Grant Thornton

The Audit Findings for Dartford Borough Council

Year ended 31 March 2020

21 October 2020

Contents

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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 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council. Offices have been closed, and finance staff have been involved in reprofiling the 2020 budget and the Medium-Term Financial Plan to take into consideration potential lost revenues and additional expenditure incurred as a result of the pandemic. We have reviewed this within our Value for Money work (see page 18) All staff in the finance team have been able to work from home and access systems in the same way as before, with no key staff taking sickness absence. The Council has provided IT and system support to those who have need (such as second screens and system access). There has been no change in the control environment following lockdown and the switch to working from home Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan that included an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 7. Restrictions for non-essential travel have meant both Council and audit staff have had to utilise remote access working arrangements including video calling and the use of screensharing applications in order to gain sufficient and appropriate audit evidence; for example, the audit team have observed re-running of system reports and bank statements to gain assurance over the completeness accuracy of information produced by the entity ('IPE'). The financial statements were provided to audit on 10 July 2020 and the audit commenced in July.

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 2020 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's 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), 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-October 2020. Our findings are summarised on pages 6 to 15. We have not identified any adjustments to the financial statements that have resulted in adjustments to the Council's Comprehensive Income and Expenditure Statement. Disclosure adjustments are detailed in Appendix B. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters; • receipt of third-party confirmations for borrowings and investments; • review of outstanding substantive sections; • Housing benefits payment testing; • review of responses to audit queries; • resolution of audit queries in relation to PPE; • receipt of Pensions Letter from Kent County Council Pension Fund auditor; • agreement of immaterial disclosure notes to working papers; • completion of final management and engagement lead review of the audit file; • receipt of management representation letter (provided as a separate committee item); and • review of the final set of financial statements. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. The financial statements we have audited is up until 31 March 2020 which was prior to the outbreak of the Covid-19 coronavirus pandemic. Our anticipated audit opinion for the Council will be unmodified. It will include an Emphasis of Matter, highlighting material uncertainties around the valuation of land and buildings, investment properties and the valuation of the net pension liability as at 31 March 2020

Headlines

Value for Money arrangements – 2019/20	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Dartford Borough Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19, moreover and enhancement of the existing significant risks that we had identified. We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 20
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 have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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 have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion on completion of the audit. The outstanding items are detailed on page 4.

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.

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

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid – 19 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. We expected current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation; • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates; • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • 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. In the valuation reports prepared by the valuer, they have confirmed that as a result of Covid-19 less weight can be attached to market evidence for comparison purposes to inform opinions of value. At the balance sheet date, the valuer was faced with an unprecedented set of circumstances on which to base a judgement and as such the valuations have been reported on the basis of 'material valuation uncertainty.' In addition, the fund managers for Kent Pension Fund's pooled, leasehold and freehold property investments have declared material valuation uncertainties around the valuation of these investments on the same basis. Given that the Council owns a share of these assets, this impacts upon the valuation of the net defined benefit liability in the Council's balance sheet. The Council have reflected these uncertainties in Note 6 to the financial statements. We will refer to these material valuation uncertainties in our audit report as an emphasis of matter. Our work to address the points above is substantially complete, and we have not identified any other issues or concerns to report.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Fraudulent revenue and expenditure recognition 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 revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, 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 the Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for Dartford Borough Council. We have however: • evaluated the Council's accounting policy for recognition of revenues for appropriateness; and • performed substantive testing on material revenue streams Our audit work has not identified any issues in respect of improper revenue recognition.
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. The main mechanism through which this could occur is through the posting of manual journals amending the reported financial performance. We therefore review the controls established relating to manual journals, including those for authorisation of manual journals.	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. Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of property, plant and equipment (including Investment Properties) **Council Dwellings: £313m** **Other Land & Buildings: £46m** **Investment Properties: £10m** The Council re-values land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements Management have engaged the services of an expert valuer to estimate the current and fair values as at 31 March 2020. 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 2020, 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. At the time of writing this report, our work is still in progress, subject to the resolution of outstanding queries, senior management review, our audit work has not identified any other issues in respect of the valuation of property plant and equipment (including investment property). Our work has identified an error in the valuation work carried out by management's expert in respect of Acacia Hall Car Park. This was as a result of errors in the formula within the workings used by the valuer. The impact on the asset in question is not material, an overstatement in value of £131k and management have decided not to adjust the financial statements for this item. We are currently working with management to satisfy ourselves that the error in relation to the formulae used by the valuer is isolated to this asset. In the valuation reports prepared by the valuer, they have confirmed that as a result of Covid-19 less weight can be attached to market evidence for comparison purposes to inform opinions of value. At the balance sheet date, the valuer was faced with an unprecedented set of circumstances on which to base a judgement and as such the valuations have been reported on the basis of 'material valuation uncertainty'. The Council have reflected this uncertainty in Note 6 to the financial statements. We will refer to these material valuation uncertainties in our audit report as an emphasis of matter.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability The Council's [total] net pension liability at 31 March 2020 is £55m (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 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. At the time of writing this report, our work is still in progress, subject to the resolution of outstanding queries, senior management review and receipt of the assurance letter with respect to Kent County Council Pension Fund, our audit work has not identified any other issues in respect of the valuation of the Council's pension fund net liability. As discussed under 'Covid-19' above, the fund managers for the Pension Fund's pooled, leasehold and freehold property investments reported that valuations of these investments were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic. The value of these assets within the pension fund is £765m, and as circa 1% of the Pension Fund's assets are attributable to the Council (£7.65m) as a scheduled body to the Fund, this material uncertainty impacts in turn upon the valuation of the net defined benefit liability in the Council's balance sheet. Management have agreed to disclose the uncertainty in Note 6 to the financial statements. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £46 **Council Dwellings - £313m**	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 2020. 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 01 April 2019, 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 disclosed a material uncertainty in their update report as to the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 6.	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 • 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. The valuer's assessment that no material change had occurred to the balance sheet date is caveated by a material valuation uncertainty disclosure which has been disclosed in the financial statements. We will refer to the material valuation uncertainty in our audit opinion in an emphasis of matter paragraph. At the time of writing this report, our work is still in progress, subject to the resolution of outstanding queries and senior management review, our audit work has not identified any other issues in respect of the valuation of property plant and equipment.	(tbc)

