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Our Ref: Governance & Audit Committee/Agenda
Ask For: Steven Matthews
Direct Dial: (01843) 577207
Email: steven.matthews@thanet.gov.uk

GOVERNANCE & AUDIT COMMITTEE

27 SEPTEMBER 2023

A meeting of the Governance & Audit Committee will be held at **7.00 pm on Wednesday, 27 September 2023** in the Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Membership:

Councillor W Scobie (Chair); Councillors: Bright (Vice-Chair), Barlow, Braidwood, d'Abbro, Donaldson, Farooki, Garner, Manners, Munns, Nichols, Packman, Pope and Towning

SUPPLEMENTARY AGENDA

Item
No

Subject

8. **AUDIT FINDINGS REPORT 2020/21** (Pages 3 - 48)



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Audit Findings Report

Governance & Audit Committee	27 September 2023
Report Author	Chris Blundell (Director of Corporate Services - S151)
Portfolio Holder	Cllr Rob Yates, Cabinet Member Corporate Services.
Status	For Information
Classification:	Unrestricted
Key Decision	No

Executive Summary:

The Council's external auditor Grant Thornton is required to report its audit findings from its audit of the accounts to this Committee. A representative from Grant Thornton will present their Audit Findings Report, as attached at annex 1 to this report.

The 2020/21 accounts were previously presented to this committee in July.

The Value for Money opinion will be considered at a forthcoming meeting of G&A.

Recommendation(s):

1. That the Audit Findings Report for 2020/21 as set out at Annex 1 is considered.
2. In the unlikely event that a minor change would be required, i.e. immaterial, the Section 151 be delegated the authority to sign-off the Audit Findings Report, in consultation with the committee Chair.

Corporate Implications

Financial and Value for Money

There are no financial implications arising from this report.

Legal

The audit of the Council's accounts is governed by the Accounts and Audit Regulations 2015

Corporate

The audit of the accounts is a statutory requirement

Equality Act 2010 & Public Sector Equality Duty

Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and

(iii) foster good relations between people who share a protected characteristic and people who do not share it.

Protected characteristics: age, sex, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

There are no equity or equalities issues arising from this report.

Corporate Priorities

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities

1.0 Introduction and Background

- 1.1 The 2020/21 statement of accounts were presented to this committee on the 26 July for consideration, they were approved and then formally signed by the Chair and the Section 151 Officer.
- 1.2 However, as a result of additional audit work required by Grant Thornton it is necessary to formally return them to this committee for consideration.
- 1.3 The draft Statement of Accounts for 2020/21 have now been audited and the audit findings are set out in detail in Grant Thornton's report, shown in Annex 1.
- 1.4 There are no material changes to the Grant Thornton's Audit Findings report, in comparison to the report presented in July, however for completeness the Committee is again asked to consider their audit findings and to note the report.
- 1.5 In order to avoid this situation happening again, it is recommended that authority to sign-off any immaterial changes is delegated to the Section 151 Officer, in consultation with the Chair of this committee.

2.0 Conclusion

- 2.1 Subject to outstanding items being resolved, Grant Thornton intends to issue an unmodified audit opinion.
- 2.2 Grant Thornton's Value for Money review will be considered by G&A at a later meeting.
- 2.3 As management has accepted Grant Thornton's Value for Money recommendations, they expect to be able to certify the completion of the audit when the audit opinion is given.

Contact Officer: Matthew Sanham (Head of Finance, Procurement and Risk)

Reporting to: Chris Blundell (Director of Corporate Services - S151)

