



Annual Audit Letter

Year ending 31 March 2018

Ashford Borough Council
August 2018



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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 2018.

This Letter is intended to provide a commentary on the results of our work to the group 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 audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 10 July 2018.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £1,977,000, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 20 July 2018.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
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 20 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on the 2017/18 claim will be finalised by 30 November 2018. We will report the results of this work to the Audit Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Ashford Borough Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2018

Respective responsibilities

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

- give an opinion on the Council 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.

Audit of the Accounts

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 in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group's accounts to be £1,977,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We set a lower threshold of £99,000 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 remainder of the Statement of Accounts, the Narrative Report published with the Statement of Accounts and the Annual Governance Statement to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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 based on a thorough understanding of the group's business and is risk based.

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

Audit of the Accounts

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Ashford Borough Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we did not consider this to be a significant risk for the Council.</p>	<p>Our audit work did not identify any issues in respect of improper revenue recognition.</p>
<p>Management override of controls</p> <p>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.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • gained an understanding of accounting estimates, judgements and decisions made by management and considered their reasonableness; • obtained a full list of journal entries, identifying and testing unusual journal entries for appropriateness; and • evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>We did not identify any issues in relation to this risk.</p>

Audit of the Accounts

Significant Audit Risks Continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment</p> <p>The Council regularly revalues its land and buildings assets. The valuation of Property, Plant and Equipment (PPE) assets represents a significant estimate by management in the financial statements.</p> <p>We designed our work to address the risk that PPE revaluation measurements were materially misstated.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, including review of the instructions issued to the Council's external valuer; • considered the competence, expertise and objectivity of the external valuer; • reviewed the external valuer's approach and assumptions; and • tested that revaluations were correctly entered into the Council's accounting records. 	<p>We did not identify any issues in relation to this risk.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's financial statements include a net liability in respect of the Local Government Pension Scheme. This represents a significant estimate in the financial statements.</p> <p>We designed our work to address the risk that the pension fund net liability was materially misstated.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • identified and evaluated the controls put in place to ensure that the pension fund net liability was not materially misstated; • evaluated the competence, expertise and objectivity of the actuary who carried out the pension fund valuation; • performed work to confirm the reasonableness of the assumptions made by the actuary; and • checked that the information on pensions included in the financial statements was consistent with the actuary's report. 	<p>We did not identify any issues in relation to this risk.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the group's financial statements on 20 July 2018, in advance of the national deadline.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit Committee on 10 July 2018.

The Council's accounts were prepared to a high standard. We did not identify any adjustments requiring an amendment to the Core Financial Statements. We agreed a number of changes to the disclosure notes supporting the Core Financial Statements.

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 Council's financial statements.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Ashford Borough Council in accordance with the requirements of the Code of Audit Practice.

We issued our certificate on 20 July 2018.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

Key findings

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

The key risks we identified and the work we performed are set out 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 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p> <p>The Council continues to face significant financial pressures associated with reductions in government funding.</p> <p>A strong financial planning framework is key to the Council maintaining a sustainable financial position and delivering its key objectives.</p> <p>We reviewed the Council's medium term financial plan and the supporting information trails.</p>	<p>The Council has a history of sound financial management. For 2017/18 net revenue expenditure exceeded income by only £19,000.</p> <p>The Council continues to face the impact of reductions in central government funding, including through changes to the New Homes Bonus Scheme. However, it has a strong financial planning framework based on a 5 year medium term financial plan (MTFP) which currently runs from 2018/19 to 2022/23. The Council's objective is to be self-sufficient over the lifetime of the plan. It has already established a subsidiary company to help generate income from investment property. It also anticipates significant increases in rental and other income from corporate projects over the lifetime of the MTFP, in particular from the Elwick Road Leisure Park, whilst recognising that there is an element of uncertainty around future income streams from commercial projects. The Council will also benefit from participation in the Kent business rates pilot.</p> <p>The MTFP currently shows a relatively limited cumulative revenue budget gap of £465,000 for the period to 31 March 2023. However, the Council recognises that action will be required to address this, including through its existing strategies for managing inflationary pressures and achieving efficiencies.</p> <p>The MTFP is updated annually and integrated into the budget-setting process. A review of supporting trails shows that the plan is based on a comprehensive consideration of the relevant income and expenditure streams.</p> <p>The Council has a significant medium term capital programme. Financing this programme may require increases in external borrowing; and may also contribute to a reduction in usable reserves over the lifetime of the MTFP. However, current forecasts indicate the Council will have usable reserves of £26.6m as at 31.3 2021. The latest HRA Business Plan also indicates that the housing capital investment programme remains affordable.</p>	<p>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.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit. There were no fees for the provision of non audit services.

Reports issued

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

Fees for other services

Service	Fees £
Audit related services	2,000
- Pooling of Housing Capital Receipts Audit Return	
Non-Audit related services	Nil
- None	

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	60,311	60,311	60,311
Housing Benefit Grant Certification	8,112	TBC	10,650
Total fees	68,423	TBC	70,961

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



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