The Audit Findings for Dartford Borough Council

Year ended 31 March 2021

September 2021

Contents

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This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Audit Committee.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Dartford Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and 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
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during July-September 2021. Our findings are summarised on pages 7 to 14. We have identified 2 adjustments to the financial statements that resulted in 2 adjustments to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix A.

Our work is complete and there are no matters of which we are aware that would required modification of our audit opinion.

We concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

We completed our audit of your financial statements and issued an unmodified audit opinion on 30 September 2021.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	Our Value for Money procedures has now been finalised. Our detailed commentary is set out in the separate Auditor's Annual Report.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements.
Significant Matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We completed our audit of your financial statements and issued an unmodified audit opinion on the 30th of September 2021.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan presented to the Audit Board on 31 March 2021

We detail in the table our determination of materiality for Dartford Borough Council

	Council Amount (£)
Materiality for the financial statements	1,300,000
Performance materiality	975,000
Trivial matters	65,000
Materiality for Officers Remuneration	50,000

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Fraudulent revenue expenditure recognition As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Council may manipulate expenditure to meet budgets and we had regard to this when planning and performing our audit procedures. Management could defer recognition of non-pay expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.	We have: • Inspected transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period; • Inspected a sample of creditors/accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the creditor/accrual was consistent with the value billed after the year; and • Investigated manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure. Findings We did not identify any significant issues in our testing of revenue expenditure.
The Revenue cycle includes fraud transactions. Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the Council revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted and not considered a significant risk, because: • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including that of Dartford Borough Council, mean that all forms of fraud are seen as unacceptable. Findings We identified one error in relation to the recognition of COVID-19 grant from government and as explained in Appendix A which the Council made an adjustment of £1,792k in the finalised audited financial statements.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Findings We did not identified any significant issues in our testing relating to management override of controls.
Valuation of Property, Plant and Equipment (including Investment Properties) • Council Dwellings: £322m • Other Land & Buildings: £44m • Investment Properties: £9m • Surplus Assets: £7m The Council re-values land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date, where a rolling programme is used. Management have engaged the services of an expert valuer to estimate the current and fair values as at 31 March 2021. We identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuations were carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • tested, on a sample basis, revaluations of the Council's operational properties, investment properties, and HRA properties during the year to ensure they have been input correctly into the Council's asset register and financial statements; • evaluated the assumptions made by management for any assets not revalued at 31 March 2021, and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value. Findings We did not identified any significant issues in respect of the valuation of property plant and equipment (including investment property). Management removed the 'material valuation uncertainty disclosure' made within Note 6 of the draft published accounts relating to the impact of the pandemic on the valuation on the council's hospitality and leisure properties. This is because the value of these assets held by the Council is such that any changes in market information relating to these assets is unlikely to have a significant risk of material adjustment to the carrying value within the next financial year. Management have further enhanced the disclosure regarding the property valuation as at 31 March 2021 and included a sensitivity analysis as required by the accounting standard.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. The Council's net pension liability at 31 March 2021 is £62m (PY £55m). The Council uses Barnett Waddingham LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in March 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • written to the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. **Findings** We did not identify any significant issues in our testing of the valuation of pension fund net liability.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Other Land and Building valuations – £44m Council Dwellings valuations – £322m	Land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Michael Rogers LLP to complete the valuation of properties as at 31 March 2021. Land and buildings are revalued when management considers there to be a material change in the value but as a minimum every five years. Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 March 2020, applying industry average indices and rental income to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the property's value. In line with RICS guidance, the Council's valuer have removed the 'material valuation uncertainty' which the 2019/20 valuations were subject to and remaining uncertainty in relation to leisure properties is not material to the councils accounts.	We considered and completed the following in the course of our testing: • assessment of management's expert, • completeness and accuracy of the underlying information used to determine the estimate • impact of any changes to valuation method • consistency of estimate against Gerard Eve report (auditor's property valuation expert) • reasonableness of decrease in estimate • adequacy of disclosure of estimate in the financial statements. We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. Management have evaluated and amended the disclosure relating to property valuations included in Note 6 to the draft financial statements. This is to ensure consistency with the requirement of IAS 1. We did not identify any significant issues in our review of this estimate.	Light Purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property valuations – £9m	The council has a number of investment properties that it holds for either for rentals and/or for capital appreciation. Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. The council's investment properties are revalued annually as at 31st March 2021. The Council's investment property revaluation has been prepared by the Richard Robson BSc MRICS, of Michael Rogers LLP an external valuer engaged by the Council.	We have assessed management's estimate, considering: • an assessment of management's expert; • the completeness and accuracy of the underlying information used to determine the estimate; • the reasonableness of the assumptions behind the valuations; and • the reasonableness of the increase in the estimate. Management has amended the disclosure relating to property valuations (including investment properties and surplus assets) included in Note 6 to the draft financial statements. This is to ensure consistency with the requirement of IAS 1. We did not identify any significant issues in our review of this estimate.	Light Purple
Surplus Assets - £7.1m	Land at Stone Lodge was revalued at Fair Value as at 31 March 2021. The valuation technique was based on Significant Observable Inputs – level 2, i.e. it was based on the market approach using current market conditions and recent sales or lettings evidence and other relevant information for similar assets in Dartford Borough, or other suitably comparable locations. Where appropriate, adjustments have been made to the comparable evidence to relate these directly to the subject asset. Market conditions are such that similar assets are actively sold or let and the level of observable inputs are significant, leading the assets being categorised at Level 2 in the fair value hierarchy.	We have assessed management's estimate, considering: • An assessment of management's expert; • The completeness and accuracy of the underlying information used to determine the estimate; • The reasonableness of the assumptions behind the valuations; and • The reasonableness of the increase in the estimate. Management has amended the disclosure relating to property valuations (including investment properties and surplus assets) included in Note 6 to the draft financial statements. This is to ensure consistency with the requirement of IAS 1. We did not identify any significant issues in our review of this estimate.	Light Purple