Annex List

Annex 1: Audit Findings Report

Corporate Consultation

Finance: N/A

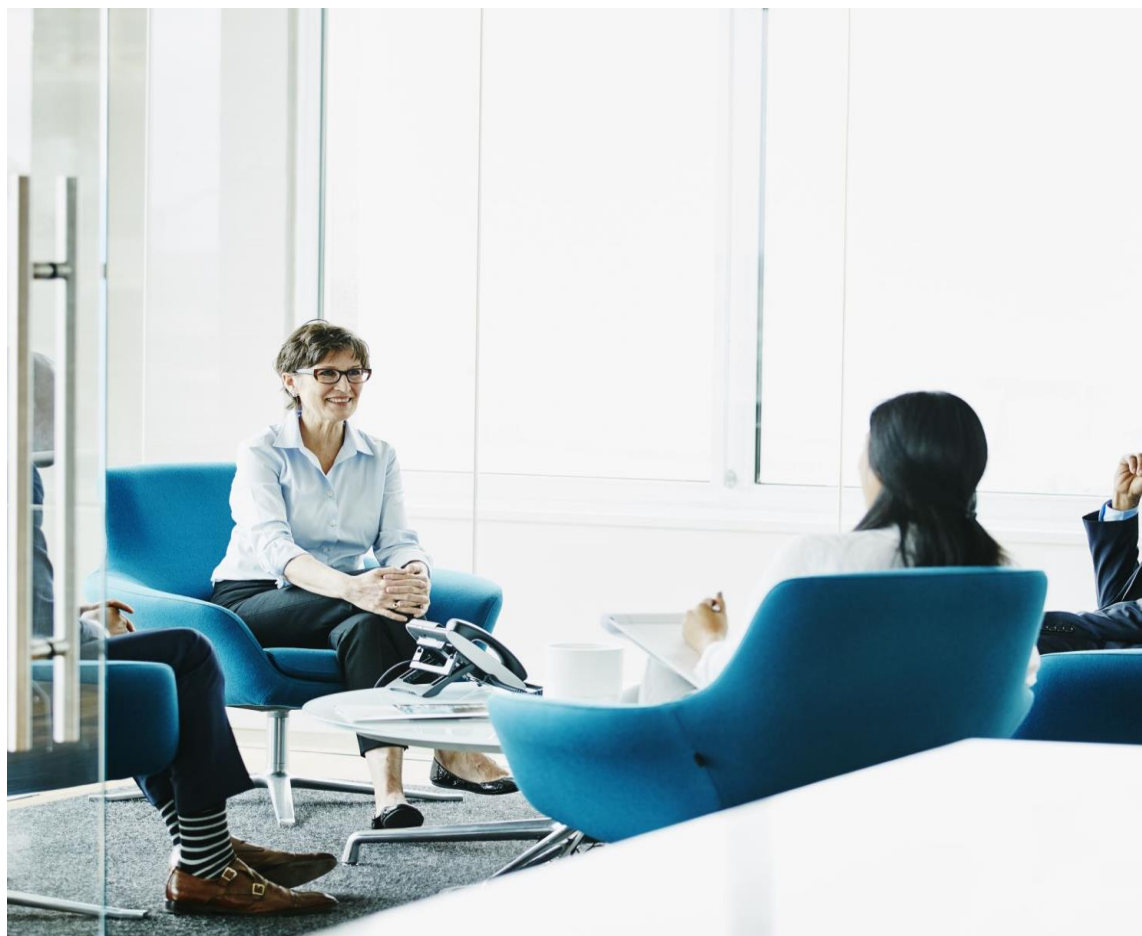
Legal: N/a

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The Audit Findings for Thanet DC

Year ended 31 March 2021

Thanet DC
July 2023



Contents



**Your key Grant Thornton
team members are:**

Sarah Ironmonger

Key Audit Partner

E sarah.i.ironmonger@uk.gt.com

Nick Halliwell

Manager

E nick.j.halliwell@uk.gt.com

Tafadzwa Nembaware

Assistant Manager

E Tafadzwa.Nembaware@uk.gt.com

Section

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4. Other statutory powers and duties
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings 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. Its contents will be discussed with management and the Audit and Governance Committee.

Sarah Ironmonger
For Grant Thornton UK LLP
July 2023

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Thanet District Council (‘the Council’) and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice (‘the Code’), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and income and expenditure for the; 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.

This paper was presented to the Governance and Audit Committee in July. We have used separate colouring to highlight changes to this paper to make the changes since the last report clear.

Our audit work was completed remotely with the significant elements undertaken between November 2021 and February 2022. On October 12th, 2021, we issued statutory recommendations, which were presented to Council on the 2nd November 2021. We needed additional time to conclude our audit opinion and to gain sufficient audit assurance over whether the underlying governance issues reported in statutory recommendations were pervasive and to consider the impact on the Council’s accounts. In addition, we received a total of 6 objections from local electors relating to the 2020/21 financial statements. Each of these objections required additional work to be able to consider the extent to which the objections impacted on the financial statements. The objection with the most potential significant impact on the financial statements related to the arrangements at Ramsgate Port for Berth 4-5.

Following our statutory recommendations, the Independent Monitoring Officer reported in May 2022 and East Kent Audit Partnership reviewed the Berth 4-5 project. The reports and additional audit input has enabled us to conclude our opinion audit. The governance issues and the objections will impact on our value for money report which is reported in the separate Annual Audit Report which is expected to be issued in Autumn 2023.

Our findings are summarised on pages 5 to 24. Audit adjustments are detailed in Appendix B. Our follow up of recommendations from the prior year’s audit are detailed in Appendix B.

