

The Annual Audit Letter for Dartford Borough Council

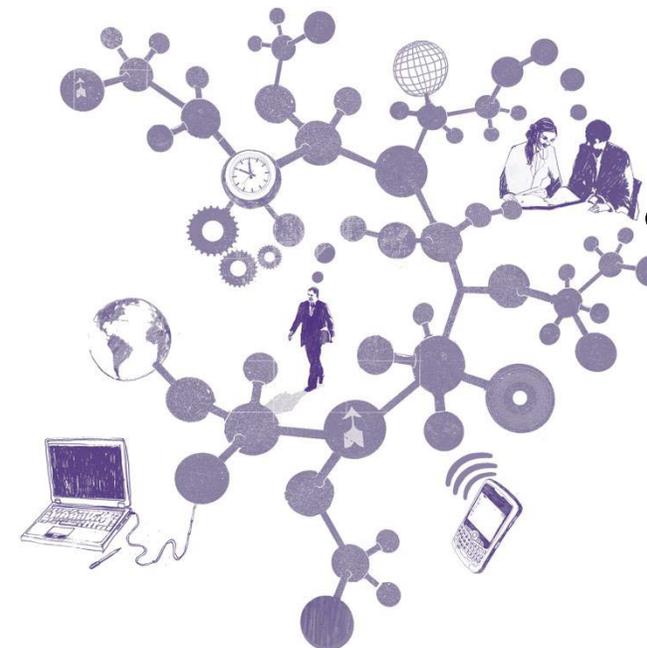
Year ended 31 March 2016

25 October 2016

Elizabeth Jackson
Engagement Lead
T 020 7728 3329
E elizabeth.l.jackson@uk.gt.com

Matt Dean
Engagement Manager
T 020 7728 3181
E matthew.dean@uk.gt.com

Sangeeta Kakati
Executive
T 020 7728 3421
E sangeeta.kakati@uk.gt.com



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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Dartford Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its 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 (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Board as those charged with governance in our Audit Findings Report on 21 September 2016

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 financial statements (section two)
- assess the Council 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 27 September 2016.

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 2016. We reflected this in our audit opinion on 27 September 2016

Certificate

We certified that we had completed the audit of the accounts of Dartford Borough Council in accordance with the requirements of the Code on 27 September 2016.

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 2016. We will report the results of this work to the Audit Board in our Annual Certification Letter.

Working with the Council/Authority

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 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, 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 our audit of the Council's accounts to be £1,198,000, 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 it has raised from taxation and grants during the year.

We set a lower threshold of £59,900, above which we reported errors to the Audit Board 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 that 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 management are reasonable; and
- 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 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
<p>Valuation of Property, Plant and Equipment (Significant Risk) The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate • reviewed the competence, expertise and objectivity of any management experts used • reviewed the instructions issued to valuation experts and the scope of their work • held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding • testing of revaluations made during the year to ensure they were 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 satisfied themselves that these were not materially different to current value. <p>No significant issues were identified from the audit work performed on this area.</p>
<p>Employee remuneration accruals understated There is a risk that the Council's employee remuneration expenses included within the Accounts could be understated due to costs being omitted from the Accounts via incorrect processing during the year.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of the processes and key controls over the transaction cycle • undertook a walkthrough of the key controls to assess whether those controls were in line with our documented understanding • undertook substantive testing of payroll records • reviewed the reconciliation between payroll and the general ledger • performed a trend analysis of employee remuneration expenses <p>No significant issues were identified from the audit work performed on this area.</p>

Audit of the accounts (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
<p>Creditors understated or not recorded in the correct period</p> <p>There is a risk that the Council's expenditure and/or creditors balance could be understated by expenditure being either omitted completely from the accounts or included within the incorrect year.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> • a walkthrough of operating expenses system, updating our understanding • performed substantive testing of expenditure • performed testing of creditor payments, including accruals, for completeness, classification and occurrence • reviewed the control account reconciliations • performed cut-off testing • reviewed the allocation/apportionment of expenses to meet the requirements of the Service Reporting Code of Practice (SeRCoP) <p>No significant issues were identified from the audit work performed on this area.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts and comprises 80% of its total liabilities.</p> <p>The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> • we identified the controls put in place by management to ensure that the pension fund liability was not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • we reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which your valuation was carried out. • we undertook procedures to confirm the reasonableness of the actuarial assumptions made. • we reviewed the consistency of the pension fund asset and liability and disclosures within the notes to the financial statements with the actuarial report from the actuary. <p>No significant issues were identified from the audit work performed on this area</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 27 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, 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 accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Board on 22 September 2016.

We identified a number of minor disclosure issues which the Council agreed to amend in the final version of the Accounts. We also made one formal recommendation around the timely completion of bank reconciliations, which we identified as an issue during the course of the year. Details of this recommendation, along with management's response, can be seen within Appendix B at the end of this Letter.

Annual Governance Statement and Narrative Report

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

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties

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.

No items have been identified which have required us to use these statutory duties during the course of 2015-16.

