Grant Thornton

The Audit Findings for Sevenoaks District Council

Year ended 31 March 2020

21 October 2020

Contents

Your key Grant Thornton team members are:

Sarah Ironmonger
Director
T: 020 7865 2997
E: Sarah.L.Ironmonger@uk.gt.com

Sebastian Evans
Manager
T: 020 7728 3451
E: Sebastian.Evans@uk.gt.com

Lisa Lee
In-charge Accountant
T: 020 7184 4575
E: Lisa.PH.Lee@uk.gt.com

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Sevenoaks District Council ('the Council') and the preparation of the group and 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. The Council have been significantly impacted by Covid-19, with front-line challenges, administration of significant volumes of grants to businesses, closure of schools and car parks, and the additional challenges of reopening services under new government guidelines. The direct impact on the core finance team has been more limited, with minimal changes to staff sickness rates, and remote working already being part of the normal course of business. However, the Finance team at Sevenoaks District Council have been heavily involved in the response to the pandemic locally, both in terms of the direct response and in terms of the accelerated budget process for 2021/22. 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 addendum on 29 May 2020. In that addendum we reported 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 6. Restrictions for non-essential travel has meant both you and us have had to deliver the audit via remote access working arrangements, which has included accessing financial systems remotely, video calling, physical verification of completeness and accuracy of information produced by the entity. However we have been able to work well with you to keep the overall impact on the audit to a minimum, as evidenced by the progress made and documented within this Report.
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 group and Council's financial statements: • give a true and fair view of the financial position of the group and Council and the group and 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), and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed remotely between July and October. Our findings are summarised on pages 6 to 19. We have not identified any adjustments to the financial statements resulting in a change to the Council's Comprehensive Income and Expenditure Statement. Other audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit 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 management representation letter; • review of the final set of financial statements; • Completion of remaining testing and manager / Engagement Lead review (see page 5) We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. Our anticipated audit report opinion, subject to resolving outstanding matters, will be unqualified. It will include an Emphasis of Matter paragraph, highlighting material uncertainties around the valuation of land and buildings, investment properties and pension fund property investments as at 31 March 2020, which you have reflected in your accounts.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Sevenoaks District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	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 Sevenoaks District Council has proper arrangements 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. We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 20 to 29.
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 not received any questions or objections in relation to the Council's financial statements. 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 group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for Investment Property and Property, Plant and Equipment balances of Quercus 7 Limited and Quercus Housing Limited were required; these procedures were undertaken directly by Grant Thornton as part of the normal course of our audit.

Audit approach (continued)

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 29 May 2020, to reflect our response to the Covid-19 pandemic. As part of this, we identified an additional significant risk with respect to Covid-19 (see comments on Significant audit risks on subsequent pages). No changes were made to our VfM risk assessment.

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 following the Audit Committee meeting on 3 November 2020. These outstanding items include:

- Receipt of management representation letter;
- Review of the final set of financial statements;
- Review of statement of cashflows;
- Pension liabilities – follow up queries on calculation of IAS 19 liability and experience item;
- Receipt of letter from the auditors of Kent Pension Fund on controls assurance;
- Property, plant and equipment – completion of review of information sent to valuer by Sevenoaks District Council;
- Resolution of final sample queries in relation to
  - Section 106 creditors;
  - Housing benefit claimant expenditure;
  - Payroll and officers remuneration;
- Review of collection fund bad debt provision; and
- Final manager and key audit partner review of fieldwork.

Audit approach

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan/addendum.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1.110m	1.067m	This is based on 2% of your gross revenue expenditure for the year 2019/20, based on your draft accounts. This benchmark was chosen based on our knowledge of District Councils, your reporting framework and how stakeholders use your accounts.
Performance materiality	0.832m	0.800m	This is based on 75% of the materiality benchmark
Trivial matters	0.055m	0.055m	This is based on 5% of (group) materiality and represents the level above which uncorrected omissions or misstatements are reported to those charged with governance. Items below this are deemed to be 'trivial' for this purpose.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19	We: • 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. No changes were made to materiality levels previously reported. The draft financial statements were provided on 7 July 2020; • 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 through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. No issues have been identified with respect to this significant risk. To the extent that Covid-19 has a bearing on Value for Money arrangements, this has been considered separately as part of our VfM work reported below.
The revenue cycle includes fraudulent transactions (rebutted)	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: • 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 Sevenoaks District Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Sevenoaks District Council.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Management over-ride of controls	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 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. Although our audit work did not identify any issues in respect to management override of controls, as part of our cyclical review of your information technology general controls, we identified that two of the senior officers involved in the financial reporting business process within your accounting system (Agresso) simultaneously have superuser access to the same system. This presents a segregation of duties risk between the business process and the level of IT access. We adjusted our journals testing strategy to reflect this fact and did not identify any issues. It is also noted that there is a mitigating control in that manual journals posted by these senior officers are reviewed by the Chief Officer, Finance and Trading (who does not have superuser access). However, the presence of this presents a potential control deficiency which we have considered in our **Action Plan** below.
Valuation of land and buildings (Group, Quercus Housing Ltd)	We have • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • tested a sample of revaluations made during the year to see if they had been input correctly into the group's asset register; and; • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. At the time of writing our audit procedures in this area remain underway. The Council's valuer has prepared their valuations as at 31 March 2020. In their reports, they have confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. The Council has reflected this uncertainty in the financial statements, and updated the wording in relation to investment properties as a result of audit challenge. We will refer to these material valuation uncertainties in our audit report as an emphasis of matter. This does not constitute a qualification of the opinion. Subject to the satisfactory resolution of outstanding matters set out on page 5, no other material issues have been identified from our work to date. Should any further issues arise that require reporting, we will do so before issuing our auditor's opinion.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability (Group)	We have • updated our understanding of the processes and controls put in place by management to ensure that the Council'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 Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council 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; • undertook 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; • obtained assurances from the auditor of Kent 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. As discussed under 'Covid-19' above, the fund managers for the Pension Fund's pooled 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 on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. This material uncertainty impacts in turn upon the valuation of the net defined benefit liability in the Council's balance sheet. The Council has included disclosures in relation to the material uncertainty identified with respect to pooled property investments. 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. To date, no further material issues have been identified which are required to be reported to those charged with governance, subject to the satisfactory resolution of matters set out on page 5. Should any residual issues arise that require reporting, we will do so before issuing our auditor's report. We have commented separately on the basis for the pension fund's estimation as part of our procedures on page 13 below.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
Group Accounts	We have • updated our understanding of the capital and operational activity taking place within Quercus 7 and Quercus Housing; • assessed management's consolidation arrangements and reviewed management's intercompany matrix; • tested management's consolidation process to determine whether this has been prepared correctly, is appropriately presented in the Group accounts and that intercompany balances have been appropriately eliminated; • performed testing over balances and transaction streams that are material to the Group as a whole; and • reviewed the suitability and completeness of disclosures required with respect to the Group and single entity While our testing did not identify any issues with the consolidation process, from our review of the related party transactions note (30) it was identified that no disclosures were present with respect to an additional subsidiary created in-year, Burlington Mews Management Company Limited. This entity was created on 10 December 2019 and is fully owned by Sevenoaks District Council. We confirmed with management that no transactions took place with or within this entity to 31 March 2020, on the basis that it will only come into use as such time as the Burlington Mews development is operational and occupied, as it relates to the service of that site. Therefore, it has not been consolidated within the Group accounts. While based on the information provided we agree with the assessment not to consolidate this entity, the presence of a subsidiary needs to be noted in the related parties note for completeness, even of no activity is currently taking place. See **Action Plan** below

