

# The Audit Findings Report for Dartford Borough Council

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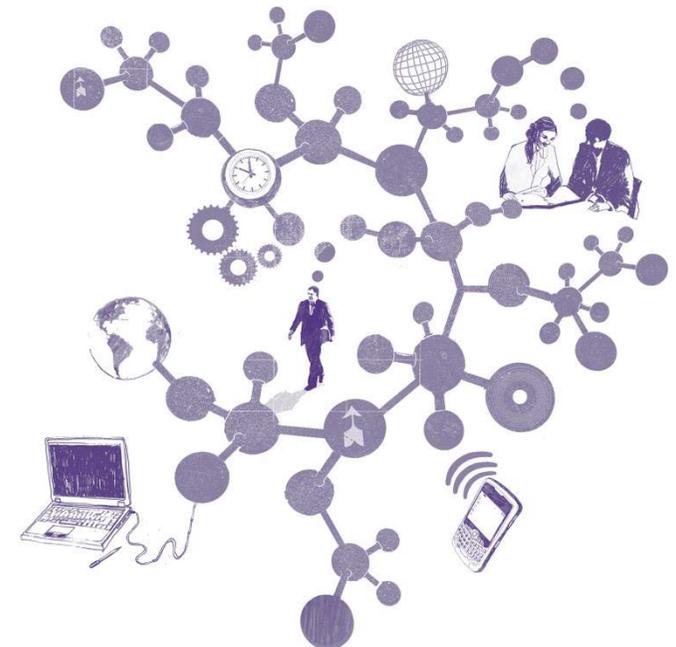
**Year ended 31 March 2016**

21 September 2016

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21 September 2016

Dear Members of the Audit Board

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**Audit Findings Report for Dartford Borough Council for the year ending 31 March 2016**

This Audit Findings Report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Dartford Borough Council, the Audit Board), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with Management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

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 primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Elizabeth Jackson  
Engagement Lead

**Chartered Accountants**

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- B Audit opinion

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# Section 1: Executive summary

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters

## Purpose of this report

This report highlights the key issues affecting the results of Dartford Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion as to whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 23 March 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- completion of our testing of Operating Expenses and Other Revenues
- final internal quality reviews
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised versions of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

## Key audit and financial reporting issues

### Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position. The draft financial statements for the year ended 31 March

2016 recorded net expenditure of £46,123k, which is the same as shown in the audited accounts. We have recommended a number of adjustments to improve the presentation of the financial statements.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### **Other financial statement responsibilities**

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- 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 information of which we are aware from our audit.

## **Controls**

### **Roles and responsibilities**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

## **Findings**

We draw your attention in particular to the control issue identified in relation to:

- the lack of timely bank reconciliations during the early part of the financial year, which could have impacted on the clearance of reconciling items identified by this process.

Further details are provided within section two of this report.

## **Value for Money**

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money is set out in section three of this report.

## **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

## **Grant certification**

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit Board, which is due in March 2017.

### **The way forward**

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Strategic Director of Internal Services and Section 151 Officer.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Strategic Director of Internal Services and Section 151 Officer and the finance team.

### **Acknowledgement**

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.

**Grant Thornton UK LLP**  
**September 2016**

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## Section 2: Audit findings

- 01. Executive summary
- 02. Audit findings**
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,198k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £59.9k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we have not identified any items where we decided that separate materiality levels were appropriate. This remains the same as reported in our audit plan.

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 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>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Dartford Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Dartford Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>As part of our audit work we have completed the following:</p> <ul style="list-style-type: none"> <li>• review of the Council's revenue recognition policies</li> <li>• testing of material revenue streams received by the Council during the year</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have performed the following work:</p> <ul style="list-style-type: none"> <li>• review of accounting estimates, judgments and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p><b>Valuation of property, plant and equipment</b></p> <p>The Council revalues its assets on a rolling basis over a five year period.</p> <p>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 have performed the following work:</p> <ul style="list-style-type: none"> <li>• review of management's processes and assumptions for the calculation of the estimate</li> <li>• review of the competence, expertise and objectivity of any management experts used</li> <li>• review of the instructions issued to valuation experts and the scope of their work</li> <li>• discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>• review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding</li> <li>• testing of revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>• evaluation of 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.</li> </ul>	<p>Our audit work identified that the Council had incorrectly disclosed the revaluation and subsequent impairments of a small number of assets. This resulted in a number of incorrect entries within the Property, Plant and Equipment Note in the Accounts. The overall impact on the Balance Sheet is nil. The Council has agreed to amend the note.</p> <p>We have not identified any other issues from the work performed in this area.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• Walkthrough of operating expenses system, updating our understanding</li> <li>• Substantive testing of expenditure.</li> <li>• Testing of creditor payments, including accruals, for completeness, classification and occurrence</li> <li>• Review of control account reconciliations</li> <li>• Cut-off testing</li> <li>• Review of allocating/apportioning expenses to meet the requirements of the Service Reporting Code of Practice (SeRCoP)</li> </ul>	Our audit work to date has not identified any significant issues in relation to the risk identified.  Our testing of operating expenditure is still in progress when drafting the report.
<b>Employee remuneration</b>	Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• Walkthrough of payroll system, updating our understanding</li> <li>• Substantive testing of payroll records</li> <li>• Review of reconciliation of payroll to the general ledger</li> <li>• Trend analysis of employee remuneration expenses</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

## Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Employee remuneration</b>	<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• we have identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• We have reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which your valuation was carried out.</li> <li>• We have undertaken procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• We have 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.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	The Council's revenue recognition policy is disclosed within Note 1 of the Accounts, within Accounting Policies, and covers each of the main areas of revenue received by the Council, including revenue received from the sale of goods, the provision of services along with how revenue is recognised for the non-exchange transactions such as Council Tax, Housing Rents and Business Rates.	Based on the work performed we identified that the Council's policies around Council Tax and Business Rates required some expansion to provide further clarity over how the revenue from these areas is recognised within the Accounts, which the Council has agreed to amend. No other issues were identified with the Policies included within the draft Accounts.  Our testing of your various revenue sources did not identify any instances of inappropriate revenue recognition.	 <b>Amber</b>
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>• Useful life of capital equipment</li> <li>• Pension fund valuations and settlements</li> <li>• Impairments</li> <li>• PPE revaluations</li> <li>• Depreciation</li> <li>• Bad debt provisions</li> <li>• Business rate appeals</li> </ul> </li> </ul>	Your critical judgements and estimation uncertainties are disclosed within Notes 3 and 4 of the financial statements, and are in line with the requirements of the CIPFA Code, subject to a minor addition made around the judgement on the Discounted Sales Scheme, which the Council have agreed to amend.  We have reviewed your Business Rate Appeals provision, along with the calculation of depreciation in respect of Council Dwellings, and are satisfied with the approaches taken in each of these areas.	 <b>Green</b>

**Assessment**

 **Red** Marginal accounting policy which could potentially attract attention from regulators

 **Amber** Accounting policy appropriate but scope for improved disclosure

 **Green** Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	The Strategic Director of Internal Services and s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continues to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 <b>Green</b>
<b>Other accounting policies</b>		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	 <b>Green</b>

**Assessment**

● **Red** Marginal accounting policy which could potentially attract attention from regulators

● **Amber** Accounting policy appropriate but scope for improved disclosure

● **Green** Accounting policy appropriate and disclosures sufficient

# 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.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Board. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidents of non-compliance with relevant laws and regulations and we have not identified any incidents from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We have obtained direct confirmations from all of the Council's Banks, Investment and Borrowing Counterparties for the balances included within the Accounts.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review identified a number of disclosures which required amendment or expansion, and Management agreed to amend all of the items identified.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>We are required to report on a number of matters by exception in a number of areas. We have not identified any issues we would be required to report by exception in the following areas: <ul style="list-style-type: none"> <li>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 information of which we are aware from our audit</li> <li>The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.</li> </ul> </li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>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.</p> <ul style="list-style-type: none"> <li>Note that work is not required as the Council does not exceed the threshold</li> </ul>

# Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Property, Plant and Equipment, Operating Expenses and Employee Remuneration, including the controls for the valuation of the Pension Fund Net Liability as set out on pages 11 to 13.

The matter that we identified during the course of our audit is set out in the table below. This and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	 <b>Amber</b>	<p><b>Lack of timely bank reconciliations</b></p> <p>During the walkthrough of the Operating Expenses system, we identified that the Council was behind on its monthly bank reconciliations, with some having not been completed and others not having been reviewed. Whilst the Council was able to resolve this for year end, they need to ensure the reconciliations are completed and reviewed in a timely manner during the course of the year to ensure any reconciling items can be identified and dealt with.</p>	<ul style="list-style-type: none"> <li>The Council needs to ensure that the monthly bank reconciliations are completed and reviewed in a timely manner throughout the year.</li> </ul>

## Assessment

-  **Red** Significant deficiency – risk of significant misstatement
-  **Amber** Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

## Adjusted misstatements

There are no adjustments identified during the audit process to the draft accounts. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Unadjusted misstatements

There are no adjustments identified during the audit which we requested management to process and they declined. Therefore, there are no unadjusted misstatements in the final version of the financial statements.

