and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Council Audit	£60,311	£53,639	£53,939

Assumptions:
In setting the above fees, we have assumed that the Council will:
- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:
In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	46,439	
Raising the bar	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	1,750	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	1,750	We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
New standards/developments	1,500	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will be responding to the introduction of IFRS16. IFRS16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements.
Revised scale fee (to be approved by PSAA)	**53,939**	

11. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following other services were identified.

Service	£	Threats	Safeguards
Audit related:			
Certification of Housing Benefit Subsidy claim	15,000 (estimated)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in 2018/19 was £15,000 in comparison to the total fee for the audit of £53,639, and in particular relative to Grant Thornton UK LLP's turnover overall. Further it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Pooling of housing capital receipts return	5,000 (estimated)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the planned fee for this work in 2018/19 is £3,400 in comparison to the total fee for the audit of £53,639, and in particular relative to Grant Thornton UK LLP's turnover overall. Further it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related:			
None			

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.
None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - https://www.grantthornton.ie/about/transparency-report/

Appendices

A. Audit Quality – national context

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

Agenda Item No: 11

Report To: Audit Committee

Date of Meeting: 17 March 2020

Report Title: 2019/20 Financial Statement – Letters of Assurance to the External Auditor

Report Author & Job Title: Ben Lockwood
Director Finance and Economy

Portfolio Holder Portfolio Holder for: Cllr Bell – Portfolio Holder for Finance and IT

Summary: Each year in support of the external audit of the council's financial statements, it is necessary to provide assurance letters to the auditors from both the Management and Member perspectives.

These are important statements on which the auditors rely for their opinion work. The two completed letters are attached.

- One is from the Chairman on behalf of the committee.
- The second is from the Director of Finance and Economy on behalf of management.

They cover similar points to assurance letters in the past, and shared, in draft, with our Auditor.

They cover assurances relating to such matters as

- disclosures of material facts affecting the statements,
- fraud,
- contingent liabilities and legal issues affecting the statements

Key Decision: No

Significantly Affected Wards: N/A

Recommendations:	**The Audit Committee is recommended to:-** **I. Endorse the Chairman's and Management's assurance letters** **II. Delegate authority to the Director of Finance and Economy and the Chairman of the Audit Committee to make necessary amendments up to the 31 March 2020.**
Financial	None
Financial Implications:	N/A
Legal Implications	N/A
Equalities Impact Assessment	N/A
Other Material Implications:	N/A
Exempt from Publication:	NO
Contact:	Ben.lockwood@ashford.gov.uk – Tel: (01233) 330540

Cllr C Krause

Ask For: Cllr Krause
Email: larry.krause@ashford.gov.uk

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Trevor Greenlee
Audit Manager
Grant Thornton UK LLP
110 Bishopsgate,
London
EC2N 4AY

Date: 6 March 2020

Dear Trevor

Ashford Borough Council Audit of Accounts 2019/20: Information from those charged with Governance

I respond here to your letter of 4th March 2020. In that letter you pose several questions on the Committee's views on the Council's governance. I understand you will use this response in your audit of the Council's financial statements for the year ended 31 March 2020.

This letter and the management assurance letter from the Director Finance & Economy will go to the Audit Committee on 17th March 2020. At that meeting, I will ask the Committee to approve my responses.

Auditor question	Response
Fraud risk assessment	
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	The Council has a risk assessment (date) the Council uses this to measure where to focus its anti-fraud initiatives. We also use a risk based verification method in the Revenues and Benefit team when considering risks.
What are the results of this process?	The audit Committee were presented with the annual results of the Investigation and Enforcement Support Team in October 2019. This report highlighted £656,026 which was identified over various areas such as long term empty properties, council tax and right to buy sales of council stock.

	The team has also reviewed Small Business Rates Relief, identified as an area of high financial risk, the review will include all 1,800 applications. Business that have not registered for business rates, including properties that have undeclared holiday lets are being reviewed. Working with the Council's housing service cases of subletting, false succession and property abandonment have also been investigated, resulting in a saving of £7,200
What processes does the Council have in place to identify and respond to risks of fraud?	Risk management is an inherent part of the work of members, the management team, service managers, and line managers. We have an established risk management process, that focuses on strategic and service risks and instils a good discipline and culture that is risk aware. These processes link to financial reporting in various ways. Strategic financial risks – the overall financial position, and financial risk associated with key strategic projects – are handled through various reporting processes, including the financial planning processes (this also includes the formal scrutiny stage), and the preparation of business plans and reports to members that take forward our key projects, and the risk register itself (reported to and owned by the Audit Committee). For major projects a governance framework exists (the Ashford Strategic Delivery Board) that monitors and discusses progress, including key financial issues and risks and the management of these. The statutory financial statements are informed by all of these various processes and where necessary disclosures are made
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	Risk areas : • Housing, presents a number of fraud risks which are hard to detect. A number of initiatives have been trailed such as a 'key amnesty' resulting in four sets of keys being returned. A data matching exercise aimed at identifying unlicensed Houses in Multiple Occupation. The Councils housing repairs team have received fraud awareness training. • Revenues discounts and exemptions, the team data match against Abavus/CRM records and electoral roll to remove fraud and error.

