Appendix A

Grant Thornton

The Annual Audit Letter for Sevenoaks District Council

Year ended 31 March 2020

11 February 2021

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Sevenoaks District Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 3 November 2020.

Respective responsibilities

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

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £1,110,000, which is 2% of the group's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 30 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's investment properties and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 3 November 2020.
Certificate	We certified that we have completed the audit of the financial statements of Sevenoaks District Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Working with the Council

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.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

Grant Thornton UK LLP
February 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £1,110,000, which is 2% of the group's gross revenue expenditure. We determined materiality for the audit of the Council's financial statements to be £1,067,000, which is approximately 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We set a lower threshold of £55,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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 expect current circumstances will 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	As part of our audit work 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. 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.

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings (Group, Quercus Housing Ltd) The group revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£39 million Property Plant and Equipment in 2018/19) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work 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.	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. Other than this, no issues have been identified with respect to this significant risk.

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of pension fund net liability (Group) The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£87 million) in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have • updated our understanding of the processes and controls put in place by management to ensure that the 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. The draft financial statements contained a £18.907m gain described as 'Other experience'. This had increased significantly compared to prior year. 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. However, further inquiries with the actuary identified that the previous triennial valuation contained a clerical error, which the 2019 experience gain corrected. Due to the nature and materiality of this error, which impacted not only the 2019/20 disclosures but also those of three previous years, opening balances relating to the pension fund liability (and associated CIES and reserves entries) had to be restated. The additional time required to audit the restated accounts, and the need to engage an auditor's expert to inform our testing procedures and discussions with the external actuary, has resulted in an additional fee requirement which has been discussed with the Authority and listed in Appendix A.	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. The correction of the prior period error in relation to the experience item resulted in a significant additional audit resource requirement. However, as the adjustment was made and disclosed appropriately, there was no impact on our audit opinion. Other than the matters noted above, no issues have been identified with respect to this significant risk.

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management over-ride of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied 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).

Audit of the Financial Statements

Audit opinion

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

Preparation of the financial statements

The group presented us with draft financial statements in July 2020 in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

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.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the group's Audit Committee on 3 November 2020.

In addition to the key audit risks reported above, we identified the following issues throughout our audit that we have asked the group's management to address for the next financial year:

- **ITGC – Agresso Superusers (Medium)**
  We recommend that the Council consider their segregation of duties arrangements with respect to the use of the 'superuser' role in Agresso.

- **ITGC – iTrent (Medium)**
  We recommend that the Council consider their password controls with respect to iTrent.

- **Pension experience item (Medium)**
  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.

- **Value for Money – Finance Performance Indicators (Low)**
  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.

- **Value for Money – Income Generation in the context of Covid-19 (Low)**
  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.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website and alongside the draft Statement of Accounts in July 2020.

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

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. We have not had to use any of these additional powers.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Sevenoaks District Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:
In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in November 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

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

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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.	As part of our work we have: • Reviewed the governance arrangements in place over income generation • Updated out understanding of your financial planning, including the way in which the impact of Covid-19 has been incorporated and documented our understanding of your arrangements to ensure critical business continuity	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 longterm 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. 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.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan Audit Plan addendum	March 2020 May 2020
Audit Findings Report	October 2020
Annual Audit Letter	February 2021

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory audit	33,230	53,065	43,156
Total fees	**33,230**	**53,065**	

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £33,230 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Fee variations are subject to PSAA approval.

Area	Reason	Fee proposed
Raising the bar	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	2,500
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.	1,750
PPE Valuation – work of experts	We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.	1,750
First year adoption of Group Accounts.	*Note that PSAA's original scale fee for this contract was set in March 2018, so any new developments since that time need to be priced in. The adoption of Group Accounts reflects a change that will have a resource and fee implication for 2019/20 and beyond.*	3,000
Sub-total	*Audit fee communicated in our Audit Plan. Additional fees have been identified since, as below:*	**42,230**
Covid-19	• The need to revisit planning and the production and communication of an audit plan addendum; • review of management's assumptions and estimates in the context of increased uncertainty; • additional work required with respect to the sustainable resource deployment element of VfM criteria necessitating enhanced and more detailed reporting in our ISA260; and • the impact of remote working including the need for additional audit procedures around information provided by the organisation and inefficiencies as a result of remote working.	6,335
Experience item	Additional resourcing requirement to audit prior period adjustment and to engage auditor's internal actuarial expert.	4,500
Total		**53,065**

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services - Grant Claims	£20,500*
Non-Audit related services - None	

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.

- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

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

***Our work is still in progress. Final fee is therefore TBC.**