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NNDR appeals - £3.064m	The Council is responsible for repaying a proportion of successful rateable value appeals. Management uses an external organisation, Analyse Local, to calculate the level of provision required. Analyse Local's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate. We have considered the approach taken by the Council's experts to determine the provision, and it is in line with that used by other bodies in the sector. Disclosure of the estimate in the financial statements is considered adequate.	● 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
Land and Buildings – Other - £35.809m **(Group, Quercus Housing Ltd)**	Other land and buildings comprises specialised assets such as the leisure centres, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other 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 its external valuer to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. 64% of total assets (by value) were revalued during 2019/20. In line with RICS guidance, the Group's valuer disclosed a material uncertainty in 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 4.. The valuation of properties valued by the valuer has resulted in a net increase of £1.331m. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 April 2019, based on the market review provided by the valuer as at 31 March 2020, to determine whether there has been a material change in the total value of these properties.	We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. There have been no changes to the valuation method this year. We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. We have considered the completeness and accuracy of the underlying information used to determine the estimate, and have not noted any non-trivial issues.	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: Net pension liability – £67.04m

Summary of management's policy

The Council's net pension liability at 31 March 2020 is £67.04m (PY £87.57m) . The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes.

A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 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. There has been a £24.33m net actuarial gain during 2019/20.

The Council's actuary disclosed a material uncertainty in the valuation of the Council's pension fund at 31 March 2020 as a result of Covid-19. The actuarial report the Council has received indicates that asset fund performance has been volatile over the period to 31 March.

This is particularly in the later months of 2019/20 as a result of the COVID-19 crisis, and thus market valuations may be subject to change, affecting in turn, the net pension liability. The Council has included disclosures on this issue in Note 4.

Auditor commentary

- We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.
- We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Sevenoaks District Council Pension Fund valuation.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.35%	2.35%	
Pension increase rate	1.90%	1.85% - 1.95%	
Salary growth	3.00%	Long term assumption of 1% above CPI	
Life expectancy – Males currently aged 45 / 65	23.2 21.8	22.8-24.7 21.4-23.3	
Life expectancy – Females currently aged 45 / 65	25.2 23.7	25.2 – 26.2 23.7 – 24.7	

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
- We have confirmed that the Council's share of the pension scheme assets is in line with expectations.
- Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 4 in our audit report.

Assessment

Green

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 2/3 investments	<u>Level 2 investments</u> The Council hold investments in a number of financial institutions, building societies, other local authorities and money market funds, which are collectively valued on the balance sheet as at 31 March 2020 at £14.3m, their carrying value. The Council are also required to estimate the fair value of these assets. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the fair value, management use the following techniques: • instruments with quoted market prices – the market price • other instruments with fixed and determinable payments – discounted cash flow analysis. In the case of Level 2 investments, these are based on inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. In the case of the Level 2 investments held, management have determined that the fair value and the carrying amount are the same. <u>Level 3 investments</u> The Council have a further investment in UK Municipal Bond Agency and the Council's trading subsidiary Quercus 7 Ltd – the combined value of these as at 31 March 2020 is £1.711m (31 March 2019, £0.265m). The increase reflects increased investment in Quercus 7 Ltd by Sevenoaks District Council. The fair value is determined by unobservable inputs for the asset.	We reviewed management's basis for classifying and subsequently valuing level 2 and 3 investments. No issues were noted with respect to these or the corresponding disclosures.	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 and key assumptions to be reasonable

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Restitution for McCloud In 2018 the Court of Appeal ruled that there was age discrimination in the judges and firefighters pension schemes where there was transitional protection given to scheme members. The legal ruling around age discrimination (McCloud - Court of Appeal) also has implications for other pension schemes where they have implemented transitional arrangements on changing benefits.	Sevenoaks District Council participate in the Kent County Council Pension Fund. The Pension fund had an initial discussion with Barnett Waddingham, Fund actuary, on the potential impact and their advice is that they expect the impact to be on administration rather than a material impact on liabilities at whole fund level. In addition, in production of the IAS19 statement Barnett Waddingham made an allowance for McCloud as a past service cost (as well as the 2019 valuation).	The Ministry of Housing, Communities & Local Government published its consultation on reforms to public sector pension schemes on 16 July2020. Initial feedback from GAD indicates that this is likely to lead to a reduction in the IAS 19 liability previously calculated. For 2019/20 accounts we expect the pension liability to be remeasured, as normal, via an actuarial report, and to take account of best estimates in relation to the impact of McCloud judgements. The Pension fund adjusted for McCloud in 2019/20 (c£1.031m) so any further revision is unlikely to be material. In Grant Thornton's view, the revision arising from the consultation is a non-adjusting event. Management have assessed that the impact of this is not material.	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 and key assumptions to be reasonable

