The Annual Audit Letter for Ashford Borough Council

Year ended 31 March 2020

February 2021

Contents

Your key Grant Thornton team members are:

Darren Wells
Key Audit Partner
T: 01293 554120
E: Darren.J.Wells@uk.gt.com

Trevor Greenlee
Manager
T: 01253-554071
E: Trevor.Greenlee@uk.gt.com

Ke Ma
Associate
T: 20 7865 2905
E: Ke.Ma@uk.gt.com

Section	Page
1. Executive Summary	3
2. Audit of the Financial Statements	5
3. Value for Money conclusion	11

Appendices

A Reports issued and fees

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Ashford Borough Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our work in our Audit Findings Report to the Council's Audit Committee as those charged with governance on 24 November 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two);
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £2,199,000, which is approximately 2% of the group's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 21 January 2021. Our report included an emphasis of matter in respect of the impact of the Covid-19 pandemic on the valuation of the Council's land and buildings, holding in a property investment fund and share In the Kent Pension Fund's property investments as at 31 March 2020. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 21 January 2021.
Certificate	We certified the completion of the audit of the financial statements of Ashford Borough Council in accordance with the requirements of the Code of Audit Practice on 21 January 2021.

Working with the Council

Both the Council and the audit team moved to remote working arrangements In March 2020. We continued to have regular contact with the Council throughout our audit of the financial statements, although the remote working arrangements meant that our audit took longer to complete.

We would like to take this opportunity to record our appreciation for the assistance provided by the Council's staff during the audit, particularly given the additional issues associated with remote working as a result of the pandemic.

Grant Thornton UK LLP February 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the group's financial statements we use the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £2,199,000, which is approximately 2% of the group's gross revenue expenditure. We determined materiality for the audit of the Council's financial statements to be £2,198,000, which is approximately 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the group's financial statements are most interested in where the group, including the Council, has spent its revenue in the year.

We set a lower level of materiality, £500,000, for our review of the Council's bank and cash balances, as any error in this area might have added significance for the accounts as a whole.

We set a threshold of £110,000 above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the other information published with the financial statements (including the Narrative Report) and the Annual Governance Statement to check that this is consistent with our understanding of the Council.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified significant risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 The global Covid-19 pandemic has led to unprecedented uncertainty for all organisations, including the Council. We identified risks relating to; • the impact of remote working arrangements on the Council's process for producing the financial statements, and on the audit team's ability to obtain sufficient, appropriate audit evidence to support our opinion; • the greater uncertainty applying to assumptions and estimates made by management, including the potential impact of market volatility on property valuations; and • the need for appropriate disclosures in the financial statements on the impact of the pandemic.	As part of our audit work we: • worked with management to understand the implications of the response to the pandemic on the Council's ability to prepare the 2019/20 financial statements; • evaluated the adequacy of the disclosures in the financial statements in the light of the pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; and • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the valuations for property assets.	The Council moved to a remote working environment in March 2020. However, there has been no indication of high sickness levels, changes in roles and responsibilities or IT systems issues with a significant impact on the workings of the finance team. Management concluded that all valuations in respect of the Council's land and buildings, its holdings in a property investment fund, and its share In the Kent Pension Fund's property investments should be reported on the basis of "material valuation uncertainty". Our audit opinion includes an emphasis of matter drawing attention to this disclosure in the financial statements.

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings The Council revalues its PPE assets using a 5-year rolling programme, but with all major assets revalued annually. All investment properties are also revalued annually. For assets not revalued by the external valuer management review the carrying value included in the financial statements to ensure that this is not materially misstated. . The valuation of these assets represents a significant estimate by management in the financial statements. We designed our work to address the risk that the valuation of land and building assets was materially misstated.	As part of our audit work we: • evaluated management's processes for the calculation of the estimate, including the instructions issued to the Council's external valuers and the scope of their work; • evaluated the competence, capabilities and objectivity of the external valuers; • challenged the information and assumptions used by the Council's external valuers: • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated how management concluded that the carrying value of assets not revalued was not materially misstated.	We noted that for one asset the valuation had been understated by £380,000 due to an incorrect figure for rent being used in the valuation calculations. For another asset we noted that the valuation had been overstated by £606,000 due to an error in the gross internal area used in the valuation calculations. As the impact of these errors was not material management decided not to adjust the accounts. Our review of source information supporting the 2019/20 valuations for the Council's car parks identified an error in the calculations for the previous year. The Council had provided information on car park income to the external valuer; the external valuer had used information from the wrong line in performing calculations. As a result the net book value for car parks included in the 2018/19 financial statements had been overstated by £2.7m. A prior period adjustment was made to the 2019/20 accounts.

