

# The Audit Findings for Sevenoaks District Council

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Year ended 31 March 2016

September 2016

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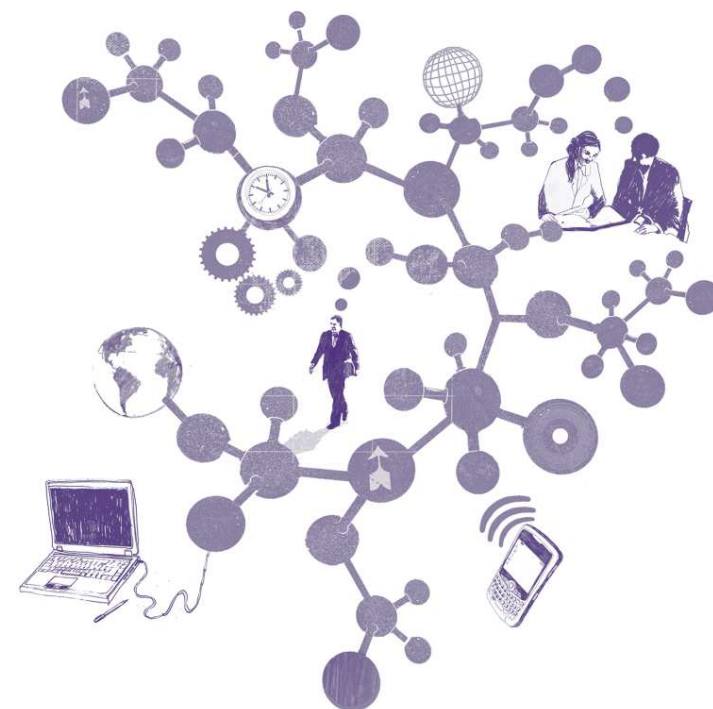
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27<sup>th</sup> September 2016

Dear Members,

**Audit Findings for Sevenoaks District Council for the year ending 31 March 2016**

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

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

**Sarah Ironmonger**

Engagement Lead

**Chartered Accountants**

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# Section 1: Executive summary

**01. Executive summary**

**02. Audit findings**

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**04. Fees, non audit services and independence**

**05. Communication of audit matters**

## Purpose of this report

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

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

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

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

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

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

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

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

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

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 30/06/2016. Our audit is substantially complete although we are finalising our procedures in the following areas:

- Housing Benefit Expenditure testing
- Review of the final version of the financial statements
- Obtaining and reviewing the management letter of representation
- Review of final version of the Annual Governance Statement
- Updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts submission

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

## Key audit and financial reporting issues

### Financial statements opinion

We have identified no adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded net income of £12,709k; the audited financial statements show the same. We have recommended a number of adjustments to improve the presentation of the financial statements..

The key messages arising from our audit of the Council's financial statements are:

- We have seen a significant improvement in the quality of the financial statements compared to last year which has resulted in far few adjustments to notes within the accounts.
- The audit team have been supported very positively by the Council through out the audit process. The finance and payroll teams have been particularly responsive and co-operative during the audit.
- We have identified control improvements to ensure improvements to Property, Plant and Equipment disclosures for 2016/17.

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

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

### Other financial statement responsibilities

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

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

## Controls

### Roles and responsibilities

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

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

### Findings

We draw your attention in particular to control issues identified in relation to:

- Self-authorisation of finance raised journals as noted in the prior year audit, although control recommendations from 2014/15 have been partially implemented appropriately.
- 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.

Further details are provided within section two of this report.

## Early Close

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.

It is noted that there has been turnover of staff in the finance team this year, which has led to the need for learning of new processes and management responsibilities. We would only expect communication and output within the team to improve as it becomes more experienced and therefore would expect the closedown process to be faster when performing the 2016/17 audit.

Achieving these earlier deadlines, particularly within the more complex environment within which the Council now operates, will require an element of redesign of some of the closedown processes, arrangements and internal business processes. The audit is also an important part of this. We have worked with many clients to successfully implement faster close and will continue to work with the Council during the coming year to provide support in achieving the earlier deadlines before the statutory deadlines are brought forward.

### **Value for Money**

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

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

### **Other statutory powers and duties**

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

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

### **Grant certification**

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to Audit Committee which is due 10 January 2017.

### **The way forward**

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Finance Officer.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Chief Finance Officer and the finance team.

