

The Audit Findings for Ashford Borough Council

Year ended 31 March 2019

July 2019



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Your key Grant Thornton team members are:

Darren Wells

Director

T: 01293 554 120

E: darren.j.wells@uk.gt.com

Trevor Greenlee

Manager

T: 01293 554071

E: trevor.greenlee@uk.gt.com

Appendices

- A. Follow up of prior year recommendations
- B. Audit adjustments
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Ashford Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit is substantially complete although we are finalising our procedures in the following areas:</p> <ul style="list-style-type: none">• completing our work on asset valuations;• final review and quality control procedures;• obtaining and reviewing the management letter of representation;• reviewing a final version of the financial statements and Narrative Report; and• updating our post balance sheet events review to the date of signing our opinion. <p>IFRS9 (Financial Instruments) is applicable to 2018/19 local authority accounts. The standard introduces a new classification model, and new categories, for financial assets. Under IFRS9 the default category for equity investments is 'fair value through profit and loss' (FVPL), but the standard allows for an irrevocable election to classify investments in equity instruments as 'fair value through other comprehensive income' (FVOCI).</p> <p>The Council has holdings in collective investment vehicles, including the CCLA Property Fund. During 2018/19 the Council elected a number of holdings in collective investment vehicles to FVOCI. These holdings had a value of £22.0m at 31.3.19. This presentation was reflected in the draft accounts.</p> <p>Our view is that investments in collective investment vehicles do not qualify for the election to FVOCI. We discussed the issue with officers, and considered the supporting information which they provided, including a legal opinion. However, our view remains that the election of these instruments to FVOCI is not consistent with a decision of the IFRS Interpretations Committee (IFRIC) in September 2017. Following further discussions management has decided to re-categorise the instruments as FVPL. The accounts have been amended. Further details are included at Appendix B.</p> <p>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. The ruling had implications for other pension schemes, including the Local Government Pension Scheme (LGPS). At the time of preparing your draft accounts a legal challenge by the government against this ruling was in progress. On 27 June 2019 the Supreme Court refused the government permission to appeal against the judgement. Following the conclusion of the legal process this judgment is likely to give rise to additional pension scheme liabilities for the Council. Your actuary has estimated that the impact of the ruling is to increase the Council's overall pension liabilities at 31.3.19 by £1,330,000. The accounts have been amended to include these estimated liabilities. Further details are included at Appendix B.</p> <p>We noted a minor error in the spreadsheet workings used to calculate the provision for NNDR appeals. As a result the increase in the provision required on the Collection Fund Statement was understated by £296,000, and the Council's share of the provision at 31.3.19 by £118,000. As the amounts were not material management decided not to adjust the accounts. Further details are included at Appendix B.</p>
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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Ashford Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements (continued)	<p>The group accounts consolidate transactions in respect of A Better Choice for Property Development Ltd. The draft accounts were prepared using information from the company's balance sheet at 31 March 2019, which included an amount of £7,484,316 for the value of investment properties. However, certificates received from the company's external valuer indicate the value of these properties is £6,670,000. Management decided that the overstatement of £804,000 was not material to the group and decided not to adjust the accounts. The issue is not material for our opinion. Further details are included at Appendix B.</p> <p>Subject to the completion of outstanding work, we anticipate issuing an unqualified audit opinion.</p> <p>We concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our report for 2018/19 does not include any recommendations for management. Our follow-up of prior year recommendations is at Appendix A.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p> <p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and• To certify the closure of the audit. <p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;

- an evaluation of the components of the group based on a measure of materiality, considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that the Council was a component that was individually significant to the group, and that the companies A Better Choice for Property Ltd. and A Better Choice for Property Development Ltd. were components which included a significant risk (valuation of investment properties) requiring additional audit procedures.
- an evaluation of the group's internal controls environment including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements. Subject to the completion of outstanding work, we anticipate issuing an unqualified audit opinion.

Our approach to 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.

In our audit plan we determined overall materiality to be £1,977,000 (being 2% of gross revenue expenditure). We updated our materiality to take account of the values in your draft accounts as detailed in the table below.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	2,345,000	2,344,000	This has been calculated based upon 2% of your gross expenditure (Cost of Services) in the draft accounts. Materiality for the Council is less than materiality for the Group.
Performance materiality	1,758,000	1,758,000	This has been calculated as 75% of materiality for the financial statements, based upon our assessment of the likelihood of a material misstatement. Performance materiality is used in audit testing and helps address the risk that there may be multiple errors which are individually below materiality but aggregate to a material amount.
Trivial matters	117,000	117,000	This has been calculated based upon 5% of the materiality for the financial statements.
Materiality for specific transactions, balances or disclosures	There were no specific transactions, balances or disclosures where we applied a separate materiality level.		

