



The Annual Audit Letter for Sevenoaks District Council

Year ended 31 March 2016

October 2016

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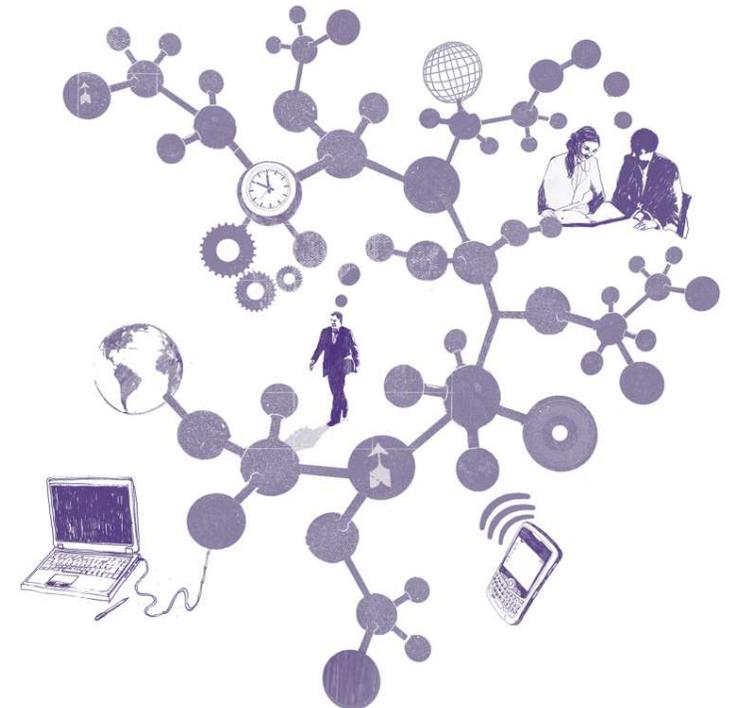
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Sevenoaks District 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 your Audit Committee as those charged with governance in our Audit Findings Report on 27 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'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 your 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 your financial statements on 29 September 2016.

Value for money conclusion

We were satisfied that you put in place proper arrangements to ensure economy, efficiency and effectiveness in the use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 29 September 2016.

Certificate

We certified that we had completed the audit of the accounts of Sevenoaks District Council in accordance with the requirements of the Code on 29 September 2016.

Certification of grants

We also carry out work to certify your 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 Committee in our Annual Certification Letter.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of your 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 your accounts to be £1,117k (being 2% of gross revenue expenditure for 2014/15). We used this benchmark, as in our view, users of your accounts are most interested in how you have spent the income you have raised from taxation and grants during the year.

We also set a lower level of specific materiality for disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements

We set a lower threshold of £52k, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

This includes assessing whether:

- your 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 you 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 your 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>Employee remuneration Employee remuneration accruals understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Walkthrough of the your processes and controls over this area to gain an understanding of these. • Testing of a sample of employees for 2015/16 to agree pay back to the relevant supporting records, such as their contracts/pay rise letters, to ensure the full costs have been included within the Accounts for the year. • Trend analysis on your Monthly Payroll Figures to identify any months where there are outliers present which may indicate issues with the completeness of the figures included within the GL from the Payroll System. <p>We did not identify any material issues to report</p>
<p>Operating expenses Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Walkthrough of your processes and controls over this area to gain an understanding of these. • Detailed substantive testing has been performed over the operating expenditure incurred by you, during the year, including payments made post-period end • Trend analysis of the month-on-month spend on Operating Expenses has been performed to identify any months where amounts have been potentially omitted, and explanations will be obtained for these. • Testing has been performed on the Creditors included within the Accounts at year end to ensure that these amounts are valid. <p>We did not identify any material issues to report</p>
<p>Valuation of pension fund net liability Valuation of the pension fund assets and liabilities have been incorrectly valued The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Walkthrough of your processes and controls over this area to gain an understanding of these. • Documented our understanding of the qualifications, experience and expertise of the actuary in reaching the valuation of the pension fund's assets and liabilities. • Tested the completeness and appropriateness of the data you sent to the pension fund. • Reviewed the assumptions used by the actuary in arriving at their valuation for reasonableness. • Tested the input of the valuation data from the actuary to the financial statements, and review disclosures. <p>We did not identify any material issues to report</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on your accounts on 29 September 2016, in advance of the 30 September 2016 national deadline.