## Misclassifications 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	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	Various	Note 12 – PPE – Cost or Valuation Note	<p>As mentioned on page 11, we identified that the Council had incorrectly disclosed the impairments incurred on a small number of assets during 2015/16. This error resulted in the following amendments:</p> <ul style="list-style-type: none"> <li>• Additions has increased from £19,907k to £19,794k</li> <li>• Revaluation increases/(decreases) recognised in the Revaluation Reserve has increased from £26,930k to £27,253k</li> <li>• Derecognition – Disposals has been reduced from £5,659k to £1,170k</li> <li>• Assets Reclassified has fallen from £3,433k to £305k</li> <li>• Impairment has increased from £2,643k to £4,214k</li> </ul> <p>There is no impact on the total value of the assets in the Balance Sheet as at the 31 March 2016.</p>
2 Misclassification	Various	Note 7 – Available for Sale Financial Instruments Account	Several minor amendments to the in-year movements to this account were identified. All have been correctly amended by the Council.
3 Misclassification	154	Note 11 – Taxation and Non Specific Grant Income and Expenditure and Note 27 Grant Income	Our testing identified that the Council had incorrectly netted off a grant received against the Levy Payment made in year, thus understating both the Levy Payment and the amount of Grants received. Both of these areas have been amended in the revised Accounts, which doesn't alter the financial position as the net impact of these is nil.
4 Disclosure	260,696	Housing Revenue Account – Note 6 – Vacant Possession Value	Our testing identified that the Balance Sheet Value of the Council's Housing Stock in this Note was originally incorrect, and has now been amended to ensure it is consistent with the value shown in the main financial statements.

## Misclassifications and disclosure changes (continued)

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	Value £'000	Account balance	Impact on the financial statements
5 Disclosure	Various	Notes/Areas: <ul style="list-style-type: none"> <li>• 1 - Accounting Policies</li> <li>• 10 - Financing and Investment Income and Expenditure</li> <li>• 19 - Provisions</li> <li>• 30 – Leases</li> <li>• 33 – Nature and Extent of Risks Arising from Financial Instruments</li> </ul>	Enhancements were made to these Notes to improve the quality of the disclosures made in these areas or to correct some minor errors identified from our work.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non audit services and independence

05. Communication of audit matters

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place 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. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in April 2016 and identified the following significant risks, which we communicated to you in our Audit Board Progress and Update Report dated 29 June 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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 on-going risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

## Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness. We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- We reviewed the Council's budget for 2016-17 and the latest Medium Term Financial Plan (MTFP) which covers the period up to 2020-21, which are the key documents setting out the medium term financial plans of the Council. From review of these we can see that the Council has been able to set a balanced budget in 2016-17.
- The Council has set out the potential efficiency savings required over the medium term period to 2020-21 in the MTFP. The savings required in 2017-18 is £2.1m rising to £3.8m in the fourth year of the plan. The Council has put plans in place to identify these savings, but these are at a relatively early stage and thus we are unable to assess the likely success of these arrangements. However we have identified that the Council has been pragmatic and prudent during the preparation of its Plan and the required level of savings does not indicate any significant concerns for our value for money conclusion in 2015-16.
- Looking back to 2015-16, we identified that the Council achieved a underspend of £554k against their planned outturn, and were able to maintain the General Fund Balance at £3m. This puts the Council in a good position to deal with the financial challenges to follow.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

### **Overall conclusion**

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

### **Recommendations for improvement**

We discussed findings arising from our work with management and have agreed a recommendation for improvement as follows:

- 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.

Management's response to this recommendation can be found in the Action Plan at Appendix A.

### **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.

### **Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

## Key findings

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

Significant risk	Work to address	Findings and conclusions
<p><b>Financial position</b></p> <p>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 propose to:</p> <ul style="list-style-type: none"> <li>• review relevant Council and other committee papers;</li> <li>• review the 2015-16 financial outturn against plan, and investigate any significant areas of over/underperformance and the reasons behind these.</li> <li>• review the progress against the 2016-17 financial plan up to the completion of our audit; and</li> <li>• obtain 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.</li> </ul>	<p>Our work on this area identified the following:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul> <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 A, along with Management's response to this.</p>

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## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

### Fees

	Proposed fee £	Final fee £
Council audit	46,405	46,405
Grant certification	16,125	TBC
<b>Total audit fees (excluding VAT)</b>	<b>62,530</b>	<b>TBC</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

### Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

### Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• Pooling of Housing Capital Receipts (CFB06)	TBC
<b>Non-audit services</b>	Nil

### 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 Auditing Practices Board's Ethical Standards and therefore we confirm that we 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 Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: 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><b>Bank reconciliations</b></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><b>Council's Financial Plans</b></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

# Appendix B: Audit opinion

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARTFORD BOROUGH COUNCIL - DRAFT**

We have audited the financial statements of Dartford Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

### **Respective responsibilities of the Strategic Director of Internal Services and auditor**

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Strategic Director of Internal Services 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director of Internal Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially

inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

### **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

### **Matters on which we are required to report by exception**

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

### **Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

#### **Respective responsibilities of the Authority and auditor**

The Authority is responsible for putting in place proper arrangements to secure 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.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Appendix B: Audit opinion (continued)

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

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.

**Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether 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 these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

**Certificate**

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Elizabeth Jackson  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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xx September 2016



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