Assessment

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

Significant findings – key estimates and judgements

Investment Properties - £10m	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 2020. 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 In the valuation report, for investment assets, the valuer has confirmed that as a result of Covid-19 less weight can be attached to market evidence for comparison purposes to inform opinions of value. This is particularly relevant to investment properties, whose valuation is typically based on income yields. The Council have reflected this uncertainty in Note 6 to the financial statements. We will refer to these material valuation uncertainties in our audit report as an emphasis of matter. At the time of writing this report, our work is still in progress, subject to the resolution of outstanding queries, senior management review, our audit work has not identified any other issues in respect of the valuation of property plant and equipment (including investment property).	(tbc)
Surplus Assets - £6.4m	Land at Stone Lodge was revalued at Fair Value as at 31 March 2020. 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 In the valuation report, for surplus assets, the valuer has confirmed that as a result of Covid-19 less weight can be attached to market evidence for comparison purposes to inform opinions of value. The Council have reflected this uncertainty in Note 6 to the financial statements. We will refer to these material valuation uncertainties in our audit report as an emphasis of matter. At the time of writing this report, our work is still in progress, subject to the resolution of outstanding queries, senior management review, our audit work has not identified any other issues in respect of the valuation of property plant and equipment (including surplus assets).	(tbc)

Assessment

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

Significant findings – key estimates and judgements

Provisions for NNDR appeals £7.4m – Note 21	The Council are responsible for repaying a proportion of successful rateable value appeals. Management uses the number of appeals outstanding at 31 March 2020 and the average reduction achieved from settled appeals, to calculate the level of provision required.	We reviewed: • 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 • adequacy of disclosure of estimate in the financial statements. Our audit work is substantially complete. Our work has not identified any issue in the key judgements and estimates applied to date	**Green**

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £62.9m	The Council's total net pension liability at 31 March 2020 is £55m (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. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	See auditor commentary below	**Green**

Auditor commentary

- 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 2019/20 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:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.35%	2.35%	
Pension increase rate	1.95%	1.85% - 1.95%	
Salary growth	3.00%	1% above CPI	
Life expectancy – Males currently aged 45 / 65	**45:** 23.2 **65:** 21.8	22.8 – 24.7 / 21.4 – 23.3	
Life expectancy – Females currently aged 45 / 65	**45:** 25.2 **65:** 23.7	25.2 – 26.2 / 23.7 – 24.7	

The actuary have confirmed that they have updated the assumption using March 2019 triennial valuation data as opposed to using the estimated roll-forward approach from the 2016 triennial valuation, which gives assurance that more recent information has been used. We therefore consider the assumption to be reasonable.

- Subject to receipt of the assurance letter from Kent County Council Pension Fund, our work confirms that the decrease in the IAS 19 estimate is reasonable

Assessment

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

Going concern

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).