Our work is substantially complete in terms of the main elements of the audit.

Subject to the satisfactory resolution of the issues on provisions, we are not aware of any other matters 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
- consideration of subsequent events after the reporting date and whether they impact the financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified. Please note at the last Governance and Audit Committee we had expected to issue this opinion following the meeting. However, due to the need to modify our Value for Money opinion for findings coming out of our Value for Money work we delayed this to ensure these matters were appropriately reported to members before the opinion was issued.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

Our value for money work is nearing completion as we resolve the matters relating to the outstanding objections. The National Audit Office requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion of the financial statements. [And we have provided our report at this committee which is in line with this requirement. The National Audit Office has also enabled Auditors to report on Value for Money arrangements in joint reports and prior to the completion of the financial statements audit.](#)

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified in our planning work two areas of risks of significant weakness in relation to your value for money arrangements, the medium-term financial sustainability and the Governance arrangements in relation to grievances and whistleblowing concerns. We have undertaken work in both areas including issuing statutory written recommendations to the Council on 12 October 2021 which were subsequently considered and accepted by Full Council on 3 November 2021. Subsequent to these recommendations and in line with them the Council has also received recommendations from the Independent Monitoring Officer on May 2022.

Our Value for Money work has identified several recommendations, to see the detail of the work and the full list of findings will be found in our Annual Auditor's Report. However, in our work we identified significant weaknesses in the Council's arrangements in relation to the 2020-21 year, in relation to Governance arrangements and Improving economy efficiency and effectiveness. The 4 areas we identified significant weakness in and raised Key recommendations in are listed below:

- [Governance- Council Wide Governance and Transparency.](#) This relates to the relationship of senior management with one another, the number of grievances raised within the Council, insufficient policies and procedures being in place to deal with these matters and the resulting financial impact of this on the Council.
- [Governance- Service Legal Governance.](#) This relates to a significant increase in no assurance reports from Internal Audit across several service lines which suggests pervasive issues. These findings also relate to several corporate priority areas, with a key theme being a lack of staff capacity and officers undertaking dual roles.
- [Improving Economy, Efficiency and Effectiveness- Performance reporting.](#) The Council in the 2020-21 financial year did not undertake performance reporting. We note in our report that performance reporting has now been put in place, in our report we identify some improvement recommendations regarding this reporting.
- [Improving Economy, Efficiency and Effectiveness- Project and Contract Management.](#) As is highlighted within the Internal audit report on the Berth 4-5 project which identified a number of issues in managements project management.

For more detail regarding these Key Recommendations and our other findings will be found in our Annual Auditors report. Per the Code requirements we are required in our audit opinion to highlight these significant weaknesses in the Council's arrangements.

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 issued statutory recommendations on the 12 October 2021, which were presented to Council on the 2 November 2021. These recommendations centred around Governance issues and the impact on the Council's financial sustainability. We are pleased to note all our statutory recommendations were accepted at this meeting by the Council.

We will be unable to certify the audit for the 2020-21 financial year due to having a number of objections we are working on. In relation to this year we received a total of 6 objections to the Council's financial statements. [We have so far completed one of these objections issuing our statement of reasons on this objection. The other objections we are working on are nearing completion and we will update the committee on their status at the next Committee meeting and if required update our Annual Audit Report for any findings coming out of that review.](#)

[We also had objections in both the 2018/19 and 2019/20 audit that prevented us from certifying those years audit opinions. We have provided management an update on these years in Appendix E of this report.](#)

2. Financial Statements

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 and the Audit and Governance Committee.

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

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements; we anticipate issuing an unqualified audit opinion These outstanding items include:

- receipt of management representation letter
- final quality checks of the audit file.
- consideration of subsequent events after the reporting date and whether they impact the financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. Due to the need to consider the impact of governance issues on the account's there has been significant delays in the audit process. We appreciate the support of the finance team during this period, whilst we have worked through these matters.

2. Financial Statements



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 but have revised the performance materiality percentage to reflect the increased risk due to concerns around the council's governance arrangements. We detail in the table to the right our determination of materiality for Thanet District Council Council.

	Materiality Amount Final(£)	Planning Amount(£)	Qualitative factors considered
Materiality for the financial statements	2,600,000	2,600,000	2% of Gross expenditure.
Performance materiality	1,690,000	1,800,000	At planning we set performance materiality at 70% of materiality, however this was reduced to 65%. This reduction was due to issues raised around the Council's Governance arrangements.
Trivial matters	130,000	130,000	This is set at 5% of materiality.