	• Parking permit holders names were matched against council tax and electoral roll in order to highlight discrepancies and errors. This resulted in approximately thirty applications/permits being removed which cleared the waiting list and reduced complaints.
Are internal controls, including segregation of duties, in place and operating effectively?	Yes and these are reviewed on an annual basis by Grant Thornton and also periodically by internal audit.
If not, where are the risk areas and what mitigating actions have been taken?	NA
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	No
Are there any areas where there is a potential for misreporting?	No
How does the Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	The Committee approves the Internal Audit Charter as prescribed by the Public Sector Internal Audit Standards. The audit charter defines the role of internal audit un fraud related work.
What arrangements are in place to report fraud issues and risks to the Committee?	Internal audit report on fraud and other risks to the committee
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	Training, policies, support from specialist staff in contracts and legal, communications in news letters etc. Internal audits compliance with policies.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	The Council has a ‘Speaking Up’ Policy which encourages staff to voice concerns at an early stage.
Are you aware of any related party relationships or	None have been brought to my attention

transactions that could give rise to risks of fraud?	
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2019?	None have been brought to my attention
Laws and regulations	
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	Each year the Council's Annual Governance Statement sets out how it complies with the local Code of Corporate Governance and its Risk Management Policy. This includes respecting the rule of law. All reports to members are assessed for legal compliance and implications
How does management gain assurance that all relevant laws and regulations have been complied with?	See above
How is the Committee provided with assurance that all relevant laws and regulations have been complied with?	See above
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2019?	No
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Any litigation and claims would be asses using our usual accounting policies to assess the appropriate accounting treatment. We assess material claims on an individual basis.
Is there any actual or potential litigation or claims that would affect the financial statements?	No – we understand the material threshold is £1m The NHS claim for charitable business rates relief was unsuccessful. It was a judgement not to accrue for this last year. Whilst the NHS has stated an intention to appeal the case a judgement will be needed to consider the accounting treatment.
Have there been any reports from other regulatory bodies, such as HM Revenues and	No

Customs, which indicate non-compliance?	
Going Concern	
How has the Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?	The Council has set a balanced budget for 2020/21 and this has been scrutinised at Overview and Scrutiny Budget Task Group. The main sources of budget funding remain Council Tax and Business Rates, which are set in advance and remain low risk. The Council has set aside monies in an Economic Risk Reserve to mitigate the impact of downturn in its commercial income. The Committee is satisfied that there are robust processes in place for monitoring of variances to the budget during the year. Cabinet receives Financial Monitoring reports at regular intervals.

If you have any further questions or queries on this response please contact me

Yours sincerely

Councillor Larry Krause

Chairman of the Audit Committee

Grant Thornton
An instinct for growth™

Ben Lockwood
Director - Finance and Economy
and
Maria Stevens
Head of Finance & IT

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4th February, 2020

Dear Ben and Maria,

Ashford Borough Council – Financial Statements for the year ended 31 March 2020

To comply with International Auditing Standards, we need to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with law and regulation. We are also required to make inquiries of management as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document Management's view on some key areas affecting the financial statements.

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the schedule set out in **Appendix 1**. In completing this task, you may wish to take into account the views of other directors where you think appropriate. The schedule relates to operational issues as well as the financial statements. I would be grateful for your response by Tuesday 11th February 2020.

Please contact me if you wish to discuss anything in relation to this request, either by telephone 020 7865 2905 or by email on the following address: ke.ma@uk.gt.com. Alternatively, please contact Trevor Greenlee, Audit Manager on 7880 456 148 or Trevor.Greenlee@uk.gt.com.

