



# The Annual Audit Letter for Sevenoaks District Council

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**Year ended 31 March 2017**

October 2017

**Sarah Ironmonger**

Engagement Lead

T (0)129 3554 072

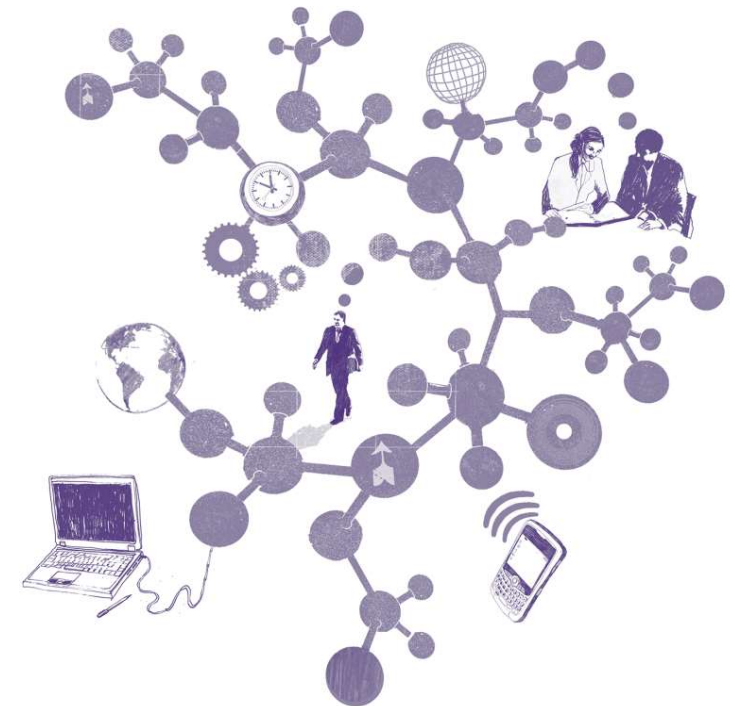
E [sarah.i.ironmonger@uk.gt.com](mailto:sarah.i.ironmonger@uk.gt.com)

**Ade Oyerinde**

Manager

T +44 (0)20 7728 3332

E [ade.o.oyerinde@uk.gt.com](mailto:ade.o.oyerinde@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 we have carried out at Sevenoaks District Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee (as those charged with governance) in our Audit Findings Report on 26 September 2017.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 27 September 2017.

### **Value for money conclusion**

We were satisfied that the Council had put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 27 September 2017.

### **Certification of grants**

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee.

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

**Grant Thornton UK LLP**  
**October 2017**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that 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 £1.06 million, 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 did not identify any items where we decided that a separate materiality level was appropriate.

### **The scope of our audit**

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

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Chief Finance Officer 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 included in the Statement of Accounts on which we gave 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 – Sevenoaks District Council

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Operating expenses</b> We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>creditors and accruals understated or not recorded in the correct period.</li> </ul>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle;</li> <li>undertook walkthrough of the key controls to assess the whether those controls were in line with our documented understanding;</li> <li>reviewed year end account reconciliations;</li> <li>sample tested operating expenditure during the year;</li> <li>tested the year end payables;</li> <li>tested for unrecorded liabilities and manual accruals.</li> </ul>	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>
<p><b>Employee remuneration</b> We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>employee remuneration accruals understated</li> </ul>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle;</li> <li>undertook walkthrough of the key controls to assess the whether those controls were in line with our documented understanding;</li> <li>reviewed year end reconciliations of the payroll to the ledger;</li> <li>completed sample testing of payroll transactions during the year;</li> <li>completed directional analytical review using trend analysis.</li> </ul>	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>
<p><b>Valuation of pension fund net liability</b> Your pension fund asset and liability as reflected in your balance sheet represents a significant estimate in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>documented the controls put in place by management to ensure that the pension fund liability is not materially misstated;</li> <li>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 the valuation is carried out;</li> <li>undertook procedures to confirm the reasonableness of the actuarial assumptions made;</li> <li>reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the actuary.</li> </ul>	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p> <p>We used an auditor’s expert to provide assurance on the Council’s actuary’s work. Our expert concluded that the assumptions used by the actuary to be reasonable in most cases although in some instances the assumptions fall outside of expected ranges. Looking at the impact of all assumptions holistically, we obtained sufficient assurance that the pension fund liability is not materially misstated.</p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 27 September 2017, in advance of the 30 September 2017 national deadline. The draft financial statements for the year ended 31 March 2017 recorded a 'Surplus on the provision of services' of £327k and our work had not resulted in a change to the reported position.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers.