Audit findings – Significant risks

Risks identified in our Audit Plan	Commentary
<p>1 The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK) 240 there is a 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>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can 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; • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for the Council.</p>
<p>2 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 therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<p>Auditor commentary</p> <p>Our audit work included;</p> <ul style="list-style-type: none"> • evaluating the design effectiveness of management controls over journals; • identifying and testing unusual journal entries for appropriateness; • gaining an understanding of the accounting estimates, judgements applied and decisions made by management and considering their reasonableness; • evaluating the rationale for any changes in accounting policies or significant unusual transactions. <p>Our audit work has not identified any issues in respect of management override of controls.</p>

Audit findings – Significant risks

Risks identified in our Audit Plan

3

Valuation of land and buildings

The Council regularly revalues its land and buildings to ensure that carrying value is not materially different from current value. Investment properties are revalued annually at fair value. These valuations represent a significant estimate by management in the financial statements.

4

Valuation of pension fund net liability

The valuation of the Council's net pension liability as reflected in its balance sheet represents a significant estimate in the financial statements.

Commentary

Auditor commentary

Our audit work included;

- reviewing management's processes and assumptions for the calculation of the estimate, the instructions issued to the Council's valuers as management experts and the scope of their work;
- considering the competence, expertise and objectivity of the external valuers;
- testing that revaluations made during the year are input correctly into the Council's asset register;
- evaluating 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.

The group accounts consolidate transactions in respect of A Better Choice for Property Development Ltd. The company's balance sheet included an amount of £7,484,316 for the value of investment properties under construction at 31 March 2019. This balance was overstated by £800,000. Management concluded that this amount was not material to the group and decided not to adjust the accounts. Further details are included at Appendix B.

Our work on asset valuations is still in progress. Subject to completion of our outstanding work we have not identified any other issues in respect of the valuation of land and buildings.

Auditor commentary

Our audit work included;

- identifying the controls put in place by management to ensure that the pension fund liability is not materially misstated.
- assessing the competence, capabilities and objectivity of the actuary who carried out your pension fund valuation.
- assessing the accuracy and completeness of the information provided to the actuary
- undertaking procedures to confirm the reasonableness of the actuarial assumptions made
- checking the consistency of the pension fund disclosures in the notes to the financial statements with the report from your actuary.

We set out our view of the above audit work on page 9.

In December 2018 the Court of Appeal ruled that transitional protections in some public sector pension schemes were discriminatory on the basis of age, the so-called "McCloud" judgement. The ruling had implications for other pension schemes, including the Local Government Pension Scheme (LGPS). At the time of preparing your draft accounts a legal challenge by the government against this ruling was in progress. On 27 June 2019 the Supreme Court refused the government permission to appeal against the judgement.

Audit findings – Significant risks

Risks identified in our Audit Plan

Commentary

4

Valuation of pension fund net liability (continued).

Following the conclusion of the legal process this judgment is likely to give rise to additional pension scheme liabilities for the Council. Management requested an estimate from the Council's actuary of the potential impact of the ruling. The Council's actuary has estimated that the impact of the ruling is to increase the Council's overall pension liabilities at 31.3.19 by £1,330,000. We have reviewed the analysis performed by the actuary and consider that the approach taken to arrive at this estimate is reasonable. The accounts have been amended to include these estimated liabilities. Further details are included at Appendix B.

Our audit work has not identified any other issues in respect of the valuation of the pension fund net liability.