Yours sincerely,

Ke Ma

Audit Associate

For Grant Thornton UK LLP

Director of Finance and Economy

Ask for: Ben Lockwood
Email: Ben.Lockwood@ashford.gov.uk
Direct line: (01233) 330540

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Trevor Greenlee
Audit Manager
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EC2N 4AG

Date: 6 March 2020

Dear Trevor

Ashford Borough Council Audit of Accounts 2019/20: Information from management

I respond here to your letter of 4th February 2020. In that letter you pose several questions on the Management Teams views on the Council's governance. I understand you will use this response in your audit of the Council's financial statements for the year ended 31 March 2020.

Auditor question	Response
Changes in 2019/20	
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	Following Ashford college being placed in Education Administration the Council is considering conversion of the outstanding loan to grant, £1m loan currently outstanding. Awaiting a decision as to the position of this loan at 31 March and whether there will be sufficient funds to repay the loan. The Council has purchased a retail unit for £5m, currently let to Matalan. The unit is currently held in Land and Buildings, but longer term uses for the site could include offices, industrial or residential. Significant increase in housing properties. In the region of £9m purchase costs, held in Council Dwellings. At 31 March properties up to end of February will be independently valued, subsequent purchases will be brought on at purchased prices and all purchases will be subject to the reduction for the social housing indicator. Pension fund tri-annual review results show that there is a funding deficit of £18.4m at 31 March 2019 relating to a funding lever of 85.5%,

	compared to a funding deficit of £22m at 31 March 2016, relating to a funding level of 79%. Due to COVID 19 and the impact on global markets there could be a drop in the fair value of strategic investments. However these will be reversed out through the Movement in Reserve Statement using the statutory override.
Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The accounting policies and any material estimates have been reviewed for appropriateness and a report will be presented to the Audit Committee in March 2020. The de-minimis limit for manual accruals has been reviewed and has been increased to £10,000, to keep in line with increased materiality limits.
Are you aware of any changes to the regulatory environment that may have a significant impact on the financial statements?	The regulatory environment has been reviewed and there are no significant impacts to the Council's 2019-20 financial statements. In preparation for the introduction of the new leasing standard on 1 April 2020, work has been undertaken to assess the future impact of this change.
Internal Control	
How would you assess the quality of the Council's internal control processes?	I am comfortable with the internal control environment; the Council has a stable control environment with many processes embedded for a number of years. The Council's internal audit function reviews the councils internal control environment. The findings have shown that there is a robust system of internal controls in operation. Where an audit report identifies an issue these are highlighted to both members and management team and action is taken.
How would you assess the process for reviewing the effectiveness of internal control?	The Council receives regular reports from the internal audit partnership managers on the progress that is being made on the planned audits. Progress is in line with the plan.
How do the Council's risk management processes link to financial reporting?	The strategic and service risks are considered when setting the budget and reported through to Overview and Scrutiny Budget Task Group when they are scrutinising the budget.
Fraud and Ethics	
How would you assess the Council's arrangements for identifying and responding to the risk of fraud?	Risk management is an inherent part of the work of members, the management team, service managers, and line managers. We have an established risk management process, recently reviewed, that focuses on strategic and service risks and instils a good discipline and culture that is risk aware. These processes link to financial reporting in various ways. Strategic financial risks – the overall financial position, and financial risk

	associated with key strategic projects – are handled through various reporting processes, including the financial planning processes (this also includes the formal scrutiny stage), and the preparation of business plans and reports to members that take forward our key projects, and the risk register itself (reported to and owned by the Audit Committee). For major projects a governance framework exists (the Ashford Strategic Delivery Board) that monitors and discusses progress, including key financial issues and risks and the management of these. The Council has its own data warehouse and has been matching various in-house data sets over the past year. We also take part in the NFI data matching exercise and have undertaken a Transliteration Pilot exercise under the digital Economy Act. We are members of the Kent Intelligence Network which continues to develop in identifying potential fraud across the County The statutory financial statements are informed by all of these various processes and where necessary disclosures are made.
What has been the outcome of these arrangements so far this year?	Savings for the Council and County have been identified for the period April 2019 to January 2020 of £1,100,195.
Are you aware of allegations of fraud, errors, or other irregularities during the period?	No
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	The areas at most risk of fraud are considered to be: • Benefits – the council administers Housing Benefit with over 7,000 claimants. The responsibility for the investigation and prosecution of benefits fraud transferred to the Single Fraud and Investigation Team in December 2015. • Council Tax Discounts – The counter fraud team now routinely scrutinise single person discounts claims using a third party service, building on large scale periodic reviews in the past. With council tax yield being important to the borough council and the other major preceptors there is a joint agreement in place that supports this focus. • Business Rates, the Council collects nearly £50m in Business Rates and administers discounts and exemptions for rate payers. As with Council tax these are at risk of fraud and error. Housing Tenancy with approximately 5,000 properties and there is a risk of tenancy fraud. This is an area of routine activity for the counter fraud team, with investigation work resulting in some

