



The Annual Audit Letter for Gravesham Borough Council

Year ended 31 March 2019

August 2019



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Your key Grant Thornton
team members are:

Elizabeth Jackson

Key Audit Partner

T: 020 7728 3329

E: elizabeth.Jackson@uk.gt.com

Emily McKeown

Engagement Manager

T: 020 7728 3091

E: emily.mckeown@uk.gt.com

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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 Gravesham Borough Council (the Council) 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 Finance and Audit Committee as those charged with governance in our Audit Findings Report on 23rd July 2019.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,500,000, which is approximately 2% of the Council's gross revenue expenditure (excluding St George's valuation and HRA revaluations).
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 30 July 2019.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

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

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 July 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 29 November 2019. We will report the results of this work to the Finance and Audit Committee separately.
Certificate	We certified that we have completed the audit of the financial statements of Gravesham Borough Council in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

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 Council'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 Council's financial statements to be £1,500,000 which is 2% of the Council's gross revenue expenditure (excluding St George's valuation and HRA revaluations). We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £75,000, above which we reported errors to the Finance and Audit Committee in our Audit Findings Report.

The scope of our audit

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

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

We also read the remainder of the financial statements and the narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

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

Our audit approach 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</p> <p>The Council revalue its land and buildings according to the rolling 5 year programme. Management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and an area requiring special audit attention.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Considered the competence, expertise and objectivity of any management experts used • Discussed with the valuer the basis on which the valuation is carried out and challenge of the key assumptions • Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding • Reviewed the valuation methodology for St George's Centre and the accounting treatment to move to a finance lease • Tested revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value • Reviewed the methodology and timing for revaluations of HRA properties, collating management assurances and ensuring the valuations are materially complete and up to date. 	<p>Our audit work identified one issue in respect of the valuation of the council dwellings. Our review of the HRA valuation report identified a material difference in the indices used by management's expert to value the council dwellings at year end and the auditor's expert valuation. The Nationwide indices at the point in time the valuer prepared the valuation showed a decrease in the market. Following discussion during the audit, the valuer reviewed the latest indices available from the Land Registry for the Gravesham borough area specifically as at 31 March 2019 and this resulted in an increase of the council dwellings by £4,723k. This resulted in an amendment to the Core Financial Statements.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>The pension fund net liability, as reflected in the Authority balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> • Updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls (refer also to our detailed review of estimation process in key judgements and estimates section) • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • Assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • Assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • Undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary PwC (as auditor's expert) and performing any additional procedures suggested within the report. 	<p>Our assessment of the potential impact of the McCloud judgement on the pension fund net liability has not resulted in a material difference in the 2018/19 accounts. The narrative disclosure in Note 13.24 of the accounts has been updated to reflect the latest position.</p> <p>Our audit work has not identified any other issues in respect of the valuation of the pension fund net liability</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal 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. We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness; obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; and evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p>Valuation of Level 3 financial assets</p> <p>The Council has reviewed the fair value of the finance assets as part of the IFRS 9 assessment in preparing the draft accounts and concluded that the Finance Lease for St George's Centre is level 3.</p> <p>Fair value hierarchy level 3 financial assets are hard to value as they have unobservable inputs for the assets or liability. By their very nature, level 3 assets require a particularly high degree of judgement.</p> <p>There is a risk to reach an appropriate valuation at year end, as well as ensuring the asset is classified correctly in line with the new accounting requirements of IFRS 9.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> gained an understanding of the council's process for valuing hard to value financial assets and evaluate the design of the associated controls reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuation provided for the finance lease Considered whether the council had the required skills to be the expert for preparing the cashflow projections and whether reliance should have been placed on a management expert assessed the council's policy undertaken in regard to the new accounting standard and ensured all financial assets and liabilities are subsequently categorised correctly challenged management about the disclosure of the level 3 financial asset. 	<p>Our audit work did not identify any issues in respect of the finance lease classification as level 3 asset. However, the draft accounts did not include the required disclosure in accordance with IFRS 9. The accounts have been amended to disclose the valuation methodology used to prepare the accounts and the sensitivity analysis of holding such a financial asset.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 30 July 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Finance and Audit Committee on 23 July 2019.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in line with the national deadlines.

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

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Gravesham Borough Council in accordance with the requirements of the Code of Audit Practice on 30 July 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.

As part of our Audit Findings report agreed with the Council in July 2019, we agreed recommendations to address our findings.

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>As part of our work we:</p> <ul style="list-style-type: none"> • Considered council tax and NDR collection rates to conclude whether the main source of income to the council is sustainable and being appropriately collected. 	<p>The Council's collection rates for Council Tax and Business Rates income have remained broadly consistent during 2018/19 and remain at a strong level. This indicates that the arrangements for the collection of taxation income are working well. Based on the Council's recent track record, we have no overall concerns around the reasonableness of the collection rate assumptions reflected within the financial strategy.</p>
<p>Informed decision making</p> <p>With the UK due to leave the European Union, there will be national and local implications resulting from Brexit that will impact on The Council.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> • Reviewed your arrangements and plans to mitigate any risks on Brexit. Our review focused on areas such as workforce planning, supply chain analysis, regulatory impact and impacts on finances including investments. 	<ul style="list-style-type: none"> • The Council's preparedness planning has been focused on reacting to a potential no-deal scenario and the immediate considerations that may arise in your ability to deliver of services to your residents with minimal disruptions. • The Council is working in collaboration with other local partners in Kent including Kent districts, Police, County, the NHS and other local authorities through the Kent Resilience Forum (KRF). • The Council is continually updating their business continuity plans across all service areas. • The Council is working with IT team to carry out an assessment to review the IT systems in order to check their compliance including accessibility of back up data stored off site for your main IT applications. <p>Accordingly, in our view, appropriate arrangements are in place to support your Brexit preparedness.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit.

Reports issued

Report	Date issued
Audit Plan	12 th March 2019
Audit Findings Report	23 rd July 2019
Annual Audit Letter	29 th August 2019

Fees

	Planned £	Actual fees £
Statutory audit	£41,036	TBC
Housing Benefit and other Grant Certifications	£21,500	TBC
Total fees	£62,536	TBC

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £41,036 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. The proposed additional fees are set out in the following table.

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.	£1,600
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£1,200
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£2,400
Total		£5,200

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 AQR

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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