Audit findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment																																	
Net pension liability – £70.7m	<p>The Council's net pension liability at 31 March 2019 is £70,746,000 (PY £77,070,000). The Council is a member of the LGPS as operated through the Kent Pension Fund. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities under the scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £6,324,000 net actuarial gain during 2018/19.</p>	<ul style="list-style-type: none"> We assessed your actuary, Barnett Waddingham, to be competent, capable and objective. We have used the work and report of a consulting actuary (as an auditor's expert) to consider whether your actuary's method of calculating the estimate, including the roll forward approach, is reasonable. We carried out analytical procedures to conclude on whether the Council's share of the LGPS pension assets and liabilities was reasonable. We concluded that the information used by the actuary was complete and accurate. The auditors' expert has assessed the assumptions made by your actuary and identified indicative ranges for assumptions. There were no issues arising. 																																	
<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary value used for Ashford BC</th> <th>Expected range per the auditor's expert</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.40%</td> <td>2.35 – 2.45%</td> <td></td> </tr> <tr> <td>Pension increase rate</td> <td>2.40</td> <td>2.45 -2.40%</td> <td></td> </tr> <tr> <td>Salary growth</td> <td>3.90</td> <td>CPI (2.35% - 2.45%) + 1.50%</td> <td></td> </tr> <tr> <td>Life expectancy – Males currently aged 45</td> <td>22.0</td> <td>22.2-25.0</td> <td></td> </tr> <tr> <td>aged 65</td> <td>23.7</td> <td>20.6-23.4</td> <td></td> </tr> <tr> <td>Life expectancy – Females currently aged 45</td> <td>24.0</td> <td>23.2-24.8</td> <td></td> </tr> <tr> <td>Aged 65</td> <td>25.8</td> <td>25.0-26.6</td> <td></td> </tr> </tbody> </table>	Assumption	Actuary value used for Ashford BC	Expected range per the auditor's expert	Assessment	Discount rate	2.40%	2.35 – 2.45%		Pension increase rate	2.40	2.45 -2.40%		Salary growth	3.90	CPI (2.35% - 2.45%) + 1.50%		Life expectancy – Males currently aged 45	22.0	22.2-25.0		aged 65	23.7	20.6-23.4		Life expectancy – Females currently aged 45	24.0	23.2-24.8		Aged 65	25.8	25.0-26.6				
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Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Audit findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary
<p>① Holdings in collective investment vehicles: Election to FVOCI under IFRS 9</p>	<p>IFRS9 (Financial Instruments) is applicable to 2018/19 local authority accounts. The standard introduces a new classification model, and new categories, for financial assets. Under IFRS9 the default category for equity investments is 'fair value through profit and loss' (FVPL), but the standard allows for an irrevocable election to classify investments in equity instruments as 'fair value through other comprehensive income' (FVOCI). Gains and losses in the value of investments held at FVPL will be reflected in the surplus or deficit on the CIES. However, for local authorities a statutory override is in place, for five years, which requires adjusting entries to prevent an impact on the General Fund. Gains and losses on instruments elected to FVOCI do not affect the General Fund.</p> <p>The Council has a number of holdings in collective investment vehicles, for example the CCLA Property Fund. During 2018/19 the Council elected a number of holdings in collective investment vehicles to FVOCI. The draft accounts reflected this presentation for holdings with a value of £22.0m at 31.3.19.</p> <p>Our view is that investments in collective investment vehicles do not qualify for the election to FVOCI because such investments do not meet the definition of an equity instrument from the issuer's perspective.</p> <p>We discussed this issue with management. Management sought legal advice and obtained an opinion which supported its position. We considered the views of officers and the supporting legal opinion. However, we consider that the election of these instruments to FVOCI is not consistent with a decision of the IFRS Interpretations Committee (IFRIC) in September 2017. We shared our technical view with management.</p> <p>Following further discussions management has decided to re-categorise the instruments as FVPL. The accounts have been amended. Further details are included at Appendix B.</p> <p>We noted that a realised gain of £369,000 on assets originally categorised as FVOCI had been included in the Deficit on the Provision of Services. Following the decision to recategorize the instruments as FVPL management adjusted the accounts. There was no net impact on Total Comprehensive Income and Expenditure.</p>

Going concern

Our responsibility

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 entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

Management's assessment process is based on your financial planning framework. You have a five year Medium Term Financial Plan (MTFP).

Auditor commentary

- You have a history of achieving financial savings plans and delivering services within budget.
- You have a comprehensive medium term planning framework. The MTFP is updated annually and integrated with your annual budget processes.
- Management has concluded that it is appropriate to use the going concern basis of accounting.

Work performed

We considered management's going concern assessment.

Auditor commentary

- You have set a balanced budget for 2019/20.
- Your MTFP forecasts that useable (cash-backed) reserves and working capital, net of internal borrowing, will remain above £33 million throughout the lifetime of the plan.
- The cumulative revenue budget savings gap over the lifetime of the plan is currently forecast to be £767,000.