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2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Improper revenue recognition	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>In the Audit Plan, we reported that having considered the risk factors set out in ISA240 and the nature of the Council and Pension Fund revenue streams, we had determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, mean that all forms of fraud are seen as unacceptable. <p>Therefore, we did not consider this to be a significant risk for Thanet District Council.</p> <p>There have been no changes to our assessment as reported in the Audit Plan.</p>
Improper Expenditure recognition	<p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).</p> <p>Our assessment of the Council's expenditure streams identified that around 75% of the Councils expenditure relates to employee costs, depreciation and Housing Benefit payments. Based on our risk assessment we do not consider there to be significant risk of fraud or management manipulation of such balances. We did identify the completeness of other expenditure as an Other risk, but given its value and the nature of the stream we did not determine this to be a significant risk in our audit strategy.</p> <p>There have been no changes to our assessment as reported in our audit plan.</p> <p>In our testing we did not identify any issues around improper expenditure recognition.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Management override of controls	<p>We have:</p> <ul style="list-style-type: none"> - evaluated the design effectiveness of management controls over journals - analysed the journals listing and determined the criteria for selecting high risk unusual journals - identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration - gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness - considered the impact of the Council's Governance arrangements on the risk of management override of controls. - made additional inquiries of officers in relation to whether they had come under pressure to post Journals or manipulate year end accruals from senior management. - Reviewed a number of reports concerning the Council's Governance arrangements and considered their potential impact around this area of our audit. <p>Our work is now complete on this area.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings including Council Dwellings and Investment Properties

The Council revalues its land and buildings on a rolling five-yearly basis. Investment properties are required by the Code to be revalued each year. These valuations represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for investment properties) at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings and Investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to 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 to ensure that the requirements of the Code are met.
- Tested revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements.
- Assessed the value of a sample of assets in relation to market rates for comparable properties.
- Reviewed and audited the yields used in the valuation of EUV and Investment property valuations.
- Reviewed all relevant information up to the current date in reviewing the Council's valuation of Property assets. This includes rental reviews and the valuations of the Council's assets at the 31/03/2022.

The council employed Wilks Head and Eve to value General fund assets and Saville's to value HRA assets. Both valuers in their valuation reports included a material valuation uncertainty in relation to specific asset types:

- Retail, specific trading assets/sectors including car parks within the Other Land and Buildings- £2m.
- Retail and specific trading assets/sectors including car parks – Investment properties with the value of £1m.
- Council High rise properties – Council Dwellings with the value of £8m.

Following discussions with Saville's, the council's valuation expert, and reviewing the latest valuation report produced due to greater clarity being obtained regarding RICS updated guidance published on the 5 April 2021, it was determined this uncertainty could be removed from Council High rise properties valuations. Based on the audit team's discussions with their expert, Wilks Head & Eve, the level of uncertainty identified by the Council's expert is not at the level we deem material to the Council's financial statements in relation to the valuation of the high rise properties. Therefore, we do not consider that there is a need for an Emphasis of Matter in relation to the uncertainties identified by the Council's valuers. In the prior year, 2019/20 due to the timing of the pandemic this level of uncertainty was noted in our audit opinion.

We identified a large number of low value Investment properties totalling £6,261k had not been revalued as is required by the Code. This was also a finding in our prior year audit and remains in our action plan for the Council. We have gained sufficient assurance to consider there to be a low risk of material misstatement and our indices review identifies the assets value would be overstated by £0.7m, which we consider to not be material.

Our work is now complete on this area.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability

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.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved £102,686k in the Authority's balance sheet and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 1.8% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.

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 evaluated 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 reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud and Guaranteed Minimum Pension cases.
- 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.

In our review of the accounts, we identified that a material movement in the Liability had taken place resulting from the transfer of East Kent Housing (EKH) members back to the council on the 30th September. This resulted in the transfer of £10,565k of pension liabilities to the council and £6,937k of Pension assets to the accounts with a net impact of £3,628k. We have confirmed the accuracy of this with the Council's actuary.

Our work is now complete on this area.

2. Financial Statements - key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate

Summary of management's approach

Audit Comments

Assessment

Net pension liability – £102.7m

The Council's [total] net pension liability at 31 March 2021 is £102.7m (PY £86.3m) comprising the Local Government pension scheme as administered by Kent County Council. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from the scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.