### **Acknowledgement**

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

**Grant Thornton UK LLP**  
September 2016

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of Audit Matters



# Materiality

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

As we reported in our audit plan, we determined overall materiality to be £1,117k (being 2% of gross revenue expenditure for 2014/15). We have considered whether this level remained appropriate during the course of the audit and identified upon receipt of draft accounts that 2015/16 gross revenue expenditure had fallen that led us to revise our overall materiality to £1,043k (being 2% of gross revenue expenditure for 2015/16).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £52k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£100k for Exit Packages and bandings of senior employee remuneration

# Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Sevenoaks District Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any material issues in respect of revenue recognition.</p>
2.	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> <li>• assessment of internal controls in place relating to the posting of journal entries</li> </ul>	<p>Our audit work has not identified any material evidence of management over-ride of controls. In particular our testing of journal entries has not identified any material significant issues.</p> <p>Our recommendations from the prior year have been implemented partially with an authorisation process put in place for certain types of journals. Our testing identified that journals under £10,000 posted by the finance team remain self authorised. Where journals are self authorised there is an increased inherent risk of management override of controls.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

# Audit findings against other risks

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



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Employee remuneration</b></p>	<p>Employee remuneration accruals understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Walkthrough of the council's processes and controls over this area to gain an understanding of these.</li> <li>• 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.</li> <li>• Trend analysis on the Council's 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.</li> </ul>	<p>Our audit work has not identified any material issues in relation to the risk identified.</p>
<p><b>Operating expenses</b></p>	<p>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"> <li>• Walkthrough of the Council's processes and controls over this area to gain an understanding of these.</li> <li>• Detailed substantive testing has been performed over the operating expenditure incurred by the Council, during the year, including payments made post-period end</li> <li>• 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.</li> <li>• Testing has been performed on the Creditors included within the Accounts at year end to ensure that these amounts are valid</li> </ul>	<p>Our audit work has not identified any material issues in relation to the risk identified.</p>

# Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Pension valuation (IAS 19)</b>	Valuation of the pension fund assets and liabilities have been incorrectly valued	<ul style="list-style-type: none"> <li>• Walkthrough of the Council's processes and controls over this area to gain an understanding of these.</li> <li>• Documented our understanding of the qualifications, experience and expertise of the actuary in reaching the valuation of the pension fund's assets and liabilities.</li> <li>• Tested the completeness and appropriateness of the data sent to the pension fund by the Council.</li> <li>• Reviewed the assumptions used by the actuary in arriving at their valuation for reasonableness.</li> <li>• Tested the input of the valuation data from the actuary to the financial statements, and review disclosures of the IAS 19.</li> </ul>	Our audit work has not identified any material issues in relation to the risk identified.

# Accounting policies, estimates and judgements

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

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	The Council's revenue recognition policies are disclosed within the accounting policies. This confirms that the revenue is recognised in the year to which it relates, rather than when the cash is actually received.	Our review of this policy confirms it is materially in line with the CIPFA Code of Practice.	 <b>Green</b>
<b>Judgements and estimates</b>	Key estimates and judgements included within the accounts include: <ul style="list-style-type: none"> <li>• Going concern</li> <li>• Leases</li> <li>• Arrears</li> <li>• Business rate appeals</li> <li>• Pensions liability</li> <li>• Property, Plant and Equipment (PPE)</li> <li>• Provisions</li> </ul>	Following our consideration of these judgements and estimates, we have identified two areas within estimates that were not in compliance with the CIPFA Code of Practice or the relevant accounting standards. They were however immaterial to the financial statements and represented a minor area of judgements and estimates as a whole. These areas were: <ul style="list-style-type: none"> <li>• Depreciation of PPE – our substantive procedures performed identified that depreciation was calculated at year end on assets revalued at 31<sup>st</sup> March 2016. This is not in line with IAS16 requirements. For 2015/16, this was not material to the financial statements.</li> <li>• Revaluation of assets held for sale – our substantive procedures performed identified that two assets reclassified from Land and Buildings to Assets Held For Sale at year-end were not revalued before reclassification as required by the CIPFA Code of Practice. For 2015/16, this was not material to the financial statements.</li> </ul> No other material issues were identified during work performed on judgements and estimates during the 2015/16 audit.	 <b>Green</b>



**Assessment**

● **Red** Marginal accounting policy which could potentially attract attention from regulators  
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● **Amber** Accounting policy appropriate but scope for improved disclosure

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

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	The Chief Officers have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Chief Officers' assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 <b>Green</b>
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any material issues which we wish to bring to your attention	 <b>Green</b>

**Assessment**

● **Red** Marginal accounting policy which could potentially attract attention from regulators  
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● **Amber** Accounting policy appropriate but scope for improved disclosure

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

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other material issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent and were returned with positive confirmation.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found non-trivial omissions in the financial statements.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a number of areas. We have not identified any material issues we would be required to report by exception in the following areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.</li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Detailed work is not required as the Council does not exceed the threshold.</p>

# Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses and IAS19 Pension Valuation, in addition to walking through the journal control environment as set out on pages 10-12 above.