Concluding comments

Auditor commentary

- We concluded that management's continued use of the going concern concept to prepare the financial statements remains appropriate. We did not identify any material uncertainty about your ability to continue as a going concern.
-

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations. We have not identified any incidences of non-compliance with relevant laws and regulations from our audit work.
④ Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from you.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We seek external confirmations from the relevant banks and financial institutions to support our review of your cash and investment balances. We received positive confirmation for all balances other than for three requests where no response was received. For these balances we obtained assurance from alternative procedures. There are no issues to report to you.
⑥ Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. We agreed a number of changes to the Notes to the Core Financial Statements. Further information on these changes is included at Appendix B.
⑦ Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information requested from management was provided We did not encounter any significant difficulties during our audit.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
① Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect, as detailed at Appendix D.
② Matters on which we report by exception	<p>We are required to report on matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
③ Specified procedures for Whole of Government Accounts	<ul style="list-style-type: none"> We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Detailed work is not required as the Council does not exceed the threshold specified by NAO.
④ Certification of the closure of the audit	<ul style="list-style-type: none"> We intend to certify the closure of the 2018/19 audit of the Council in the audit opinion, as detailed in Appendix D.

Value for Money

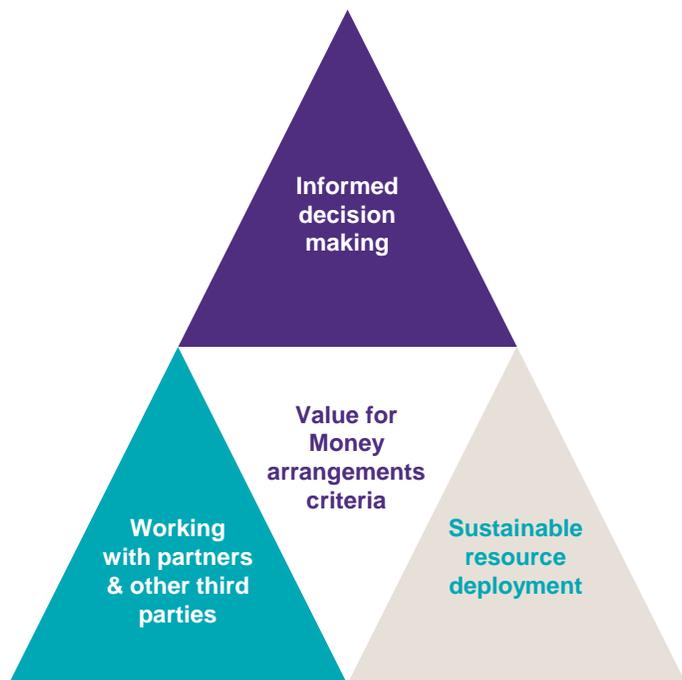
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 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:



Risk assessment

We carried out an initial risk assessment to identify significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We identified two significant risks and communicated these to you in our Audit Plan dated March 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of your arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the two significant risks that we identified in your arrangements. In arriving at our conclusions, our main considerations were:

Financial sustainability

- Your proactive approach to addressing reductions in government funding, including a focus on developing other income streams
- The level of revenue reserves available to address risks and support future spending plans.
- Your strong financial planning framework based on a 5 year medium term financial plan (MTFP).

Brexit

- The development of multi-agency contingency plans led by the Kent Resilience Forum.
- Your local arrangements based on the work of the Brexit Management Team.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and any further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p>1 Financial sustainability</p> <p>Your most recent medium term financial plan indicates that you continue to have a robust position, with only minor budget gaps identified in the period 2019-20 – 2022-13. Further work will be required to deliver planned savings and develop future income streams.</p> <p>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.</p> <p>We will update our understanding of your medium term financial plan and review the supporting information trails.</p>	<p>You have a history of sound financial management. In recent years you have been proactive in addressing sustained reductions in government funding, including a focus on developing other income streams. This has continued in 2018/19, with a significant increase in the number and value of investment properties held through your subsidiary property company, and the incorporation of a separate subsidiary for property development. You anticipate you will also benefit from increasing rental income streams, including those associated with the Elwick Place regeneration project which opened in December 2018.</p> <p>You are aware that there continue to be significant uncertainties for financial planning going forward. Historically you have benefited from significant growth in business rates income, and in 2018/19 from membership of the Kent business rates pilot, but there are uncertainties over the future framework for the localisation of business rates. The future impact of the Fair Funding review across local authorities is also unclear. The level of income you receive from New Homes Bonus funding, which in part helps support your base budget, is reducing.</p> <p>However, you continue to have a robust financial planning framework. This is based on a 5 year Medium Term Financial Plan (MTFP) which is updated annually and aligned with the budget-setting process. Your objective is to be self-sufficient over the lifetime of the plan. A review of supporting trails shows that the MTFP is based on a comprehensive consideration of the relevant income and expenditure streams. The most recent version of the MTFP shows a revenue budget gap of approximately £750,000 over the five-year period of the plan; however, levels of usable reserves are forecast to be £40.3m at the end of the plan period.</p> <p>You continue to have a significant medium term capital programme, the potential costs of which are reflected in the planning framework. The latest HRA Business Plan shows an increase in borrowing levels following the abolition of the HRA debt cap in October 2018. However the plan indicates that your housing capital investment programme remains affordable.</p>	<p>Auditor view</p> <p>We concluded that the risk we identified was sufficiently mitigated and that you have proper arrangements for securing economy, efficiency and effectiveness in the use of resources.</p>

