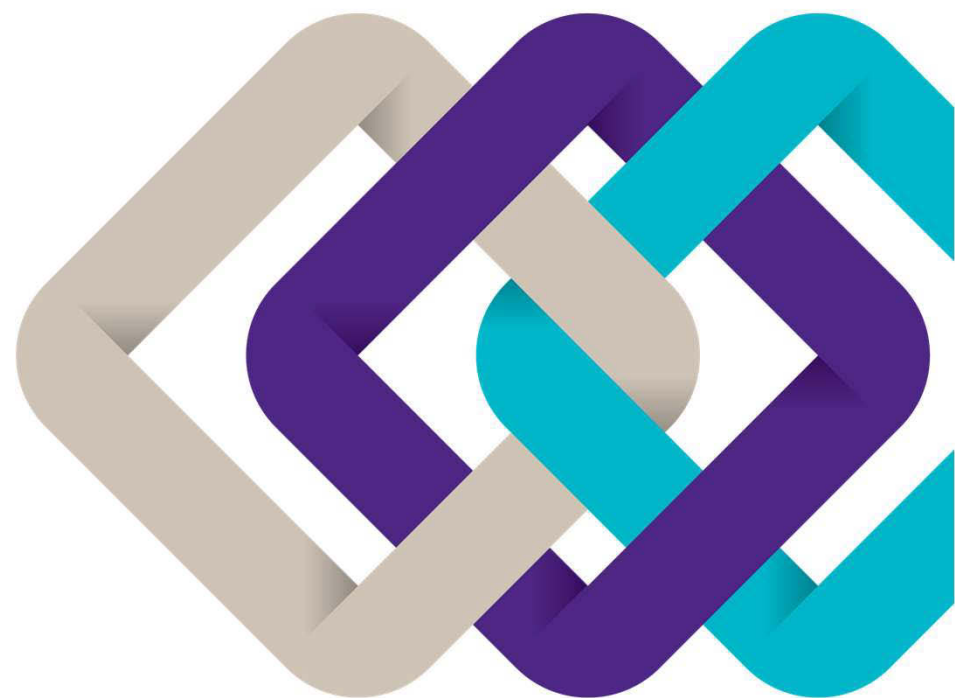




The Annual Audit Letter for Dartford Borough Council

Year ended 31 March 2020

December 2020



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Dartford Borough Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and 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 and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Board Committee as those charged with governance in our Audit Findings Report on 21 October 2020.

Respective responsibilities

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

- give an opinion on the Council financial statements (section two)
- assess the Council'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 financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,300,000, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 30 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and investment properties and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 November 2020.
Certificate	We certified that we have completed the audit of the financial statements of Dartford Borough Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- Accounts deadline – with restrictions for non essential travel we worked with you to establish and adopt to new remote access working arrangements to deliver the financial statements audit before the deadline.
- Understanding your financial challenges – through the value for money conclusion we provided you with assurance on your operational and financial effectiveness.
- We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff during these extraordinary times

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, 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 the audit of the Council's financial statements to be £1,300,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £65,000, above which we reported errors to the Audit Board Committee in our Audit Findings Report.

The scope of our audit

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

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that 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 Financial Statements

Significant Audit Risks

These are the significant 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>Covid-19</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. The Covid-19 pandemic impacted on the production and audit of the financial statements for the year ended 31 March 2020</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations; liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose; evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology; evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. evaluated the material valuation uncertainties disclosures in Note 6 due to the impact of covid-19 has had on property, plant and equipment valuation and the valuation of assets managed by fund managers of Kent Pension Fund (pooled leasehold and freehold property investments). We referred to the material valuation uncertainty in our audit report as an emphasis of matter. 	<p>No issues were identified from the work performed in this area.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant 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>Valuation of land and buildings You re-value your land and buildings on a rolling quinquennial 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.</p> <p>You have engaged the services of an expert to estimate the current and fair value as at 31 March 2020</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert wrote to the valuer to confirm the basis on which the valuation was carried out challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding tested revaluations made during the year to ensure that they have been input correctly into your asset register evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. evaluated the disclosures in the financial statements in respect to the material valuation uncertainties disclosed in the valuer's report due to the impact of covid-19 has had on property valuation as at the balance sheet date. We referred to the material valuation uncertainty in our audit report as an emphasis of matter. 	<p>No material issues were identified from the work performed in this area.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability Your pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>Your pension fund net liability is considered a significant estimate due to the size of the numbers involved (£55 million in the balance sheet as at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of your pension fund net liability as a significant risk of material misstatement.</p>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none"> • 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 an 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. 	<p>No material issues were identified from the work performed in this area.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal 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.</p> <p>We identified management override of controls as a risk requiring special audit consideration</p>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none"> • documented the design effectiveness of management controls over journals • analysed the journals listing and determine 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 made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>No issues were identified from the work performed in this area.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 30 November 2020.

Preparation of the financial statements

The Council presented us with draft financial statements in [month] in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Board Committee on 21 October 2020. No significant issues were identified from our audit.

Annual Governance Statement and Narrative Report

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

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Dartford Borough Council in accordance with the requirements of the Code of Audit Practice. We certified closure of the audit within our audit report on 30 November 2020

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 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 risks where we concentrated our work.

We carried out an initial risk assessment in January 2019, and identified no significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We continued our review of relevant documents up to the date of giving our audit report, and did not identify any significant risks requiring us to perform further work

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p>	<p>We considered the your arrangements in place for managing the impact of COVID-19 on the council's finances.</p> <p>We reviewed your arrangements monitoring the 19/20 budget and progress made against the 2020/21 budget.</p>	<p>Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	22 July 2020
Audit Findings Report	21 October 2020
Annual Audit Letter	23 December 2020

A. Reports issued and fees

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

Fees

	Proposed fee per audit plan	Proposed final fee
Statutory audit	43,232	49,717
Total fees	43,232	49,717

Audit fee variation

As outlined in our audit plan, the 2019/20 scale fee published by PSAA of £35,732 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

The additional significant risk of Covid-19 and additional time it has taken to complete the audit as a result of remote working arrangements has meant an increase in time taken to complete the audit and increased volume of work and scope of our audit work to reflect this additional risk. This includes:

- Revisiting planning and risk assessment work
- Increased volume of work to gain assurance over management's assumptions and estimates
- Financial resilience assessment included in our going concern and value for money work
- Increased time taken to deliver the audit as a result of remote working of all staff

A fee increase of 15% (£6,485) is proposed to cover the additional work incurred by Grant Thornton, taking our proposed fee to £49,717..

Area	Reason	Fee proposed
Raising the bar	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	2,500
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,750
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,750
Accounting Standards	Note that PSAA's original scale fee for this contract was set in March 2018, so any new developments since that time need to be included.	1,500
	Total	£7,500

Fee variations are subject to PSAA approval.

A. Reports issued and fees continued

Fees for non-audit services

Service	Proposed Fees £
Audit related services	
- Certification of Housing Capital Receipts Grant	5,000
- Certification of Housing Benefit	23,000

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 table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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