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Other experience item On the Pension Notes and in the IAS 19 report, there's a £18.907m gain described as 'Other experience'. This has increased significantly compared to prior year.	Sevenoaks District Council participate in the Kent County Council Pension Fund. The Pension fund advised that the "other membership experience" would normally be expected to be small between valuations. The actuary Barnett Waddingham performed an analysis of experience since the last triennial valuation as part of the triennial funding valuation process. The actuary tolerance for the impact of the roll forward approach is generally 5% of the total liabilities or assets. For Sevenoaks District Council however it equates to 10.1% of the total (gross) brought forward liabilities of £185.725m, which is largely a result of the difference in the roll forward versus the full valuation.	Experience items can arise in any financial year but are expected to be greatest in the first set of financial statements produced following a triennial review. This is because the underlying source data is updated during the triennial review and the process will pick up three years of actual vs expected member movements. For English and Welsh LGPS schemes, experience items are likely to be greater in value in 2019/20 than in 2018/19 because it is the first financial year since the latest triennial review was performed. In the case of Sevenoaks District Council, the percentage (10.1%) was particularly large when compared to other Kent districts and therefore warranted further review. From correspondence with the pension fund actuary and management, the main reason for the size of the change was that the assumptions used in the previous triennial valuation (31 March 2016) were subsequently deemed to be very prudent, and that the majority of the gain as at 31 March 2019 reflects the impact of the reversal of those prudent assumptions. It is noted by the auditor that the experience gain in 2019/20 (£18.907m) is comparable in size to the experience loss in 2016/17 (£15.285m). Our review of this area is ongoing, as we have sought further evidence to corroborate the explanation.	Green *(subject to completion)*

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 and key assumptions to be reasonable

Significant findings – 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 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 and the closure of car parks, with additional challenges of reopening services under new government guidelines, staff absences due to illness, and the need to free up capacity of teams in addition to normal responsibilities. The Council is facing challenges but has reported a surplus position for 2019/20. Management has undertaken an analysis of the potential financial implications of Covid-19 but has identified that the immediate impact can be absorbed by the budget stabilisation reserve. To help address the longer term impact, the Council have brought forward the budget setting process by three months and are updating the medium term financial strategy.

Going concern commentary	Auditor commentary
Management's assessment process • Cash flow periods • Judgements and assumptions taken	The situation beyond 2020/21 is more uncertain as the longer-term impact of the pandemic on individuals and businesses in the borough, and by consequence demand for services, remains unclear. However, management are confident that the Council retains sufficient levels of useable reserves which as a last resort can be used to withstand the pressures faced during the period of their assessment. As noted in our VfM review, management have updated their forecasts to take into account the specific challenges presented by Covid-19. As such, management have prepared the accounts on the basis of the going concern assessment.
Work performed	We have reviewed the Council's financial assessment of the impact of Covid-19, cash flow forecasts, future financial plans and the Council's level of reserves. We reviewed management's disclosures, going concern assessment, cash flow forecasts and Medium Term Financial Strategy, corroborating key inputs and assumptions to our wider knowledge gained through the audit process, and where applicable to supporting documentation. We considered, based on our understanding of the entity and the wider political and economic climate, whether material uncertainties may exist which were not explicitly covered by management's assessment.
Concluding comments	We are satisfied from the work performed that: • the going concern basis of preparation is appropriate for the Council's financial statements • no events or conditions exist which may give rise to material uncertainties casting significant doubt on the Council's ability to continue as a going concern • the disclosures in the Council's financial statements relating to going concern are adequate.

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 Committee. 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, including specific representations in respect of the Group, which is included in the Audit Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to financial institutions with whom the Council holds cash and investment balances. This permission was granted and the requests were sent. All but five of the investment confirmation requests were returned with positive confirmation, however five requests were not received so we undertook alternative procedures, including a review of bank statements at the time of the investment's renewal and maturity. All cash confirmations were received.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. Your finance team continued to work well with the audit team to provide us with the required information and embraced the new ways of working to ensure we were able to obtain the required audit evidence. There are elements of the audit that take longer due to remote working and we are considering the impact on our fee.

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. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a 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. At the time of writing, the group instructions have yet to be issued by the NAO, with these due to be communicated to group auditors during October 2020. These procedures will be completed alongside the issue of our auditor’s report.
Certification of the closure of the audit	Subject to the completion of the procedures in relation to the Council’s WGA consolidation pack, we intend to certify the closure of the 2019/20 audit of Sevenoaks District Council in the audit report.

Value for Money

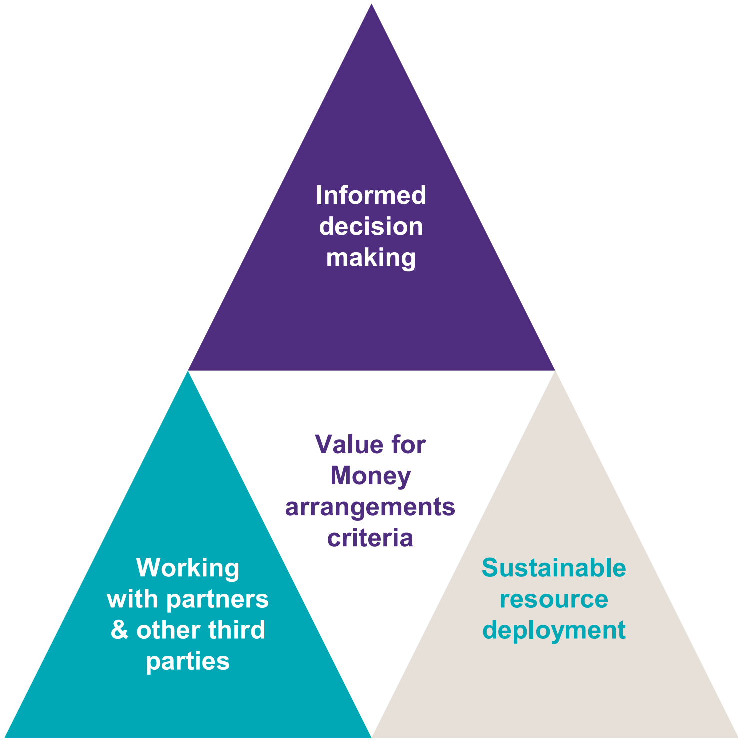
Background to our VFM approach

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 March 2020 and identified a significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 12 March 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, and plans for addressing the arising issues, as part of our work in addressing the previously identified significant VfM risk around the Governance arrangements over future income generation and the links with Medium Term Financial Planning.