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provision for NNDR appeals – £7.8m	The Council is responsible for repaying a proportion of successful rateable value appeals. Management uses the number of appeals outstanding at 31 March 2021 and the average reduction achieved from settled appeals, to calculate the level of provision required.	We have assessed management's estimate, considering: • appropriateness of the underlying information used to determine the estimate; • impact of any changes to valuation method; • consistency of estimate against peers/industry practice; • reasonableness of decrease in estimate; and • adequacy of disclosure of estimate in the financial statements. We did not identify any significant issues in our review of this estimate.	Light Purple
Minimum Revenue Provision. £4.6m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. MRP is required to be charged with respect to borrowing obtained as part of acquiring assets to be held in the General Fund (GF). No MRP charge is made in respect of borrowing for the acquisition of assets held in the Housing Revenue Account (HRA). According to regulations, this is on the basis that HRA assets should be self-financing, with local authorities being required to make an annual charge from the HRA to their Major Repairs Reserve in place of MRP, to maintain functionality of housing assets.	We have assessed management's estimate, considering: • whether the MRP has been calculated in line with the statutory guidance • whether the Council's policy on MRP complies with statutory guidance. • Assess whether any changes to the authority's policy on MRP have been discussed and agreed with those charged with governance and approved by full council • Reasonableness of any increase/decrease in MRP charge. We did not identify any significant issues in our review of this estimate.	Light Purple

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation -	The government has provided a range of new financial support packages to the Council and all local authorities throughout the Covid-19 pandemic. These included additional funding to support the cost of services or offset other income losses, and also grant packages to be paid out to support local businesses. The Council has needed to consider the nature and terms of each of the various Covid-19 measures in order to determine the appropriate accounting treatment, including whether there was income or expenditure to be recognised in the Comprehensive Income and Expenditure Statement (CIES) for the year. In doing so, management have considered the requirements of section 2.3 of the Code of Practice on Local Authority Accounting which relates to accounting for government grants, as well as section 2.6 which describes how the accounting treatment for transactions within an authority's financial statements shall have regard to the general principle of whether the authority is acting as a principal or agent, in accordance with IFRS 15. The three main considerations made by management in forming their assessment were: • Where funding is to be transferred to third parties, whether the Council was acting as a principal or agent, and therefore whether income should be credited to the CIES or whether the associated cash should be recognised as a creditor or debtor on the Balance Sheet • Whether there were any conditions outstanding at year-end, and therefore whether the grant should be recognised as income or a receipt in advance • Whether the grant was awarded to support expenditure on specific services or was in the form of an un-ringfenced government grant – and therefore whether associated income should be credited to the net cost of services or taxation and non-specific grant income within the CIES.	We have assessed management's judgement considering: • We are satisfied that management have effectively evaluated whether the Council is acting as the principal or agent for each relevant support scheme, which has determined whether any income is recognised. • We have evaluated the completeness and accuracy of the underlying information used to determine whether there were conditions outstanding (as distinct from restrictions) at the year-end that would determine whether the grant should be recognised as a receipt in advance or income, and concluded that this was appropriate. • We have considered management's assessment, for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. We are satisfied that the presentation in the CIES is appropriate. • Management's disclosure of the Council's accounting treatment for grant income in both the financial statements and Narrative Report is sufficient. We noted one misstatement which management agreed to amend (See Appendix A). Our testing did not identify any other significant issues in our testing of grant income.	Light Purple