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and any further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p>1 Brexit</p> <p>The government is in continuing negotiations with the EU over Brexit, and there is uncertainty over the future impact for public services and the wider economy.</p> <p>We will consider the action taken by the Council, including any wider preparations across local authorities in Kent, to mitigate any risks around Brexit.</p>	<p>At the time of our Audit Plan the anticipated date of leaving the European Union was 29 March 2019. The anticipated date of leaving is now 31 October 2019.</p> <p>For risk assessment purposes you and other authorities locally have been focused on the risks associated with a “Day one” No Deal Brexit, and the need to continue delivering services with minimal disruption. Many of these risks are being addressed at a Kent-wide level through the Kent Resilience Forum (KRF). The KRF first produced a Threat and Risk Assessment matrix during 2018/19, and this risk assessment continues to be updated. Currently the most significant risks relate to cross-channel disruption and transport issues; for these a number of multi-agency contingency plans are in place, e.g. Operations Fennel, Brock and Perch, and these continue to be refined in co-ordination with government departments. As a participant you have access to the planning resources of the KRF and officers regularly attend the Strategic and Tactical Command Groups.</p> <p>Locally you have established a Brexit Management Team to assess local risks, develop mitigation strategies, co-ordinate with other agencies and identify longer-term opportunities. During 2018/19 this local work has included review of business continuity and financial plans and a series of actions to prepare for any potential disruption around exit day and the immediately following period; these included a review of payment and loan maturity dates, consideration of data information and system issues and development of a communications plan.</p> <p>Your Brexit Management Team remains in place and you are continuing to make preparations for the new departure date at the end of October. These include updating your plans for individual services such as waste collection and preparing a Brexit checklist for service managers.</p>	<p>Auditor view</p> <p>We concluded that the risk we identified was sufficiently mitigated and that you have proper arrangements for securing economy, efficiency and effectiveness in the use of resources.</p>

Independence and ethics

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 confirm that we, as a firm, and each covered person, 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 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Audit and Non-audit services

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

Service	£	Threats	Safeguards
Audit related			
Certification of Pooling of Housing Capital Receipts Audit Return	2,500	Self-Interest (because this is a recurring fee).	The level of these recurring fees is not considered a significant threat to independence as the total fees are £13,000 in comparison to the total fee for the audit of £46,439, and in particular relative to Grant Thornton UK LLP's turnover overall. Further, these are fixed fees without a contingent element. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of the Housing Benefit Subsidy claim	10,500	Self-Interest (because this is a recurring fee from 2018/19).	
Non-audit related			
None			

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

Follow up of prior year recommendations

We identified the following issues in prior year audits which resulted in recommendations being reported in our Audit Findings Reports.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Journals (2016/17)</p> <p>The Council does not require authorisation of each journal; instead the expected internal control is that the Head of Finance reviews journals on a risk basis. In previous years we have recommended that the Council should review its journal authorisation procedures.</p>	<ul style="list-style-type: none"> The system of control remains unchanged from 2016/17. In previous years the Council has responded that it is comfortable with the level of control in place, as there is no sign-off functionality within the system to control, journal processing and to implement this would involve the introduction of a manual process. The staff that can input journals are restricted to the finance team and a journal cannot trigger a payment or change amounts due to or from third parties. This remains the position for 2018/19.
✓	<p>Accounting for developer's contributions (2017/18)</p> <p>The Council's current practice is to credit developer's contributions to the CIES as revenue income, and then to hold the amounts in an earmarked revenue reserve until expenditure is incurred. We noted that in 2017/18 some significant amounts from the earmarked revenue reserve were being used to fund capital expenditure.</p> <p>We recommended that when developer's contributions are received the likely use of the contribution is assessed, and where it is clear that the contribution will be used for capital purposes then the contribution should be held in Capital Grants Unapplied. The balances currently held in the earmarked revenue reserve for Developer Contributions should also be assessed and adjusting entries made where appropriate.</p>	<ul style="list-style-type: none"> The balances held in the earmarked reserve for developer's contributions have been reviewed by the Head of Finance. There were no significant balances requiring transfer to Capital Grants Unapplied. The likely use of contributions is now assessed for new developer's contributions received.