Going concern material uncertainty disclosures

It has been a challenging year due to the Covid-19 pandemic and the impact of this has been administration of grants to businesses, the closure of leisure centres and car parks, with additional challenges of reopening services under new government guidelines; and the need to free up capacity of teams to assist with additional workloads caused by the pandemic in addition to normal responsibilities. In common with all Local Authorities, the Council is facing significant challenges, but has reported an underspend for 2019/20. Management have undertaken an analysis of the potential financial implications of Covid-19 together with additional funding being provided. As at the 31 March 2020, General Fund reserves stood at £3m, with total usable reserves of £42m. Although in a strong financial position, it is anticipated that the Council will require use of its financial reserves to pay its expenses in 2020/21.

Going concern commentary	Auditor commentary
Management's assessment process	Management has undertaken their own assessment of going concern, taking into account Paragraph 2.1.2.9 of the Code of Practice on Local Authority Accounting states that "*An authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future*". Their assertion that if an authority was in financial difficulty the prospects are that either central government would make alternative arrangements for the continuation of the service or provide assistance with the recovery of a deficit over more than one financial year. Management have also considered the following factors: • The financial impact of Covid-19; • The Council's reserves position; • Budget monitoring reports and projected overspends; • The Medium Term Financial Plan 2024/25
Work performed	We have viewed the Council's financial assessment of the impact of Covid-19, cash flow forecasts, future financial plans and the Council's level of reserves. Whilst Covid-19 impact has been felt by the Council, but the Council has sufficient general fund and earmarked reserves to cover the impact of Covid-19 in its worst-case projected scenarios. Management are conscious of the need to remain responsive to emerging circumstances, whilst keeping sight of longer term strategic goals which underpin future investment decisions from use of reserves.
Concluding comments	We are satisfied that the Council's financial statements are appropriately prepared on a going concern basis, and that no further disclosure is required.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Board. No material financial fraud is known to have occurred during 2019/20 financial year. We have not been made aware of any 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 requests to the Council's banks and investment and borrowing counterparties. This permission was granted and the requests were sent. Most of these requests were returned with positive confirmation, however a small number of borrowing and investment confirmations have not yet been received
Disclosures	Our review found no material omissions in the financial statements
Audit evidence and explanations /significant difficulties	Information and explanations requested from management have been provided in a timely manner. No significant difficulties have been experienced.

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 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 – refer to Appendix C.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • 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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties 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 work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Dartford Borough Council in the audit report, as detailed in Appendix C.

Value for Money – 2019/20

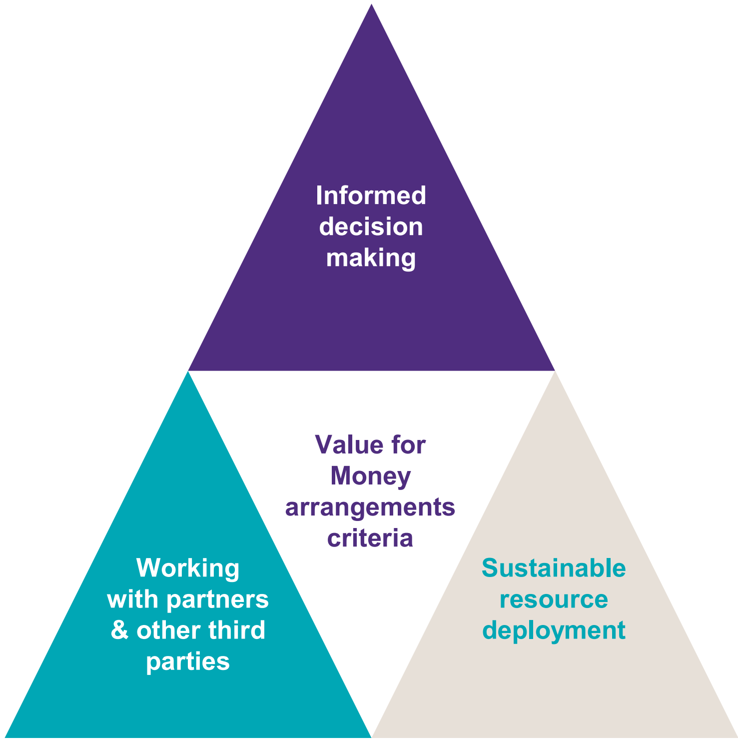
Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan on the 22 of July 2020

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 have not identified any new VfM risks in relation to Covid-19, however we have considered and commented on the potential impact of Covid-19 on the Council's future financial sustainability, as part of our work in addressing the previously identified significant VfM risks.

We carried out further work only in respect of the significant risks 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.

Value for Money – 2019/20

Our work

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:

- Revenue Outturn 2019/20
- The Medium Term Plan;
- The 2020/21 budget;
- Council, cabinet minutes
- Discussions with management and officers

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 on pages 20.

Overall conclusion

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.

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.

Value for Money – 2019/20

Significant risk: Financial Sustainability

The Council will need to manage its financial position and savings targets closely during the medium term. As part of our work we will consider the council's arrangements in place for managing the impact of COVID-19 on its Financial Plan.