	positive outcomes for the HRA that helps to manage this risk.
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	None have been reported in 2019/20
Have any reports been made under the Bribery Act?	No
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	For 2019/20 strategic risks and service risks are kept up to date with strategic risks being reported through to the Audit committee. During the year updates on each strategic risk were presented to the committee. Each service has an operational risk register that was reported through to management team.
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	Training on eLearning, face to face and the council's policies are in place and available on the intranet for staff to access.
Other Accounting Areas	
Is there any use of financial instruments, including derivatives?	We have financial instruments, not derivatives.
Are you aware of any significant transaction outside the normal course of business?	Purchase of Matalan retail unit, Brookfield Road for £5m, Sale of CQ38 office building resulted in an overage receipt of £703,904.
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No – assuming the UK's exit from the EU which has a potential to have an impact on assets will be reviewed later this year.
Are you aware of any guarantee contracts?	Yes – the Council has given a financial guarantee to Ashford Leisure trust for pensions costs and termination costs, the details of which are disclosed as a contingent liability. The Council has entered into a lease to underwrite the lease of 2 floors of the new commercial quarter office development.
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	No The NHS claim for charitable business rates relief was unsuccessful, it was a judgement not to accrue for this last year. Whilst the NHS has stated an intention to appeal the case a judgement will be needed to consider the accounting treatments
Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the	Note 4 of the Financial statement details of these items, in summary the main areas are: • Pensions – the accounts include an estimate on the pensions liabilities

data used, and the degree of estimate uncertainty inherent in the estimate?	• NNDR appeals – an estimate has been made to provide for liabilities relating to NNDR appeals. The accounting treatment of the PFI scheme is based upon a financial model that includes a number of estimates on future costs
Going Concern	
Is the going concern basis of accounting a fundamental principle in the preparation of the financial statements? Has a preliminary assessment of the entity's ability to continue as a going concern been performed?	Yes - The Council reviews its medium term financial plan on an annual basis and both members and management team are comfortable with the use of the going concern basis for the preparation of the financial statements. The Council has completed a number of forward planning sessions to discuss the financial strategy of the Authority in the medium term.
What is the basis for the intended use of the going concern assumption, and whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern?	The intended use of the going concern assumption is to provide stakeholders most importantly the tax payers in the borough that essential services will continue for the foreseeable future. There are no conditions or events that currently exist that cast doubt on this authority continuing to function for the next 12 months.
Law and Regulations	
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	Any litigation and claims would be asses using our usual accounting policies to assess the appropriate accounting treatment.
Can you provide details of those solicitors utilised by the Council during the year? Please indicate where they are working on open litigation or contingencies from prior years?	Cripps – employment Trowers & Hamlins – procurement Sharpe Pritchard – litigation Anthony Collins – community management Wilkin Chapman – member conduct
Can you provide details of other advisors consulted during the year and the issues on which they were consulted?	Various counsel for litigation and general advice
Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
Are you aware of any instances of non-compliance with laws or regulations or is the Council on notice of any such possible instances of non-compliance?	Nothing other than a few pre-action protocol letters regarding individual planning decisions
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	No

Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
Accounting Estimates	
How do you identify transactions, events, and conditions that may give rise to the need for accounting estimates to be recognized or disclosed in the financial statements?	Budget managers are emailed each year to remind them of the process to accrue for income or expenditure. Some accrual will be made on estimations and these are attached with the accrual, where these are material they would be disclosed in Note 4.
Are there changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates?	No
Related Parties	
How do you identify the entity's related parties, including changes from the prior period?	All Councillors and Heads of Service are requested each year to declare if they have any related party transactions. Any material considerations would be declared through this process are reported in Note 31 in the Statement of Accounts. There is a standing item on each Committee agenda requiring Members to declare any interest in any item to be discussed. The Democratic Services Manager keeps a record of all declarations made at meetings and a Register of Members Interests is available for public inspection.
What is the nature of the relationships between the entity and these related parties?	The related party transaction declaration captures relationships between the Council and ; Individuals Members of the individuals close family or the individuals household or Partnerships, companies, trusts or any entities (eg charities) in which the individual or close family or same household has a controlling interest.
Has the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions?	This work is completed following the 31 March and will be updated accordingly.

Yours faithfully/sincerely

Ben Lockwood
Director Finance and Economy