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of net pension liability The Council's financial statements include a net liability in respect of the Local Government Pension Scheme (LGPS). This represents a significant estimate in the financial statements. We designed our work to address the risk that the pension fund net liability was materially misstated	As part of our audit work we: • identified and evaluated the design of the controls put in place to ensure that the pension fund net liability was not materially misstated; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary; • confirmed the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary PWC (as auditor's expert) and performing the additional procedures suggested within the report; • checked that the disclosures on pensions included in the financial statements were consistent with the actuary's report; and • obtained assurance from the auditor of the Kent Pension Fund (KPF) on the validity and accuracy of the membership, contributions and benefits data provided by KPF to the actuary, and used by the actuary to calculate the Council's net pension liability.	In December 2018 the Court of Appeal ruled that provisions in some public sector pension schemes were discriminatory on the basis of age, the so-called "McCloud" judgement. This ruling has implications for other pension schemes, including the LGPS, and gives rise to additional pension scheme liabilities for the Council. The impact of the ruling was assessed by the Council's actuary and accounted for in the 2018/19 financial statements. A consultation by HM Treasury on the next phase of the Government's response to address this discrimination commenced in July 2020. This process may lead to changes in the liabilities arising out of the judgment. The Council has not obtained a revised report from the actuary quantifying the potential impact of the government's proposals as the issue is not considered to be material. We noted that the actuary's estimate included in the 2018/19 accounts was not material. We also noted a briefing by the Council's actuary indicating that their original estimation of McCloud liabilities replicated the government's proposed remedy, and therefore that their estimate remains appropriate. We concluded that there was no material issue for our opinion.

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We designed our work to address the risk associated with management override of internal controls.	As part of our audit work we: • evaluated the design effectiveness of management controls over journals; • identified and tested unusual journal entries for appropriateness; • gained an understanding of the accounting estimates, judgements applied and decisions made by management, and considered their reasonableness; and • evaluated the rationale for any changes in accounting policies or significant unusual transactions.	We considered the disclosures on estimation uncertainty relating to the pandemic and agreed a number of changes with management. We did not identify any other issues in respect of management override of controls.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 21 January 2021.

Issues arising from the audit of the financial statements

As a result of the Covid-19 pandemic remote working arrangements for both the Council and the audit team have been in place throughout the audit. This has meant that the audit has taken longer to complete, with screen-sharing and other procedures required to obtain appropriate supporting evidence.

Additional work has also been required in 2019/20 to address the depth and challenge of work now required by the Financial Reporting Council in areas such as the valuation of property assets and the Council's net pension liability.

The draft financial statements produced by the Council were of a high standard. This performance was especially commendable given the challenging environment created by the pandemic.

We reported the key issues from our audit to the Council's Audit Committee on 24 November 2020.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with our knowledge and with the group's financial statements.

Whole of Government Accounts (WGA)