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations (Continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Public Inspection period (2017/18)</p> <p>Not all of the information required by regulations was published before the start of the inspection period for the 2017/18 accounts as required by the Accounts and Audit Regulations 2015.</p> <p>We recommended that in future years the Council should ensure that all of the information required by regulations is published prior to the start of the inspection period.</p>	<p>The Council's process has been reviewed and amended. For the 2018/19 accounts all information required by regulations was published prior to the start of the inspection period.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure
	£000	£000	£000
1 Estimated pension liabilities arising from McCloud judgement.	1,330	(1,330)	1,330
Overall impact	0	0	0

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure	Reason for not adjusting
	£000	£000	£000	
1 NNDR appeals provision understated		118		Management have concluded that the issue is not material.
Dr Provisions		(118)		
Cr Usable reserves				
2 (Group)				Management have concluded that the issue is not material.
Valuation of investment properties overstated		(804)		
Dr Investment property		804		
Cr Useable reserves				
Overall impact		0		

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Detail	Auditor recommendations	Adjusted?
Disclosure	Note 1 Accounting Policies	<ul style="list-style-type: none"> Accounting policies to be expanded to cover introduction of new standards IFRS9 and IFRS15 for 2018/19. 	✓
Disclosure	MIRS	<ul style="list-style-type: none"> Various adjustments required including correction of previous year figures 	✓
Disclosure	Note 4	<ul style="list-style-type: none"> Previous year figure of £2,704,000 amended to £2,272,000 	✓
Disclosure	Note 9	<ul style="list-style-type: none"> Reference to exclusion of payments covered by confidentiality agreements removed as no longer applicable 	✓
Disclosure	Note 22	<ul style="list-style-type: none"> Financial instruments elected to FVOCI with a value of £21,986,000 at 31.3.2019 reclassified as FVPL. 	✓
Disclosure	Note 22	<ul style="list-style-type: none"> Disclosure expanded to show how previous year closing balances for financial instruments have been analysed to new categories at 1.4.2018. Disclosure amended to allocate all financial instrument balances at 31.3.2019 to new categories under IFRS 9 	✓
Disclosure	Note 40	<ul style="list-style-type: none"> Analysis of cash equivalents at 31.3.2019 amended; balance for bank call accounts reduced by £2,166,000 with matching increase in balance for bank current accounts. 	✓
Disclosure		<ul style="list-style-type: none"> Various other minor amendments to the amounts or narrative at disclosure notes. 	✓

Fees

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

Audit Fees

	Proposed fee	Final fee
	£	£
Council Audit	46,439	TBC
Total audit fees (excluding VAT)	46,439	TBC

The fees reconcile to the financial statements:

£000

- 46 2018/19 Council audit fee
- 4 2017/18 additional certification fees for work on housing benefit subsidy claim
- 11 2018/19 planned fee for work on housing benefit subsidy claim
- 3 2018/19 planned fee for work on pooling of housing capital receipts audit return
- 64 Total fee per financial statements (Note 11)

Non Audit Fees

Fees for other services	Fees £
Audit related services:	2,500
• Pooling of Housing Capital Receipts Audit Return	
Non-audit services	
• None	0
Total non audit fees	2,500

Audit opinion

We anticipate we will provide the Council with an unmodified audit report.

Independent auditor's report to the members of Ashford Borough Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Ashford Borough Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going

concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the Annual Governance Statement and the information included in the Statement of Accounts at pages 1-8, i.e. the information in the Statement of Accounts other than the Authority and group financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Audit opinion

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 9, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as

Audit opinion

to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Ashford Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature

Darren Wells
for and on behalf of Grant Thornton UK LLP, Local Auditor
110 Bishopsgate
London
EC2N 4AY

XX July 2019



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