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 2015 which specified the criterion for auditors to evaluate:

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

Key findings

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

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings Report agreed with the Council in September 2016, we agreed the outcome of our work and confirmed that we had identified a recommendation around the need for continued close monitoring of their financial position to ensure that any slippage is identified and dealt with in a timely manner. Details of this recommendation and management's response to this can be seen within Appendix B at the end of this Letter.

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 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial Position Whilst you are on course to meet your financial outturn for 2015-16, this does rely on the use of funding sources which will not be as readily available in future years. The Council also needs to identify a considerable level of savings over next five years as part of its Medium Term Financial Plan to reduce the level of reserves needed to achieve financial balance.</p>	<p>We performed the following work in this area:</p> <ul style="list-style-type: none"> • reviewed relevant Council and other committee papers; • reviewed the 2015-16 financial outturn against plan, and investigated any significant areas of over/underperformance and the reasons behind these. • reviewed the progress against the 2016-17 financial plan up to the completion of our audit; and • obtained an update on the Council's Medium Term Financial Strategy, including progress on identifying the savings required in coming years, including discussions with Management on progress to date. 	<p>Our work on this area identified the following:</p> <ul style="list-style-type: none"> • The Council delivered a £554k underspend against its General Fund Budget in 2015-16. The planned budget included the use of £1.926m of Reserves but the outturn has been achieved without this contribution. This has enabled the Council to maintain their General Fund Balance at £3m, which helps them to face the challenges over the next four years. • In respect of 2016-17, the Council has been able to set a balanced budget, but this does rely on the use of £2.06m of New Homes Bonus. However the Council is still planning to identify further efficiency savings during the year to reduce the amount of the New Homes Bonus which needs to be used. The Council agreed to freeze Council Tax for the seventh consecutive year. • In terms of the longer term plans, the Council has set an updated Medium Term Financial Plan, covering the period from 2017-18 to 2020-21. As it stands, the Council needs to identify a significant level of efficiency savings over the four year period. The savings target in 2017-18 is £2.1m rising to £3.7m per annum by the fourth year. This will be a considerable challenge for the Council, despite its track record in delivering its budgets in recent years. The Council has made a start on identifying these savings, via the formation of a Star Chamber to help identify savings within each of the relevant Departments. Given this project is still at a very early stage, we are unable to assess at this stage how successful this project will be although we have not identified any significant concerns that would impact on our 2015-16 value for money conclusion. • In terms of the actual Plan, the Council has prepared this on the basis that it will not receive any New Homes Bonus during the life of the Plan, and it has worked on the basis that Council Tax will be frozen during the four years as well. Both of these assumptions could significantly reduce the level of savings required over this period. <p>Overall the Council is well placed to face the challenges in front of it, but it will need to monitor the progress of the Plan and savings closely to ensure any slippage is identified in a timely manner so it can be resolved promptly and doesn't impact on the overall financial position of the Council. We have raised a recommendation for the Council around the need for careful financial monitoring during this period, which is included within Appendix B, along with Management's response to this.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness, along with an assessment of your medium term financial health as well.

Sharing our insight – we provided regular Audit Board updates covering best practice. Areas we covered included our local government health checks and governance review, 'Reforging Local Government', along with our review of Audit Committee effectiveness, 'Knowing the Ropes', along with a range of other Reports.

We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you continue to bring forward your production of your year-end accounts.

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	46,405	46,405	61,873
Housing Benefit Grant Certification	16,125	TBC	25,980
Total fees (excluding VAT)	62,530	TBC	87,853

Fees for other services

Service	Fees £
Non-audit services	
• Pooling of Housing Capital Receipts (CFB06)	£2,000

Any potential fee variations for the work on the Housing Benefit Grant Certification are subject to approval by Public Sector Audit Appointments Ltd, and we will report this back to the Audit Board once any additional fees have been agreed.

Reports issued

Report	Date issued
Audit Plan	23 March 2016
Audit Findings Report	21 September 2016
Annual Audit Letter	28 October 2016

Appendix B: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>Bank reconciliations</p> <p>The Council needs to ensure that the monthly bank reconciliations are completed and reviewed in a timely manner throughout the year.</p>	Medium	The monthly bank reconciliations are now being completed and reviewed on a timely basis.	On-going Principal Finance and Procurement Officer
2	<p>Council's Financial Plans</p> <p>Whilst the Council is in a sound place financially in 2015/16, the level of savings required over the life of the latest Medium Term Financial Plan is significant. The Council needs to continue monitoring the budget and savings required to ensure targets are delivered and any slippage identified is dealt with as soon as possible.</p>	Medium	The Council's Medium Term Financial Plan has been prepared on a prudent basis. It is likely that receipts of Business Rates, New Homes Bonus and Council Tax will be higher than shown in the Plan which will reduce the requirement for savings. It is anticipated that the Star Chamber exercise will result in a programme of savings and income generation which will address the budget gap. Progress towards achieving these savings and income opportunities will be closely monitored.	On-going Strategic Director – Internal Services and Financial Services Manager



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