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

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:

- The Council's financial planning arrangements pre-Covid were sound;
- The governance arrangements over income generation remain sound, and the Property Investment Strategy's performance was above plan by £0.090m (£1.348m vs £1.258m);
- However, long-term plans remain highly reliant on this income generation and Covid-19 may undermine this. As at July 2020 the Council's estimated net shortfall from Covid19 is £4.661m which can theoretically be absorbed by existing reserves and through long-term financial planning (which is the Council's planned approach)
- The Council also acknowledges that in the absence of further government funding "significant decisions will be required to ensure that the Council sustains its 10-year balanced budget position into the future"
- Since the July 2020 update paper a further £0.169m funding has been confirmed (tranche 3 of funding); this does not fundamentally address the shortfall;
- The Council's income generation group has not met since December 2018 as the Council's main focus for income generation has transferred to the Property Investment Strategy
- This is the first year Quercus 7 has contributed significantly to the Property Investment Strategy, and it is cited as a reason for the favourable variance (£0.090m) above
- In respect of the impact of Covid-19 on planning arrangements, the Council has brought forward its budget setting process.

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 22 to 29.

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.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed two low-priority recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

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

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	Findings and conclusion
Governance arrangements over future income generation Income generation forms a key part of your 10-year budget; income from property investment income is planned to increase from £0.735 million per year in 2018/19 to £1.655 million per year in by 2028/29. As the Council has continued to develop its arrangements during 2019/20 and has increased its investments we will review these arrangements again in 2019/20 as all forms of income generation carry an element of risk and need to be supported by informed decision making. We will review your project management and risk assurance frameworks to understand how the Council identifies, manages and monitors risks and consider these arrangements against good practice.	**Financial sustainability** Sevenoaks has arrangements in place to continuously update the medium term financial strategy (MTFS). The MTFS is updated annually and the most recent Plan covers the 10 year period form 2020/21 to 2029/30. The MTFS sets out key budget assumptions which were reported to the Cabinet in February 2020 including a 2.3% Council Tax rise in 2020/21 and 2% in subsequent years, 2% pay cost increases and 2.25% non-pay cost increases. Since 2017/18 the MTFS included a ten year balance sheet alongside the revenue budget, something which has been maintained into 2018/19 and 2019/20 and is rare amongst local authorities as well as being good practice. It is noted however that the plan does seek to increase property investment income (one of the key areas for income generation) from £1,258k in 2019/20 to £1,696k / annum by 2029/30, illustrating the Council's (partial) reliance on income generation to break even in the long term. The total forecast income generation for the period 2020/21 to 2029/30 is £14.181m which is 8% (£172.394m) of the Council's overall identified financing requirement for the same period. Therefore the strategic impact that this has on the Council and the need for effective governance arrangements to nurture income generation is significant. **Property Investment Strategy** The primary driver of this planned growth is the Property Investment Strategy. The Property Investment Strategy was approved by Council on 22 July 2014 to support the aim of the council becoming more financially self-sufficient as Government Support continued to reduce; this is reflected in the prominence played by the Property Investment Strategy in the Council's overall financial planning. At the end of the year, income from the Property Investment Strategy (£1.348m) exceeded plan (£1.258m) by £0.090m. This favourable variance was attributed to properties owned by the Council and interest income from loans made to Quercus 7, a trading subsidiary 100% owned by Sevenoaks District Council. This increase in interest income itself reflects the growth of Quercus 7 which during the year made significant acquisitions in Canterbury and Westerham, financed by a mixture of equity and loans from Sevenoaks District Council, although the total value of property acquisitions within Quercus 7 to date (£4.1m) is currently below the business plan forecast of £5.5m. Given the nature of property acquisition, which is characterized by a small number of high value acquisitions, competition, and where the Council does not control all the variables, it is not uncommon for there to be a variance between actual and plan, and so the current achievement rate of 75% should be considered within that context. For the Council's overall Property Investment Strategy as a whole, £50.3m of funding has been approved for which as at February 2020 £29.5m has been spent.

Value for Money

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	Findings and conclusion
Governance arrangements over future income generation Continued.	The Strategy is supported by decision-making criteria for making investment decisions. The criteria, which also apply to Quercus 7, include the following; • Focusing on lower risk investment categories; • Focusing on multi-tenant properties; • Limiting investment to within a 50-mile radius of the Council offices; • Minimum income yield criteria; • Assessing whether the opportunity is preferable to proceed via the Council or Quercus 7, These criteria were last agreed by Council in February 2019. An option to change these criteria was available in February 2020 when the Property Investment Strategy update was presented to Council. This option was not invoked meaning the risk profile adopted in the previous year is still in place. It is noted however that the expected income from the Property Investment Strategy has (as of February 2020) increased, with an expectation of an increase of £300,000 from 2019/20 to 2023/24 (continuing to with returns increasing from £1.258m per annum to £1.558m per annum through until 2029/30). This increase is therefore reflected in the 10 year budget. The primacy of the Property Investment Strategy is reflected in the Council's strategic risk register which identifies "Failure to identify opportunities to meet the Property Investment Strategy" as a strategic risk and cites mitigations. This is further supported by a Property Investment Strategy-specific risk register which considers more granular risks that might undermine the strategy, with a potential lack of "market opportunities meeting investment criteria" as being the highest overall gross risk . This suggests that the Property Investment Strategy, including those elements that are specific to Quercus 7, are embedded within the Council's overall risk management arrangements. The risk management arrangements also cover arrangements for divesting from investments, with monitoring arrangements in place for identifying when an asset no longer meets the criteria set out in the Property Investment Strategy. More broadly, the governance arrangements for Quercus 7 Ltd and Quercus Housing are defined by way of a shareholders agreement and guarantors agreement respectively. During the year a number of acquisitions were made which were in line with the Council's strategic aims. It is noted that while Quercus 7 forms an integral part of the Property Investment Strategy, Quercus Housing has a different and specific purpose, in so far as this exists as a vehicle to finance affordable housing through s106 receipts – therefore this is outside the scope of the Council's investment strategy.