## **Key messages arising from the audit of the accounts**

We reported the key messages from our audit of the accounts of the Council's accounts to the Audit Committee on 20 September 2017 which included the following:

- the draft statements was completed and by 31 May 2017 and issued by 30 June 2017;
- the quality of the draft statements presented for audit was good and free of errors;
- from 2017/18, the accounts deadlines move forward and the Council will be required to present the draft financial statements for audit by 31 May. The finance team made progress in the preparation of the accounts and further efficiencies in the accounts preparation and supporting working papers will be needed to ensure the Council meets the revised deadline of 31 May;
- the finance team responded promptly and comprehensively to audit requests and queries.

## **Annual Governance Statement and Narrative Report**

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

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

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

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. As a result of our risk assessment, we reported to the Audit Committee that we had not identified any significant risks requiring further work.

In arriving at our conclusion, our main considerations included the following:

- The Council delivered another strong financial performance during 2016/17 achieving a surplus on Provision of Services of £327k against a net revenue budget of £13.7 million. The Council has arrangements in place that monitors financial performance and reports on key variances to Cabinet quarterly. These variances are properly disclosed to stakeholders in Section 5 of the Narrative Report in the Statement of Accounts.
- The Council has arrangements in place which continuously updates the medium term financial strategy (MTFS). The MTFS is updated annually and the most recent Plan covered the 10 year period from 2016/17 and 2026/27. The MTFS sets out the Council's key budget assumptions which was reported to Cabinet in February 2017 including a 2.5% Council Tax rise in 2017/18 and 2% in subsequent years, 1% pay cost increases and 2.25% non-pay cost increases.

- Along with other districts, the Council is facing reductions in central government funding and the 10 year budget assumes no government support in respect of Revenue Support Grant and New Homes Bonus. At the time of writing (July 2017), the Council's 2017/18 balanced budget included contribution of £1.5 million from the stabilisation reserve which stood at £7.2 million as at 31 March 2017. In setting the provisional budgets to 2026/27, the Council estimate using a total of £3.6 million from the stabilisation reserve. Work is continuing to identify the further medium to longer term savings through a combination of efficiencies and income generation plans such as property acquisitions. During 2016/17, the Council purchased additional commercial properties for £9.5 million taking the fair value of investment properties to £20.4 million as at 31 March 2017, increasing the reported rental income as at year end to £0.7 million gross of expenses. Future property acquisitions are expected following the Cabinet approval to set aside a borrowing limit of £25 million in April 2017.
- The Council's risk management arrangements was adequate. The Audit Committee receives periodic reports on strategic risks, the last report was presented in September 2016. We had observed a good level of challenge and discussion during Committee meetings for example around the level risk assigned to the Property Investment Strategy.

## Overall VfM conclusion

We were satisfied that in all significant respects the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

# Appendix A: Reports issued and fees

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

## Fees

	Proposed fee £	2016/17 Actual fees £	2015/16 fees £
Statutory audit of Council	43,156	43,156	43,156
Housing Benefit Grant Certification	13,845	*TBC	13,250
Non-audit service – Investment in People	n/a	n/a	11,000
<b>Total fees (excluding VAT)</b>	<b>57,001</b>	<b>43,156</b>	<b>67,406</b>

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

\* Audit of Housing benefit subsidy is in progress and will be completed and certified by the 30 November 2017 deadline

## Reports issued

Report	Date issued
Audit Plan	13 June 2017
Audit Findings Report	26 September 2017
Auditor's opinion on accounts	27 September 2017
Auditor's value for money conclusion	27 September 2017
Annual Audit Letter	October 2017
Housing Benefit Grant Certification and report	November 2017 (planned)

## Non- audit services

No non-audit or audited related services had been undertaken for the Council in the year.





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