You made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. We have seen a significant improvement in the quality of the financial statements compared to the previous year which has resulted in far fewer adjustments to disclosure notes within the accounts.

Your 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 to your Audit Committee on 27 September 2016.

In addition to the key audit risks reported above, we identified the following issues during our audit that your management has agreed to address for the next financial year:

- Self-authorisation of finance raised journals. Our control recommendation from the previous year has been partially implemented and we have agreed further action.
- Compliance with the CIPFA code and International Accounting Standard 16 (Property, Plant and Equipment) to ensure adequate disclosure of balances within Property, Plant and Equipment.

Annual Governance Statement and Narrative Report

We are also required to review your Annual Governance Statement and Narrative Report.

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

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 your accounts and to raise objections received in relation to the accounts.

We have no matters to report.

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.

Overall VfM conclusion

We are satisfied that in all significant respects you put in place proper arrangements to secure economy, efficiency and effectiveness in your 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>Property Investment Strategy The Council is continuing to push forward with its aim of becoming financially self-sufficient from direct Government support, having identified some time ago that with reducing government support and the need to keep council tax rises to a minimum, a new financial model was needed. As part of this the Council has invested £8m of savings to acquire a number of income earning properties, with further acquisitions are planned. This is a new strategy for the Council, significant amounts are being invested, with the need to build up experience and expertise.</p>	<p>We have:</p> <ul style="list-style-type: none"> • reviewed the Council's Investment strategy and the reports to members • reviewed the Investment outturn position for 2015/16 and the Investment budget plans for 2016/17 and 2017/18 • met with key officers to discuss key Investment strategic challenges and the Council's proposed response 	<p>The Council's Corporate Plan (agreed in 2013) sets out the intention to move towards being financially self-sufficient. In addition to continuing to seek efficiencies and savings in Council services, the Council recognised the need to increase revenue income. Having experienced low and reducing levels of Government support together with interest rates low delivering low rates of return, the Council developed its Property Investment Strategy (in 2014).</p> <p>As part of this the Council invested in three properties:</p> <ul style="list-style-type: none"> • Swanley Working Men's club for £1.25 million; • Suffolk House for £4 million; and • 73 – 75 High Street, Swanley petrol filling station and convenience store for £2.45 million. <p>The annual income from these three investments is currently £400,000 per annum.</p> <p>The Council has focussed its efforts on its Property Investment Strategy with the development of business plans and undertaking due diligence for major capital projects in Sevenoaks including decking the Bradbourne car park and developing a hotel.</p> <p>The Council has been able to set a budget for 2016/17 which will see the Council become financially self-sufficient amid further reductions in its funding from Government. The Council will no longer rely on the Revenue Support Grant to run its services.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</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.

An efficient audit – we delivered the accounts audit starting in August in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a timely financial statements audit releasing your finance team for other important work.

Improved processes – during the year we reviewed your journal controls and proposed a recommendation for improvement that, if implemented, may facilitate a more efficient audit approach in the future.

Through the Value for Money conclusion we provided you with assurance on your operational effectiveness of your Property Investment Strategy.

Sharing our insight – we provided regular updates to you covering best practice. Areas we covered included our reports on Innovation in public financial management, Making devolution work, Reforging local government. We will continue to provide you with our insights.

Providing training – we will liaise with you to provide you with tailored training for the Audit Committee.

We will also continue to work with you and support you over the next financial year as you bring forward your production of your year-end accounts. From 2017/18 all councils in England will be required to publish their audited financial statements by 31st July (currently 30th September). In line with achieving this, we have noted clear improvements during the 2015/16 audit with draft accounts and good quality working papers provided to the audit team through out the process. To achieve the 2017/18 deadline, significant progress will need to be made to deliver the same volume of work in closing the accounts in a more intense shorter period. The 2015/16 audit however, has given an indication of the scope for improvement on an annual basis that can be achieved at Sevenoaks. We have worked with many clients to successfully implement faster close and will continue to work with you during the coming year to provide support in achieving the earlier deadlines before the statutory deadlines are brought forward.

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues. The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

Appendix A: Reports issued and fees

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	43,156	43,156
Grant certification *	14,250	TBA
Total audit fees (excluding VAT)	57,406	

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

* Work still in progress – completion due in November 2016. Fee variations are subject to approval by PSAA.

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.

Reports issued

Report	Date issued
Audit Plan	June 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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