Value for Money

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	Findings and conclusion
Governance arrangements over future income generation Continued.	The Finance Advisory Committee receives updates on the Council's performance against pre-defined Finance Performance Indicators. The background to these is as follows: • The report presents figures on ten internally set performance indicators covering activities that support information provided in the regular financial monitoring statements; • Information is provided on targets for the financial year, and figures for the previous year are given for comparison • Use of these indicators assists management in highlighting areas where performance has an impact on the financial outturn for the council. It is noted that this does not include indicators relating to the Property Investment Strategy. Given the primacy of the Property Investment Strategy to the Council's medium term income development plans, the Council should consider whether there is benefit to including one or more KPI's specifically in relation to this strategy. This forms the basis for **Recommendation 1** **Covid-19 – Business Continuity arrangements in 2019/20** 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. Although the impact of this for the period under review (2019/20) is more limited due to the fact that the majority of restrictions were put in place on 23 March 2020 (near the end of the year) the medium term impact of the pandemic was acknowledged to be significant at the time. Alongside changes to service provision and the reallocation of staff, the immediate impact of restrictions had a significant financial impact. 21 April 2020 (Cabinet) – Chief Officer Finance and Trading presented the report which sought amendments to the budget agreed by Council on 25 February 2020, due to the impact of the current pandemic. • He advised that the report was linked to the report on urgency decisions as they both related to the same three items which had not gone through the normal approval processes due to their urgency as part of the response to the Covid-19 pandemic. • He advised that from the Budget Stabilisation Reserve a total of £858,000 would be removed and £758,000 would be used to fund the temporary suspension of car parking charges along with £100,000 to support vulnerable people and communities. The Budget Stabilisation Reserve was used to support the balanced 10-year budget and by reducing the reserve, further budget decisions could be required as part of the next budget setting process to ensure a balanced 10-year budget.

Value for Money

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	Findings and conclusion
Governance arrangements over future income generation Continued.	Our value for money conclusion considers the arrangements that were in place during the financial year under review. As this financial year ended on 31 March 2020, at which point the national 'lockdown' restrictions had been substantively in place for one week, the impact on 2019/20 financial planning was relatively minor when considered over the course of the full year . Although the imposition of a national restrictions presented immediate challenges and required business continuity arrangements to be put in place, there is a recognition that the main financial impact of Covid-19 will be felt most acutely during the 2020/21 financial year with further uncertainty over the medium and long term. In July 2020 a Covid-19 Financial Impact assessment was presented to the Finance and Investment Advisory Committee (FIAC) and the Cabinet setting out the financial impact of Covid-19 to date and the impact of this in terms of long-term decision making. The impact on 2019/20 was deemed to be relatively low, with the impact of additional expenditure (£49k) and reduced income (£129k) offset through government funding. **Covid-19 – Financial impact in 2020/21 and beyond** As at that point in time, government had provided an additional £1.2m of funding to support the Council in meeting those costs, the net financial impact of Covid-19 in 2020/21 is still expected to exceed £4.661m, with uncertainty over the timing and extent of future government funding. As the paper sets out, £4.661m is a significant proportion of the Council's net budget for 2020/21 of £15.6m. However, subsequent to this, as at 31 August 2020 and per the monitoring reporting to be presented to the FIAC (21 October 2020) the gross loss was £4.2m The Council had received grants of £1.2m bringing the reported deficit to £3.0m. The Council have put in a claim on the Government Income Compensations scheme of £1.2m (1st quarter claim) which would reduce the deficit to £1.8m The total claim for the year is expected to be in the region of £2.3m so the net deficit is expected to be £0.7m. This indicates further progress in resolving the Covid-specific challenges. Challenges in relation to income generation included • Car parking income; charges were suspended between 23 March and 22 June, and while this is now being collected again, it is expected that this will continue to be low; • Direct services (trade waste, MOT's, waste and pest control) due to reduced demand; • A cessation of recovery action on outstanding debts for revenues and benefit; • Less net cash available for treasury investment; • Reduced demand for planning, building control and land charges.

Value for Money

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	Findings and conclusion
Governance arrangements over future income generation Continued.	This has been summarised in the following table (Covid-19 Financial Impact assessment (July 2020))

Table 2:

2020/21 Covid-19 financial summary	£000
Additional expenditure	536
Reduced income	4,394
Government funding	(1,064)
Council Tax (SDC proportion)	795
Business Rates Retention	0
Total remaining impact	**4,661**

Note that the £0.795m in relation to Council tax was shown for reference purposes but does not in itself impact 2020/21, as this will filter through to the Collection Fund in 2021/22.

It is noted that a lot of these relate to existing income generation activities, rather than activities specifically targeting revenue growth (e.g. Property Investment Strategy).

This paper requested the Finance and Investment Advisory Committee (and Cabinet) to approve that the Council address the impact of Covid-19 response and recovery through 10-year budget setting process, meaning that the absorption of the impact of these costs will effectively be profiled into the longer term period.

As at 31/03/2020, the Council's usable reserves were (subject to audit) £20.5m, which is comparable with the values as at 31/03/2019 and 31/03/2018 (at £20.9m and £20.5m respectively). Of this, £9.5m relates to the General Fund (£1.5m) and Budget Stabilisation reserve (£8.0m). The Council uses the Budget Stabilisation reserve "to support decisions required to continue to produce a balanced budget in future years in spite of expected funding reductions" and while this allows for some absorption of the Council's identified £4.661m shortfall, it does also show how significant the absorption of Covid-19 related costs are within the context of the Council's financial planning arrangements. A further update presented to the September Finance and Advisory Committee identified a year-end forecast unfavourable variance of £3.3m for 2020/21, citing Covid-19 as the main driver for this, illustrating the ongoing impact of the pandemic on financial sustainability.

