



The Annual Audit Letter for Ashford Borough Council

Year ended 31 March 2019

September 2019



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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 2019.

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 audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 30 July 2019.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £2.345 million, which is 2% of the group's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 14 August 2019.
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 14 August 2019.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2019. We will report the results of this work to the Audit Committee separately.
Certificate	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 14 August 2019.

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.

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.

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 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 financial statements to be £2.345 million, which is 2% of the group's gross revenue expenditure. We determined materiality for the audit of the Council's financial statements to be £2.344 million, which is 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 and Council has spent its revenue in the year.

We set a lower threshold of £117,000 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 information is consistent with our understanding of the Council and with the financial statements on which we give 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 was based on a thorough understanding of the Council's business and is risk based.

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

Audit of the 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
<p>Valuation of land and buildings The Council regularly revalues its land and building assets. The valuation of these assets represents a significant estimate by management in the financial statements.</p> <p>We designed our work to address the risk that the valuation of land and building assets was materially misstated.</p>	<p>As part of our audit work we;</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; • tested that revaluations were correctly entered into the Council's accounting records; and • evaluated how management satisfied themselves that the carrying value of those land and building assets not revalued during the year was not materially different to current value. 	<p>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 and the accounts were not amended. We concluded that the issue was not material for our opinion.</p> <p>Our audit work did not identify any other issues in respect of the valuation of land and buildings.</p>

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
<p>Valuation of net pension liability</p> <p>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.</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;</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; • checked that the information on pensions included in the financial statements was consistent with the actuary's report; and • obtained assurance from the auditor of Kent County Council regarding the operation of controls in the pension scheme it administers on behalf of the Council. 	<p>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. This ruling had implications for other pension schemes, including the LGPS. 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.</p> <p>The Council's actuary estimated that the impact of the ruling was to increase the Council's overall pension liabilities at 31 March 2019 by £1,330,000. The accounts were amended to include these liabilities.</p> <p>Our audit work did not identify any other issues in respect of the valuation of the pension fund net liability.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 14 August 2019.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 30 July 2019. These included the key findings arising from our work on significant risks.

We raised an issue with management relating to the categorisation of financial instruments totalling £21,986,000. Management agreed to recategorise these instruments at the relevant disclosure note. There was no impact on the Council's balance sheet. This issue also led to an adjustment of £369,000 on the Comprehensive Income & Expenditure Statement, although there was no net impact on Total Comprehensive Income and Expenditure.

We did not identify any other errors which required an adjustment to the primary financial statements.

The group's accounts were again prepared to a high standard.

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.

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 14 August 2019.

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 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 2019.

Value for Money conclusion

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 over the medium term.</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. In recent years it has 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 the Council's subsidiary property company and the incorporation of a separate subsidiary for property development. The Council anticipates it will also benefit from increasing rental income streams, including those associated with the Elwick Place regeneration project which opened in December 2018.</p> <p>The Council is aware that there continues to be significant uncertainties for financial planning going forward. Historically it has 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 the Council receives from New Homes Bonus funding, which in part helps support its base budget, is reducing.</p> <p>However, the Council continues 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. The Council's 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; levels of usable reserves are forecast to be £40.3m at the end of the plan period.</p> <p>The Council continues 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 the Council's 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>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<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 considered the action taken by the Council, including the 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 the Council and other authorities locally are 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 the Council has access to the planning resources of the KRF and officers regularly attend the Strategic and Tactical Command Groups.</p> <p>Locally the Council has 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>The Brexit Management Team remains in place and the Council is continuing to make preparations for the new departure date at the end of October. These include updating the Council’s plans for individual services such as waste collection and preparing a Brexit checklist for service managers.</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

Report	Date issued
Audit Plan	March 2019
Audit Findings Report	July 2019
Annual Audit Letter	September 2019

Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit 2018/19	46,439	53,639	60,311
Total fees	46,439	53,639	60,311

The additional fee relates to work we were required to perform in a number of areas over and above that originally envisaged in our audit plan as set out in the table opposite. We have agreed this additional fee with management, although the fee variation remains subject to approval by Public Sector Audit Appointments.

Fees for non-audit services

	Planned £	Actual fees £	2017/18 fees £
Audit related services	10,500	TBC	12,612
- Certification of Housing Benefit Subsidy claim (from 2018/19)			
Total fees for non-audit services	10,500	TBC	12,612

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.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	2,000
Pensions – IAS 19	The Financial Reporting Council has concluded that improvements are required in the scope and coverage of work by audit firms on IAS 19 issues across local government audits. We have increased the scope and coverage of our work on IAS 19 issues this year in response to these findings.	1,200
PPE Valuation – work of experts	The Financial Reporting Council has concluded that improvements are required in the scope and coverage of work by audit firms on PPE valuation issues across the sector. We have increased the scope and coverage of our work on PPE valuation issues this year in response to these findings. We also specifically increased audit input to assess the approach to council house valuation.	1,600
IFRS9 : Financial Instruments	In 2018/19 the Council elected a number of holdings in collective investment vehicles to FVOCI. Our review of this decision required us to perform additional work, including a technical review of the Council's legal opinion.	2,400
Total		7,200

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery

- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise

Our connections

- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people

- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality

- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support

- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies



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