

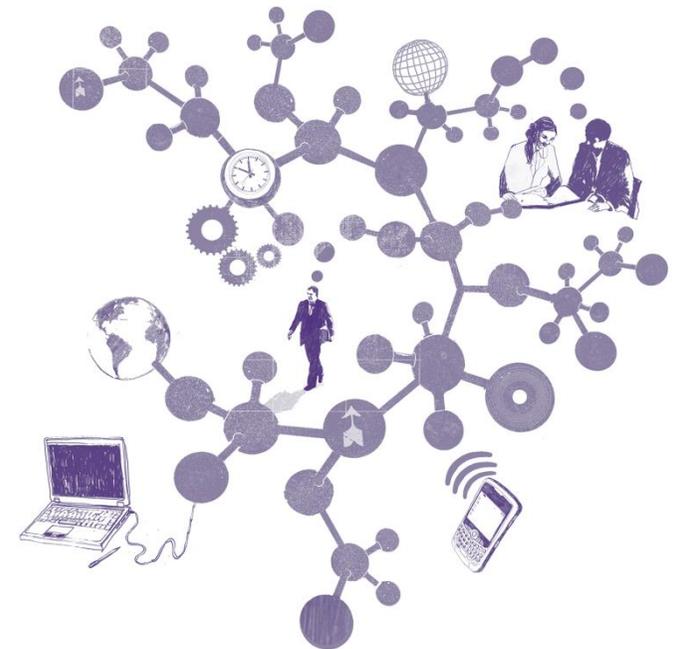
The Annual Audit Letter for Gravesham Borough Council

Year ended 31 March 2017

October 2017

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Gravesham Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders and highlights issues 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 (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Finance & Audit Committee (as those charged with governance) in our Audit Findings Report on 12 September 2017.

Our 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'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's financial statements we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 18 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 18 September 2017.

Certificate

We certified we had completed the audit of the accounts of Gravesham Borough Council in accordance with the requirements of the Code on 18 September 2017.

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 2016/17 claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Finance & Audit Committee in our 2016/17 Certification Letter.

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
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that could influence the economic decisions of a reasonably knowledgeable person.

We determined materiality for our audit of the Council's accounts to be £1,713,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as in our view users of the Council's accounts are most interested in how it has spent the income raised from taxation and grants during the year. We also set a lower level of specific materiality for Cash of £500k.

We set a lower threshold of £86,000 above which we reported errors to the Finance & Audit Committee in our Audit Findings Report.

The scope of our audit

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

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Director (Corporate Services) are reasonable;
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe 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 accounts

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability represents a significant estimate in the financial statements.</p> <p>We performed work to address the risk that the Council's pension fund assets and liabilities were incorrectly valued.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> gained an understanding of processes and key controls; performed a "walkthrough" of the key controls to assess if these were designed effectively; reviewed the competence, expertise and objectivity of the specialist actuary performing the pension fund valuation; reviewed the basis for the valuation and assessed the reasonableness of the actuarial assumptions made; reviewed the consistency of disclosures in the financial statements with the actuarial report. 	<p>We did not identify any issues to report.</p>
<p>Valuation of property, plant and equipment</p> <p>For all Councils the valuation of Property Plant and Equipment (PPE) assets represents a significant estimate in the financial statements.</p> <p>We designed our work to address the risk that PPE revaluation measurements were not correct.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> gained an understanding of system controls and performed a "walkthrough" of the key controls to assess if these were designed effectively; reviewed management's processes and assumptions for estimating asset values, including review of the work performed for the Council by external valuers; assessed the competence, expertise and objectivity of the valuer, and reviewed the information used by the valuer to ensure it was robust and consistent with our understanding; performed testing to ensure information on revaluations was correctly input to the Council's asset register; reviewed management's process to ensure that the value included in the financial statements for those assets which were not revalued in 2016/17 was not materially misstated; reviewed the disclosures in the financial statements to ensure these were in accordance with the requirements of the CIPFA Code of Practice and IFRS 13. 	<p>We agreed an adjustment to increase the Net Book Value of PPE assets at 31.3.17 by £416,000.</p> <p>We also agreed a prior period adjustment to;</p> <ul style="list-style-type: none"> reduce the Net Book Value of PPE at 31.3.16 by £2,224,000; increase the value of intangible assets by £74,000. <p>We did not identify any other issues to report.</p>

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial statements</p> <p>In 2016/17 all Councils were required to make changes to the way income and expenditure is classified and reported in the accounts.</p> <p>These changes also required a restatement of the previous year figures.</p> <p>We designed our work to address the risk that these changes had not been implemented correctly.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> • reviewed the Council's process for making the required changes; • reviewed the basis of the classification on the Council's Comprehensive Income and Expenditure Statement (CIES) to ensure this was consistent with the Council's internal reporting structure • tested the classification of income and expenditure recorded within the Cost of Services section of the CIES; • tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger; • tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. 	<p>We agreed that additional narrative would be added to the financial statements to describe the prior period adjustment.</p> <p>We did not identify any other issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 18 September 2017, in advance of the 30 September 2017 national deadline.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts to the Council's Finance & Audit Committee on 12 September 2017.

The Council's draft accounts were approved for issue ahead of the national deadline of 30 June 2017. Only a small number of amendments to the accounts were required ahead of giving our opinion. The working papers supporting the accounts were of a high standard.

From 2017/18 the statutory deadlines for preparing accounts will be brought forward and the Council will be required to produce draft statements by 31 May. The Council has made good progress in preparing for this accelerated timetable, with the 2016/17 draft accounts published on 6 June 2017.

Other financial statement responsibilities

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

We concluded that both documents were prepared in line with the relevant guidance and that the information in both documents was consistent with supporting evidence and with our knowledge of the Council.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 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.

We performed an initial risk assessment in March 2017 which did not identify any significant risks. We continued our review of relevant documents up to the date of giving our report, in particular considering issues relating to the Council's financial position and medium term financial resilience.

In common with other local authorities the Council continues to face significant financial pressures, and uncertainty around future funding arrangements. We noted that the Council;

- reported a revenue underspend of £737k for 2016/17;
- has agreed a balanced budget for 2017/18, and currently anticipates it will produce a balanced budget for 2018/19;
- has a history of delivering planned savings, and has made substantial progress in implementing savings plans and the re-design of services arising out of the major service reviews completed in 2016;
- continues to have a robust medium term financial planning framework which is aligned to the annual budget-setting process.

From our review up to the date of giving our report we did not identify any significant risks where we would need to perform further work.

Overall Vfm 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 2017.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit.

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of the Council	53,294	61,294*	53,294
Housing Benefit Grant Certification	14,526	TBC	14,526
Total fees (excluding VAT)	67,820	TBC	67,820

*The proposed fee was the scale fee set by Public Sector Audit Appointments Ltd (PSAA). In our 2015/16 Audit Findings Report we reported on a number of historic issues relating to the Council's fixed asset records. The Council has taken action to resolve these issues in 2016/17, resulting in a number of adjustments to the valuation of PPE assets. We agreed on an additional fee of £8000 to review the work performed by the Council. The variation to the fee is subject to approval by PSAA, which is required to approve all variations to the scale fee.

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017
Certification Letter	January 2018 (planned)

Fees for other services

Service	Fees £
Audit related services	
• Pooling of Housing Capital Receipts Return	TBC
Non-audit services	None



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