Value for Money

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	Findings and conclusion
Governance arrangements over future income generation Continued.	While absorbing the additional costs in the long term may offer the most sustainable route for recovery, there remains considerable uncertainty over future funding either from government or from ongoing activities in the shorter term. The Financial Impact assessment acknowledges this, advising that “If additional funds towards meeting the Covid-19 shortfall are not received from Government, it is anticipated that significant decisions will be required to ensure that the Council sustains its 10-year balanced budget position into the future” and reflects that “taking decisive action early in the budget setting process has proven to be a successful strategy for the Council which has enabled it to develop its unique 10-year sustainable budget and is strongly recommended as the strategy that will help retain this position long into the future.” We discussed with the Chief Officer (Finance and Trading) and the Head of Finance how the suggested decisive action would be effected in practice, noting the annualized nature of budgeting would not normally support action taking place outside the prescribed cycle. In response to this, the Council has established an accelerated timetable for the 2021/22 budget setting process, culminating in the budget setting process being scheduled to be completed in November 2020, whereas it would normally be in the February (in this case 2021). As such, the Council has brought the process forward by three months. The September Finance & Investment Advisory Committee have received the updated Financial Prospects, a roll forward of the ten year budget and the budget impact of Covid19. The Council’s revised timetable also seeks to anticipate the potentiality for a ‘second wave’ of Covid19 and potential restrictions in winter 2020/21. Subsequent to the Covid-19 Financial Impact assessment being produced a further tranche of Covid19 funding was announced on 17 July although the amount allocated to Sevenoaks District Council (£0.169m, bringing Sevenoaks’ total cumulative allocation to £1.410m) is a relatively small as a proportion of the total remaining impact quantified above. There remains uncertainty about the timing and extent of future funding. **Income generation – property investment** Noting the significance of the property investment strategy, we queried the impact of Covid-19 on the Council’s abilities to develop the strategy, considering the potential impact this would have both on rental returns (for existing properties) and the availability of opportunities (being the area identified as highest risk in the property investment strategy risk register, we discussed this with the Chief Officer (Finance & Trading) and the Head of Finance. While retail performance has not been strong (noting the context of high street closedown) other parts of the portfolio have been performing as expected, noting the balanced nature of the portfolio. In addition, there continue to be opportunities arising; Quercus 7 recently completed on a Sainsbury’s Local in Lewisham (in London, but within the Council’s 50 mile radius criteria) as part of a new development in that area, and have already received the first quarter’s returns from that investment. There is however an acknowledgement at the Council that the nature of the market may itself change and that this may have an impact on future aspirations – for example, changes to PWLB borrowing rules may limited the availability of relatively cheap finance, and more due diligence is and has been required prior to acquisitions.

Value for Money

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	Findings and conclusion
Governance arrangements over future income generation Continued.	In essence however, the Council has found that they have been able to continue with their property investment strategy and that the existence of the ten year budget (which, as above, is being updated) has provided a framework that supports this, and that the Council is still in a position to make decisions that are strategic in nature rather than focusing solely on the short term emergency of Covid-19. The Council sets its budget with no reliance on direct grant funding from Government. However, the Government is due to complete reviews on Fair Funding and Business Rates Retention during 2021/22 which will have the potential to impact the Council's financial position in later years but will not be known when the next budget is approved by Council in November. **Income generation (other)** As part of our 2018/19 review, we noted that an Income Generation Group had been recently established with the intention of identifying, considering and recommending income generation activities. As part of this review we found that the Group had last met in December 2018 and that steps were required to formalise its terms of reference and to embed its outputs into the Council's wider governance structures. Reference: recommendation made in 2018/19 – We recommended that as part of the establishment of a terms of reference for the Income Generation Group, the relationship between elected Councillors and officers is clearly defined in such a way that fosters member interest and expertise, but in such a way that is not disproportionately influenced by electoral cycles. Management response: As part of the budget process each year, Members are asked for their income generation ideas. Where a Member has particular expertise relating to a specific idea, they may be invited to attend an Income Generation Group meeting to provide additional information on that idea. However, as part of our current review the Head of Finance has advised that the purpose income generation group was to share and generate ideas but that the primary income generation focus for the Council is the Property Investment Strategy as noted above – the Property Investment Strategy is the only alternative income source that is formally embedded into the Council's 10 year budget. This forms the basis for **Recommendation 2**

Value for Money

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	Findings and conclusion
Governance arrangements over future income generation Continued.	**Wider context** In June 2020, the Institute for Fiscal Studies published a briefing note on the financial risk and resilience of English local authorities in the coronavirus crisis. In the case of Sevenoaks District Council, overall the Council's risk profile was comparable to that of other non-metropolitan ("shire") districts (based on the average indicator scores) including a relatively low prevalence of health-related risks, business rates revenue risk, and sales, fees and charges revenue risk. However, there were a number of areas where the Council's indicator score was in the lowest decile (i.e. highest 10% of authorities by risk) including • Assessed prevalence of Covid-19: Number of lab-confirmed cases to 2020-06-16 per 100,000 people in upper-tier authority [Kent County Council]; • Revenue risk commercial income: Other (non-property) commercial income surplus as proportion of revenue expenditure, 2018 (the higher the proportion the greater the risk, as this implies greater reliance on commercial income This highlights again the importance of commercial income generation to Sevenoaks District Council. **Conclusion** Based on the work performed above, we are satisfied that Sevenoaks District Council has adequate arrangements in place for the significant risk identified. In addition, we have not identified any additional significant risks. The significant risk raised with respect to income generation governance arrangements pre-supposed a continuing emphasis on the generation of new income streams through the medium of an income generation group designed to foster member involvement while ensuring development opportunities are considered in a structured way that respects the Council's risk profile and experience . However, it is clear from interviews with management (both prior to and since the Covid-19 pandemic emerged) that the only major other source of income is the Property Investment Strategy; it is the only income source specifically separated in the 10 year medium term financial plan. We understand from interviews with the Chief Executive, Chief Officer (Finance and Trading) and Head of Finance that, primarily as a result of the Covid-19 pandemic, there is likely to be a considerable strategic focus on internal transformation. While the exact form of this is still being developed, this may result in fundamental changes to how the organisation is run. However, the fact that Sevenoaks has been able to continue with their main source of income generation (property investment) at a time of such uncertainty does portray a high degree of confidence in the robustness of their financial forecasting.