We will review arrangements in place for monitoring the 19/20 budget and progress made against the 2020/21 budget.

Local Authorities have seen central government funding reduction of nearly 50% over the last decade, as a result of austerity measures introduced by successive governments over the same period in order to reduce the national deficit. Concurrently, Local Authorities have also experienced increased demand and cost pressures and with no reduction in their statutory duties to provide services to their residents. Dartford Borough Council continues to operate in this challenging financial environment and 2019/20 was the ninth successive year of spending reductions, with central funding allocation not guaranteed beyond next year.

The Council set a balanced budget for 2019/20, approved by members on 25 February 2019, with financial position robustly monitored and reviewed throughout the financial year, in line with prior years. The net expenditure budget on General Fund services was £3 million lower than the original budget. Reserve contributions were not required compared to the original budget and an additional £3.2 million was allocated to specific reserves during 2019/20. As at 31 March 2020, the Council had £45m of usable reserves for general use and £13.8 million for housing. This is considered prudent and adequate for the council's current estimated needs. The impact of the Covid-19 pandemic was minimal for the financial year 2019/20, as this occurred at year end (last 2 weeks of March). During the financial year ended 31 March 2020, robust arrangements were in place to ensure risks and uncertainties were managed and mitigated in the short and medium financial term as part of council's financial planning process.

A balance budget for 2020/21 was set and approved by members on the 24 February, which factored several assumptions in relation to income from business rates, council tax, investment income, demand pressures and spend. The council also has a detailed Medium-Term Financial Plan up to 2024/25 which identified the council's potential budget needs and resource requirements over the next few years. For 2020/21, Officers anticipate services will be delivered within the overall budget set, with the aide reserves, additional government funding. At the end of June 2020, Covid-19 general fund expenditure totalled £208k with additional Covid-19 related expenditure expected to be in the region of £1 million for the financial year. This position is being carefully monitored by officers and monthly returns in respect of cost and income pressures being compiled and submitted to MHCLG.

The Council has sufficient resources and appropriate arrangements in place to meet the financial challenges presented by Covid-19 for the financial year 2020/21. In the medium term, the picture remains less certain as the longer-lasting impact of the pandemic on the economy impact on both revenue streams and increased demands for services. However, the Council is in a strong position to respond to some of the challenges due to the healthy general and earmarked reserve position.

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.

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we 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

Independence and ethics

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.

	Proposed Fees £	Threats identified	Safeguards
Audit related			
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 in 2018/19 was £23,000 in comparison to the total fee for the audit of £43,232 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 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 £43,232 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.

Audit adjustments

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

There were no adjusted or un-adjusted misstatements above triviality levels for the financial statements.

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?
Disclosure and Presentation	We have agreed a small number of minor disclosure and presentation changes which management have agreed to adjust for.	✓
Note 31 Finance Leases	Some amendments have been made to the finance leases disclosure as a result of our audit work. The changes are summarised below • PV of Unguaranteed residual value of property: Changed from £1,114k to £91k • Gross Investment in the Lease (Later than five years): Changed from £17,511 to £16,397k • Minimum Lease Payments (Later than five years): Changed from £16,397 to £16,044k	✓
Note 9 Unusable Reserves:	The Pensions Reserves entries for the below lines have been amended by management to ensure they were consistent with the IAS19 Report and Note 32 Defined Benefit Pension Schemes in the accounts • Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the provision of Services 4,645 to £4,791 • Employer's pensions contributions and direct payments to pensioners payable in the year (2,699) to (£2,845k)	✓

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit Board Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Revaluations Testing of valuations of land and building, identified an error in the formula used by the valuer in calculating the valuation of Acacia Hall – Car Park. Our re-performance of the valuation by the valuer identified a difference of £131k between the valuer's workings and the auditor's working. The year-end valuation for Acacia Hall Car Park in the draft accounts was £373k, however, due to this formula error, the actual value at year end should have been £242k. Our testing of valuations of other Car parks owned by the council did not identify any significant issues Management have decided not to adjust for this misstatement **Management Response** The error was not considered to be material to the Council's accounts, therefore an amendment will be made in future years		Debit: Revaluation Reserve £131 Credit: Property Plant and Equipment £131	
Overall impact	**£**	**0**	**£**

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£43,232	TBC
Total audit fees (excluding VAT)	**£43,232**	**TBC**

The fees differ slightly to the draft financial statements, given that the figures in the accounts were an estimate as to what the fees would be.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services:		
• Housing benefit subsidy claim	£23,000	TBC
• Pooling housing capital receipts grant	£2,000	TBC
Total non- audit fees (excluding VAT)	**£25,500**	**TBC**

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