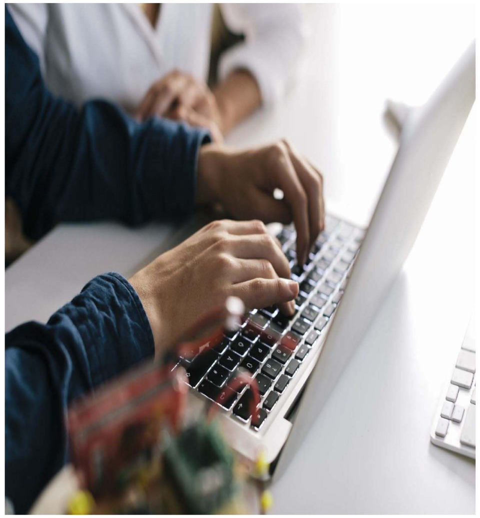
2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £62m	The Council's total net pension liability at 31 March 2021 is £62m (PY £55m) comprising the Kent County Council Local Government defined benefit pension scheme obligation. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £29m net actuarial loss during 2020/21.	We have assessed management's estimate, considering: • We have assessed the actuary, Barnett Waddingham, to be competent, capable and objective. • We have confirmed the controls and processes over the completeness and accuracy of the underlying information sent to Kent County Council used to determine the estimate. • We have requested an assurance letter from the auditor of Kent County Council Pension Fund asking for their assistance in checking source data provided to the actuary from the pension fund's records; • We have confirmed there were no significant changes in 2020/21 to the valuation method. • We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for out comparison of actuarial assumptions: (table below) •We did not identify any significant issues in our review of this estimate.	Light Purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	1.95%	1.95%2-2.05%	●
Pension increase rate	2.85%	2.80%-2.85%	●
Salary growth	3.85%	1% above CPI	●
Life expectancy – Males currently aged 45 / 65	**45:** 22.9 **65:** 21.6	21.9-24.4/20.5-23.1	●
Life expectancy – Females currently aged 45 / 65	**45:** 25.1 **65:** 23.6	24.8/26.5/23.3-25.0	●

2. Financial Statements - other communication requirements

We set out 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
Matters in relation to fraud	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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council which is included in the Audit Board papers.
Confirmation requests from third parties	We requested from management permission to send confirmation request to the Council's banks, investment and borrowing counterparties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review is on-going and to date we have not identified any significant issues.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

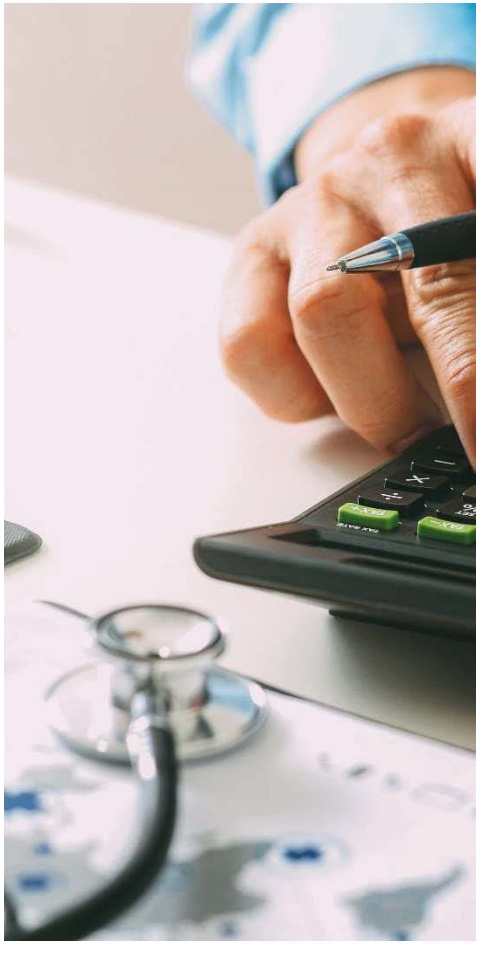
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and the Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Work is on-going; however, No inconsistencies have been identified to date, subject to finalisation of the audit. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported any significant weakness. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	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. • The WGA guidance for 2021/22 has not been issued.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of the Dartford Borough Council in the audit report, as detailed in Appendix E. This is because: • The WGA guidance for 2021/22 has not been issued.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Our VFM work is in progress. Our detailed commentary will be set out in our separate Auditor's Annual Report. We are satisfied from the work we have undertaken to date that no matters have been identified that would impact on our proposed audit opinion on the financial statements.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