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 D

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 which were charged from the beginning of the financial year to 7 October 2020, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	20,500	Self-Interest (because this is a recurring fee)	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 £20,500 in comparison to the total fee for the audit of £42,230 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.
		Self review (because GT provides audit services)	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.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

Action plan

We have identified 5 recommendations for the Group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. 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.

Assessment	Issue and risk	Recommendations
● Medium	**ITGC - Agresso Superusers** As part of our cyclical review of information technology general controls (ITGC) we identified that two senior members of the finance team are 'superusers' within the Agresso finance software. This presents potential segregation of duties issues. The issue is partly mitigated in so far as manual journals posted by these users are reviewed by the Chief Officer (Finance and Trading) but a solution should be sought to address the underlying risk.	We recommend that the Council consider their segregation of duties arrangements with respect to the use of the 'superuser' role in Agresso. **Management response** Due to the small finance team it is difficult to reduce the number of superusers below current levels in order to maintain a robust level of appropriately senior cover. Control mechanisms such as Chief Officer weekly review provide assurance that the system is secure. The level of risk is deemed acceptable.
● Medium	**ITGC - iTrent** There are weak password controls on the iTrent system whereby there is no requirement to change password after a period of time. There are also no complexities embedded in the password requirements – it is standard practice for password systems to have both these elements to the . There are mitigating controls against this, such as a maximum login attempt before the account is locked out, but a solution should be sought to address the underlying risk.	We recommend that the Council consider their password controls with respect to iTrent. **Management response** The current security protocols are being reviewed in order to align them with other system standards across the council.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Action plan (continued)

Assessment	Issue and risk	Recommendations
Medium	**Pension experience item** As noted in our work on the pension liability assumptions, the 2019/20 accounts contained a material 'experience item' which at £18m was significant both as an absolute amount and relative to the size of the overall liability. It was apparent from our discussions with management that, while the size of the experience item was noted at the time, the background behind it was not queried with the pension fund actuary on receipt. . While subsequent testing performed over this item found that the experience item had been determined appropriately, a key element in accounts preparation is for management to ensure the transactions in the accounts are fully understood, even where these have been provided by a third party expert.	Where the Council receives information from a third party expert that appears unusual due to its size or nature, it is recommended that these are queried with the third party expert as at the time the information arises. **Management response** The pension experience item was challenged by Management as part of the audit process but management acknowledge the timing of the query and have put controls in place to ensure large or unusual items are challenged earlier in the process.
Low	**Value for Money Rec. 1 – Finance Performance Indicators** The Council's Finance Performance Indicators, as presented to the Finance Advisory Committee, do not include indicators relating to the Property Investment Strategy.	Given the primacy of the Property Investment Strategy to the Council's medium term income development plans, the Council should consider whether there is benefit to including one or more KPI's specifically in relation to this strategy. **Management response** The income from the Property Investment Strategy is presented separately in the monthly revenue monitoring where any variances from budget would be disclosed and explained. Annually a Property Investment Strategy update is taken to Cabinet via the Finance and Investment Committee where members are provided details of the current performance and the strategy going forward.
Low	**Value for Money Rec. 2 – Income Generation in the context of Covid-19** The demise of the income generation group means that currently the only formal structure in place in relation to income generation is the Property Investment Strategy. While we are satisfied that there are adequate governance arrangements in place around the Property Investment Strategy, we note that the plans do currently remain highly reliant on the property investment strategy. The Covid-19 pandemic has brought about significant economic changes and may yet bring about changes to how the Council structures itself operationally. Although to date the Property Investment Strategy has not been significantly affected by these changes, we recommend that the Council put in place a structured means by which income generation opportunities outside of the Property Investment Strategy can be identified and assessed.	In the context of Covid-19 , we recommend that the Council put in place a structured means by which income generation opportunities outside of the Property Investment Strategy can be identified and assessed. **Management response** A new position of Commercial and Operation Trading Manager has been created and filled, the successful applicant is starting October 2020. The new position will be looking at increasing both new and existing income streams.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Sevenoaks District Council's 2018/19 financial statements, which resulted in 2 recommendations being reported in our 2018/19 Audit Findings report. Of these, one has been implemented, although the issue to which it pertains did recur in 2019/20. The other recommendation (overleaf) was declared as implemented at the time of our previous audit (18/19). Since then the Council's approach to income generation has changed and so the specifics of the recommendation are no longer relevant . We have however reviewed income generation afresh as part of our VfM work above and made a thematically similar recommendation as part of this year's action plan.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Related party transactions Note 30 – declarations not received Priority MEDIUM Councillors are required to make declarations to the Council. We noted nine instances where a Councillor had not returned a declaration. In each instance, the Councillor in question had submitted a declaration in 2017/18 which did not identify any material related party transactions. While this reduces the risk of unidentified transactions to a limited degree, management still need to assure themselves that no such transactions exist for 2018/19 Recommendation: Management should seek further assurances that those nine individuals who did not return declarations do not have material undisclosed or unidentified relationships with Sevenoaks District Council. This should include, but not necessarily be limited to, reviewing all committee minutes for those meetings attended by these councillors to determine whether they have declared any additional interests during the 2018/19 financial year. Management response (July 2019) Management made several attempts using different methods to obtain returns for all members including members who did not stand in the May 2019 elections. If no response was received the previous years return was used as a basis but for all related party stakeholders a detailed review of Company House records as well as our own Financial system was conducted. All related party transactions found where disclosed in the Financial Statements	Although this year there were three related party declarations that were not received, it is evident that the response rate to these and management's mitigating procedures to identify potential related parties were performed appropriately. The use of an electronic system this year, as necessitated by the circumstances of Covid-19, may have assisted with this.