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

	Issue and risk	Recommendations
1.	<ul style="list-style-type: none"> <li>Journals raised within the finance team below £10,000 are self-authorised with a mitigating control implemented of a sample review of self authorised journals on a monthly basis. A lack of segregation of duties remains within the journal process which increases the risk that any potential misstatement could be undetected.</li> </ul>	<ul style="list-style-type: none"> <li>Implement a process to ensure that all journals raised within finance are reviewed and authorised.</li> </ul>
2.	<ul style="list-style-type: none"> <li>Depreciation was charged on assets revalued as at 31 March 2016. This is incorrect and not in line with the requirements of IAS16 requirements. The financial impact of issue was not material in 2015/16.</li> </ul>	<ul style="list-style-type: none"> <li>Perform year-end review of asset base to ensure depreciation is appropriately applied in line with IAS16 requirements.</li> </ul>
3.	<ul style="list-style-type: none"> <li>Two assets were reclassified from Land and Buildings to Assets Held For Sale at year-end but these assets were not revalued at the point they transferred to assets held for sale. This is incorrect and not in line with the CIPFA Code of Practice requirements. The financial impact was not material in 2015/16.</li> </ul>	<ul style="list-style-type: none"> <li>Perform revaluations at the point any asset changes classification to an asset held for sale as per CIPFA Code of Practice.</li> </ul>

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



# Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	<p><b>Partially complete</b></p>	<p>The Council has only a few staff who can prepare and authorise journals. We identified that journals were prepared and reviewed by the same officer during the year. We have tested all material balances within the financial statement and are satisfied of the validity and accuracy of material journals.</p> <p>A lack of segregation of duties in the journal process increases the risk that any potential misstatement could be undetected.</p>	<p>The recommendation was to ensure all journals are approved electronically by an officer who had not been involved in the preparation process.</p> <p>The council's management response to address the issue identified was that the following controls were in place to mitigate the risk:</p> <ul style="list-style-type: none"> <li>• Journals requested by non-Finance staff are to be agreed by Finance.</li> <li>• End of year accruals are authorised by the relevant Chief Officer before being agreed by Finance.</li> <li>• The budget monitoring reports require comments for any variances over £10,000 and are analysed on a line-by-line basis by the Finance Team.</li> </ul> <p>An additional control recommendation was implemented as a result of the 2014/15 audit which was that:</p> <ul style="list-style-type: none"> <li>• Random checks will now be carried out to reduce the opportunity to misappropriate funds within codes. This will involve the Chief Finance Officer and Head of Finance completing monthly checks. This will ensure that journals completed by each member of the Finance Team are checked on a regular basis.</li> </ul> <p>We are satisfied from work performed that these controls were implemented effectively by the finance team and therefore the risk of management override of controls was inherently a lower risk. The commentary on p16 relates to the potential risk where sample checks are undertaken on finance team journals under £10,000.</p>

## Adjusted misstatements

At the time of writing, no significant adjustments to the draft financial statements have been identified as a result of the audit procedures.

# Unadjusted misstatements

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
<p>1 Depreciation was charged on assets revalued as at 31 March 2016. This is incorrect and not in line with the requirements of IAS16 requirements. The financial impact of issue was not material in 2015/16.</p>	<p>CR Cost of Services £10</p>	<p>DR PPE £146 CR Capital Adjustment Account £136</p>	<p>The amendment was considered too small to impact on the reader of the accounts.</p>
<p>2 Two assets were reclassified from Land and Buildings to Assets Held For Sale at year-end but these assets were not revalued at the point they transferred to assets held for sale. This is incorrect and not in line with the CIPFA Code of Practice requirements. Audit work performed gained assurance that the financial impact was not material in 2015/16.</p>			<p>The amendment was considered too small to impact on the reader of the accounts.</p>
<p>3 Invoice identified for £84k (including VAT) relating to 2015/16 valuation work was not accrued for within creditors. Creditors and PPE (invoice related to capital expenditure) therefore understated at year end.</p>		<p>DR PPE £70 CR Creditors £70</p>	<p>The amendment was considered too small to impact on the reader of the accounts. Additional work on unrecorded liabilities identified no additional issues.</p>

## Impact of uncorrected misstatements in the prior year

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
<p>1 A debtor was incorrectly included in Creditors as opposed to the bad debt provision.</p>		<p>DR Creditors £72 CR Bad Debt Provision £72</p>	<p>The adjustment was not processed in 2014/15 on the grounds of materiality. There will be no significant impact on 2015/16 financial statements and no similar issues were identified in the 2015/16 audit.</p>

## Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	471	Note 11 - Assets Held for Sale	Disclosure note only - the Fair Value of the land adjacent to 12 Knole Way held for sale was not disclosed within the draft accounts.
2 Disclosure	81	Note 12 - Financial Instruments	Disclosure note only - £81k reduction to debtors to ensure impairment of receivables is netted off balance in line with guidance.
3 Disclosure	N/A	Note 36 - Contingent Liabilities	Disclosure note only - the disclosure on the Property Search fees has been removed as the liability has ceased to exist from August 2016 based on work performed.
4 Disclosure	20 & 257	MIRS	Balances of £20k and £257k to be included in the Earmarked reserves balance column to ensure appropriate disclosure and casting. Amendment only improves disclosure of Movement In Reserves Statement table.
5 Disclosure	N/A	Note 35 - IAS19	Disclosure note only – the Sensitivity Analysis disclosure in the actuary's report was omitted from the disclosure note and has been amended.
6 Disclosure	N/A	Note 27 - Exit Packages	Disclosure note only – the total number of exit packages agreed in year was increased from 11 to 14.
7 Disclosure	N/A	Notes to Cash flow Statement	Changes identified within the supporting cash flow notes including notes not casting and amendments to debtor and creditor movements. These did not affect the core cash flow statement.
8 Disclosure	N/A	Financial Statements	There were a number of minor presentational issues that were identified during the course of our audit. Amendments have been agreed.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non-audit services and independence

05. Communication of Audit Matters

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

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

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

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

## Risk assessment

We carried out an initial risk assessment and identified the following significant risks, which we communicated to you in our Audit Plan dated June 2016.

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

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

### **Significant qualitative aspects**

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council has a very good recent history of managing the challenges in its financial environment and developing a long term vision which is captured in the 10 year budget plan. The Council's Corporate Plan sets out the intention to move towards being financially self-sufficient. In addition to continuing to seek efficiencies and savings within Council services, the Council has also recognised a need to increase revenue income. During the year, the Council successfully invested in three properties providing revenue income and has further plans for more capital projects in Sevenoaks.

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

### **Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

### **Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

### **Overall conclusion**

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

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



## Key findings

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

Significant risk	Work to address	Findings and conclusions
<p><b>Property Investment Strategy</b>                      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"> <li>• reviewed the Council's Investment strategy and the reports to members</li> <li>• reviewed the Investment outturn position for 2015/16 and the Investment budget plans for 2016/17 and 2017/18</li> <li>• met with key officers to discuss key Investment strategic challenges and the Council's proposed response</li> </ul>	<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"> <li>• Swanley Working Men's club for £1.25 million;</li> <li>• Suffolk House for £4 million; and</li> <li>• 73 – 75 High Street, Swanley petrol filling station and convenience store for £2.45 million.</li> </ul> <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><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</b></p>

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

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non audit services and independence**

05. Communication of audit matters

We confirm below our final fees charged for the audit:

### Fees

	Proposed fee £	Final fee £
Council audit	43,156	43,156
Grant certification	14,250	TBA
<b>Total audit fees (excluding VAT)</b>	<b>57,406</b>	

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

### Grant certification

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

### Fees for other services

Service	Fees £
None	Nil

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication to those charged with governance

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

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

## Respective responsibilities

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

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

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

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

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

# Appendices

# Appendix A: Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<ul style="list-style-type: none"> <li>Implement a process to ensure that all journals raised within finance are reviewed and authorised.</li> </ul>	Medium	<p>The risk of mis-appropriation of funds within codes is small due to following processes already being in place.</p> <ul style="list-style-type: none"> <li>a. The budget monitoring reports require comments for any variance over £10,000 and are analysed on a line-by-line basis by the Finance Team.</li> <li>b. All journal entries over £10,000 are approved by the Chief Finance Officer.</li> <li>c. In future all journal entries under £10,000 will be approved by the Head of Finance. This will also apply retrospectively to journals completed since 01/04/16.</li> </ul>	01/11/16 Head of Finance
2	<ul style="list-style-type: none"> <li>Perform year-end review of asset base to ensure depreciation is appropriately in line with IAS16 requirements.</li> </ul>	Medium	Agreed	31/03/2017 – Head of Finance
3	<ul style="list-style-type: none"> <li>Perform revaluations at the point any asset changes classification to an asset held for sale as per CIPFA Code of Practice.</li> </ul>	Medium	Agreed	31/03/2017 – Head of Finance

# Appendix B: Audit opinion

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEVENOAKS DISTRICT COUNCIL**

We have audited the financial statements of Sevenoaks District Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Finance Officer and auditor**

As explained more fully in the Statement of the Chief Finance Officer Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

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

### **Opinion on other matters**

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

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

We are required to report to you if:

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

We have nothing to report in these respects.



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

**Respective responsibilities of the Authority and auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

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

**Conclusion**

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

**Certificate**

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

**Sarah Ironmonger**

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

Fleming Way | Manor Royal | Crawley | RH10 9GT

Date: XX September 2016



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