4. 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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	5,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £58,732 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	23,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £23,000 in comparison to the total fee for the audit of £58,732 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Appendices

A. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Co-op Town Centre The draft accounts presented for audit included a contingent liability relating to the former Co-op site development. In September 2019 the Council agreed to underwrite the Co-op Town Centre planning application costs of its development partner Muse Developments Limited to the sum of £1.411k. This was to enable the scheme to be progressed to planning while outstanding viability issues were addressed. Management have reassessed the contingent liability regarding the site development, and have now recognised a provision. This means, expenditure disclosed in the Comprehensive Income and Expenditure Statement will increase by £1.411k and Provisions on the Statement of Financial Position will increase by £1.411k. This misstatement impacts Note 21: Provisions and Note 16 Contingent including other notes and disclosures within the financial statements.	DR: 1,411	Cr: 1,411	Increase: 1,411
Discretionary Covid-19 The draft accounts presented for audit included a discretionary Covid-19 grant that had been recognised in the Comprehensive Income and Expenditure Statement totalling £1.792k that was unspent at 31 March 2021. Following additional guidance issued by the Department for Business Energy, and Industrial Strategy in April 2021 that clarified that Funds that have not been distributed by Local Authorities by 31 March 2022 will be subject to recovery. The additional guidance further clarified, that Local Authorities would need to manage their application and payment process to achieve all spend by 31 March 2022 as payments after this date will not be allowed in any circumstances. This therefore, means there is a grant condition. Grants and contributions that satisfy the recognition criteria in paragraph 2.3.2.8 of the Local Authority Code but which have a condition attached that remains to be satisfied are recognised initially in the relevant grants receipts in advance account. Management have agreed to correct the error in their draft accounts and this impacts both Comprehensive Income and Expenditure Statement (decrease £1,792k) and the Grants Receipt in Advance (increase £1,792k).	DR £1,792	CR: £1,792	Increase £1,792
Overall impact	£3,203	£3,203	£3,203

A. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification 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.

Disclosure omission	Auditor recommendations	Adjusted?
Note 5 Critical Judgements in Applying Accounting Policies	Management agreed to review and amend Note 5 in order to enhance the disclosure to only include those significant judgements in applying accounting policies in preparing the financial statements. This is to ensure consistency with the requirements of the International Accounting Standards 1	✓
Note 6 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty	Management agreed to review and amend Note 6 in order to enhance the disclosure to only include those significant estimates with a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. This disclosure is now consistent with the requirements of the International Accounting Standards 1	✓
Note 17 Financial Instruments	The draft Note 17 Financial Instruments included non-financial assets and liabilities for both CY and PY. The disclosure incorrectly included statutory short term and long term debtors and creditors as well as Provisions. These do not meet the criteria of a financial instrument. Management have agreed to amend Note 17.	✓
Note 29 Related Parties	The related party note 29 in the draft accounts has been amended by management to meet the requirements of the Code 3.9.41.	✓
Note 22 Cash Flow Statement	Note 22, included £5,494k that was improperly disclosed under Proceeds from the sale short-term and long-term investments line item in the cash flow which should have been recorded under Proceeds from the sale of property, plant and equipment, investment property and intangible assets. Management have agreed the accounts.	✓
Collection Fund	The Prior Year Figure in the collection fund so that the Precept Demand and Shares for Kent Fire and Rescue Authority is now £3,786k rather than £2,935k which then ties up the allocations with the surplus amount.	✓
Disclosure and Presentation	We have identified a small number of minor disclosure and presentation changes which management have agreed to adjust for	✓

Impact of unadjusted misstatements

We have not identified any unadjusted misstatements which we are required to report to Those Charged With Governance as of date.

B. Fees

We confirm below our fee charged for the audit

Audit fees	2019/20	2020/21
Statutory Audit (excluding VAT)	£49,717	£58,732

We understand the Council will receive a grant to support additional fees for 2020/21 relating to new accounting standards and the change to the VFM audit. This amount has not yet been confirmed and as such the final fee has not been agreed with management or approved by the PSAA.

In addition, we note in August 2021 the PSAA has approved the distribution of surplus funds relating to 2020/21 to opted-in bodies. The Council's share of the surplus is £7,050.

Non-audit services undertaken for the Council are set out in the Independence and ethics section on page 19.

Grant Thornton