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
No longer applicable	Value for Money – Priority LOW Following the May 2019 Council elections, in response to councillor interest in income generation, management is considering the extent to which member involvement could be integrated into the Income Generation Group, which is to resume meeting in July 2019, alongside establishing a terms of reference. Recommendation: We recommend that as part of the establishment of a terms of reference for the Income Generation Group, the relationship between elected Councillors and officers is clearly defined in such a way that fosters member interest and expertise, but in such a way that is not disproportionately influenced by electoral cycles. Management response (July 2019) As part of the budget process each year, Members are asked for their income generation ideas. Where a Member has particular expertise relating to a specific idea, they may be invited to attend an Income Generation Group meeting to provide additional information on that idea.	As per our VfM findings, the Income Generation Group has been disbanded and the primary focus in relation to Income Generation has been on the Property Investment Strategy. In our action plan we have identified a low priority recommendation with respect to the future structure of identifying income generation opportunities.

Assessment

✓ Action completed

X Not yet addressed

Audit adjustments

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

Impact of adjusted misstatements

We have not identified or proposed any adjustments aside from misclassification and disclosure changes; see next section.

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	Detail	Auditor recommendations	Adjusted?
Note 3 - Accounting Standards that have been issued but not yet adopted.	Original disclosure: “"There are no new standards that have been issued but not yet adopted which, when adopted, are expected to have a material impact on the Council’s financial statements.“”	Enhance disclosure to make reference to the specific standards and management’s assessment of the likely impact of these.	✓
Note 4 - Critical Judgements in Applying Accounting Policies	We recommend the inclusion of a critical judgement with respect to material uncertainties identified by the pension fund actuary and property valuation expert.	Enhance disclosure, specifically referring to the underlying standards against which the material valuation uncertainty has been determined.	✓
Note 10 – Property, Plant and Equipment	The revaluations ageing table contained a reference to £1.164m of surplus assets being revalued in 2018/19. However this information is out of date having been superseded by a new valuation in 2019/20 (which has been correctly reflected as £1.045m).	Remove the out of date reference to 2018/19 surplus assets revaluation.	✓
Note 11 – Investment Properties	A miscasting in this note had the effect of understating the line ‘Rental Income from investment property’ by £0.282m and understating Direct expenses by a similar amount £0.291m. The net impact to the note is a trivial £9,000.	Adjust the miscasting in the note.	✓
Note 12 – Financial Instruments	In the table for ‘Categories of Financial Liabilities’, short term PWLB loans of £178k were ‘double counted’ appearing in both short term creditors and short term borrowings.	As the loans relate to borrowing, the double counted amount (£178k) should be removed from short term creditors.	✓

Audit adjustments (continued)

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 24c/e - Reconciliation to Subjective Analysis	Employee Expenditure: Amount £13,757k overstated by £2,115k due to pensions and other small expenditure items being double counted, correct figure should be £11,640k	Correct the presentational disclosure.	✓
Note 25 – Trading Operations	TASK Disclosure - additional narrative to Note 25 to guide the reader on why the Depot has moved from below to above the line in the CIES	Enhance disclosure to reflect change in presentation from 2018/19 to 2019/20.	✓
Note 29 – Grant Income	Amount for Community facilities should be £3.406m and BCF should be £0.977m, these have been transposed in the accounts incorrectly and should be swapped.	Correct the presentational disclosure.	✓
Note 30 – Related Parties	Burlington Mews Management Company Limited: The Council should refer to the existence of its wholly owned subsidiary within the related parties notes as this is currently absent from the note.	Enhance disclosure.	✓
Note 35 – Defined Benefit Pension Schemes	Reconciliation of movements in fair value of scheme assets: Return on asset less interest is to be changed from £4.406m to (£9.620m) and other actuarial gains/(losses) to be changed from (£774) to £774.	Correct transposition errors.	✓
Note 38 – Heritage Assets	Adjustment to the Heritage Asset note as was not updated in the 18/19 accounts for the Peppercorn Lease.	Enhance disclosure.	✓

In addition to these misclassification and disclosure adjustments, we have also identified a number of minor changes (such as formatting / textual corrections / clarifications) or immaterial disclosure omissions; these are not individually significant enough to warrant separate inclusion within this audit findings report and have been adjusted following discussions with the Finance team.

Audit adjustments

Impact of unadjusted misstatements

In our review of the Fixed Asset Register (which underpins Note 10), we identified one asset with a negative net book value of £0.187m, which was regarded as unusual as a result. This had arisen due to a spreadsheet error and has the effect of understating Property Plant and Equipment by £0.187m with a corresponding overstatement of net expenditure of £0.187m. The value of the asset as at year end should be £0. This error was identified relatively late in the audit process and while the finding was accepted, it was felt that adjusting for the error within the time available would not be practical, especially noting the extent to which a change in the PPE disclosure note would have a knock on impact on other disclosures (similarly immaterial).. Given the isolated nature of this error and its immateriality, management have agreed not to adjust for the finding in 2019/20 but to correct the opening balance in 2020/21.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
McCloud judgement In December 2018, the Court of Appeal ruled that there was age discrimination in the judges' and firefighters' pension schemes where transitional protections were given to scheme members. It has since been identified that this ruling is likely to affect LGPS pension schemes as well (of which Sevenoaks District Council is part, through the Kent County Pension Fund), although the impact had been uncertain due to a potential appeal from Central Government against the ruling. However, the Supreme Court rejected permission to appeal the ruling on 27 June 2019. The IAS19 report previously issued as at 31 March 2019 (dated 16 April 2019) did not make an allowance for the McCloud judgement, due to uncertainty at the time of how this judgement may effect LGPS members' past or future service benefits. However, given the uncertainty, to assess the materiality of the potential impact of this issue, in June 2019 management commissioned an summary impact assessment, from the scheme actuary (Barnett Waddingham) for Kent County Council. Based on this, the impact on total liabilities was estimated at £983,000.	983	983	983	• The figures provided by the actuary were an estimate, and not a formal actuarial valuation. • Although we were of the view that was sufficient evidence to indicate that a liability was probable, we were satisfied that the differences were not likely to be material. • This has been corrected as part of the actuarial valuation exercise in 2019/20.
Overall impact	**£983**	**£983**	**£983**	

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	42,230	TBC
Total audit fees (excluding VAT)	**£42,230**	**TBC**

The fees reconcile to the financial statements.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services E.g. Grant Claims	20,500	TBC
Total non- audit fees (excluding VAT)	**£20,500**	**TBC**

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