We carried out work in accordance with instructions issued by the NAO. We issued an assurance statement confirming that a review of the Council's data collection tool was not required as the values in the financial statements were below the specified threshold.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Ashford Borough Council in accordance with the requirements of the Code of Audit Practice on 21 January 2021.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:
In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability We identified a significant risk in respect of the Council's arrangements to ensure financial sustainability.	The Council has a history of strong financial management. It has a planning framework based on a 5 year Medium Term Financial Plan (MTFP) which is aligned with the budget-setting process and updated annually. The Council's objective is to be self-sufficient over the lifetime of the plan. In recent years it has regularly achieved only minor outturn variations against revenue budget. Prior to the pandemic the Council had agreed the action required to achieve balanced revenue positions in 2020/21 and 2021/22, the latter after a contribution from reserves. Additional pressures were anticipated in the later years of the MTFP, mainly due to the retendering of the Council's waste management contract. The impact of the Covid 19 pandemic on the Council's financial position in 2019/20 has been limited, with lockdown arrangements commencing in late March 2020. However, it is currently forecasting a deficit of £491,000 on the revenue budget for 2020/21; this is after a series of actions to reduce costs, including a recruitment freeze and other actions to reduce staffing costs by over £1m, and after taking into account additional Covid-19 funding from central government of £2,066,000. The Council is also forecasting a deficit on the Collection Fund, of which it's share is £791,000, which will have to be repaid from 2021/22. There is likely to be a further significant impact on the Council's finances in future years. The Council faces pressures both from loss of income and additional costs. The loss of income reflects the impact of wider economic conditions, including reduced income from car parks, commercial property and planning services. The Council is also experiencing reduced collection rates for both NNDR and council tax. The pandemic has also led to additional costs, including on homelessness and support for the Council's leisure centre operators. The Council has updated its medium term financial plan as at December 2020. It now anticipates a budget pressure of approximately £5m over the lifetime of the plan (2021/22 to 2025/26), which reflects both the ongoing impact of the pandemic and other pressures. This position is after incorporating planned savings of approximately £3m per annum to be delivered from 2021/22. At 31 March 2020 the Council had total general fund and earmarked reserves of £26,792,000. At the start of the pandemic members agreed to make reserves available to fund the anticipated budget gap in 2020/21. The MTFP	We concluded that the risk we identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability (continued)	anticipates that a budget pressure of £920,000 in 2021/22 will also be managed through reserves. Over the lifetime of the plan an amount equal to the forecast budget pressure of £5m will be held in the Economic Resilience Reserve. We considered the Council's response to managing the potential impact of the pandemic on its financial sustainability. We noted that financial reporting to members has moved to a two-monthly cycle since the start of the pandemic to allow for more regular updates and review of forecasts. The Council has taken early action to reduce revenue expenditure in 2020/21, and has increased the provisions for non-payment of business rates and council tax. Going forward there is considerable uncertainty over both the long -term impact of the pandemic and the wider framework for local government funding. However, the Council recognises the potential impact on its financial position and has taken early action to agree significant savings plans. The assumptions underlying the MTFP have been actively reviewed, both in terms of the timing of any recovery in income levels, and to allow for permanent changes in behaviour, including the assumption of an ongoing reduction of 15% in car park income. Whilst the Council anticipates the limited use of reserves to help manage the financial position its plans recognise that appropriate levels of reserves are required to deal with emergency pressures. We concluded that the Council now faces very significant financial pressures. Whilst considerable uncertainty still remains over the final scale and timing of these pressures, the Council has been pro-active in updating its financial plans and agreeing on it's initial response. Further work is still required to identify and deliver the planned savings under the MTFP, and any shortfall in delivery is likely to lead to additional calls on reserves. However, we concluded that on current forecasts the Council continues to operate within a sustainable medium term financial plan, and that in addressing the impact of the pandemic the Council has continued to demonstrate that it has an appropriate framework of financial management arrangements.	

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	March 2020
Audit Findings Report	November 2020
Annual Audit Letter	February 2021

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	53,939	62,029	53,639
Total fees	**53,939**	**62,029**	**53,639**

Fees for non-audit services

	Planned £	Actual fees £	2018/19 fees £
Audit related services	15,000	TBC	15,000
Certification of Housing Benefit Subsidy claim			
Non-Audit related services			
- None			
Total fees for non-audit services	**15,000**	**TBC**	**15,000**

Non- audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table summarises all non-audit services which were identified.

We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

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

Audit fee variation

As outlined in our audit plan the planned fee of £53,939 for 2019/20 was based on the assumption that the scope of our audit did not significantly change. However, for 2019/20 we have been required to perform additional work over and above that originally envisaged due to the impact of Covid 19. Our final fee is set out in the table overleaf.

The proposed fee variation is subject to approval by PSAA.

Grant Thornton