- We have assessed the Council's actuary, Barnett Waddingham, to be competent, capable and objective.
- We have performed additional tests in relation to the accuracy of the contribution figures, benefits paid and asset returns, to gain assurance over the 19/20 roll forward calculation carried out by the actuary.
- We have used PwC as our auditors expert to assess the actuary and their assumptions – see table below for our comparison of actuarial assumptions.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.0%	1.95-2.05%	●
Pension increase rate	2.80%	2.80-2.85%	●
Salary growth	3.8%	3.80-3.85%	●
Life expectancy – Males currently aged 45 / 65	Pensioners 21.6 Future Pensioners future 22.9	Pensioners 20.5-23.1 Future Pensioners future 21.9-24.4	●
Life expectancy – Females currently aged 45 / 65	Pensioners 23.6 Future Pensioners future 25.1	Pensioners 23.3-25.0 Future Pensioners future 24.8-26.4	●

Actuary used a CMI 2020 model with LT improvement rate of 1.25%

Light purple- see key below

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Assessment

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

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £67.7m and Investment Properties/Current Assets Held for Sale (Note 20) – £29,262k	<p>For Other Land and buildings under the council's 5 year rolling revaluation programme the council revalued £52,386k of the £67,693k balance. Of the balance revalued it comprises of £35,396k of specialised assets such as leisure, Marina assets and Theatres, 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 revalued £16,990k are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council has engaged Wilks Head and Eve to complete the valuation of properties as at 31/12/2020 on a five yearly cyclical basis. 77% of total assets were revalued during 2020/21. Wilks Head and Eve also provided the Council assurance that no material movements have occurred to the assets valuation between the valuation date and the financial year end.</p> <p>The Council's Investment properties are required by the Code to be revalued every year. The balance comprises of Industrial, office sites, retail and Cafes. However the council has not revalued £6,261k of Investment Properties, we have reported this matter in the prior year and note our recommendation has not been followed in this year. The Council has used Wilks Head and Eve to value investment properties who value them on a fair value basis at the 31/12/2020 and provide management assurance they have not changed materially between this date and the financial year end.</p> <p>Management has considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31/12/20 and those assets not revalued. In doing so they have gained assurance from their valuer Wilks Head and Eve in relation to this matter.</p>	<p>We note for Investment properties the Council has not followed the Code requirements to revalue all assets. Although using indices provided by our auditors expert we are satisfied the difference is not material the difference is £705k which we are taking as a potential uncertainty in the accounts and reporting as an unadjusted misstatement. We note a number of OLB assets were also not revalued and when indices were applied to these assets an uncertainty of £388k was identified.</p> <p>We note both balances are below materiality and are below are materiality levels.</p> <p>Our work is now complete on this area.</p>	<p>Grey- see key below</p>

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing – £166.29m	<p>The Council owns 3,061 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Saville's to complete the valuation of these properties. This year this involved a full Beacon revaluation of all Council dwellings.</p> <p>In the year there were additions and reclassifications increasing the balance of Council dwellings by £13.92m and there were overall downward revaluations of £0.59m. This meant the value of Thanet's housing stock at the 31/03/21 is £166.29m, a net increase of £13.23m from £152.96m in 2019/20.</p>	<ul style="list-style-type: none"> From the work performed, no material issues have arisen in relation to the valuation of the Council's housing stock included within the accounts. The valuer has correctly prepared the valuation using the stock valuation guidance issued by MHCLG and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH). From discussions with the Council's valuer they have determined to remove from their assessment uncertainty associated with the Council's high rise flats that was previously reported following updated RICS guidance on this matter. Based on our review we deem this appropriate. <p>Our work at the date of writing is substantially complete.</p>	<p>Light purple See key below</p>
Provisions for NNDR appeals – £3.31m total provisions balance is £4.98m. There are two other provisions we have discussed in the tab key matters discussed with management. These items relate to contractual liabilities and legal matters.	<p>The Council is responsible for repaying a proportion of successful rateable value appeals. Management splits the NNDR appeals provision in those under the 2010 Rateable values and those under the 2017 rateable values. For those under the 2010 rateable values due to their historic nature management has records of appeals and the past likelihood of success and calculates the provision based on this past experience. For the 2017 rateable values management follows CIPFA guidance applying a percentage to the rateable value in producing the provision. The data used by management in relation to outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. This has led to an increase in the provision by £124k.</p>	<ul style="list-style-type: none"> We have reviewed the underlying information behind the provision and are satisfied in the accuracy of the data used. The method used is consistent with others in the sector and follows CIPFA guidance on the matter. We identified that the increase in the provision was appropriate. We identified areas where the disclosures in relation to the provision in the Key estimates note could be enhanced. This is to make it clear what element of the provision relates to the collection fund as a whole and the council specifically, in addition based on the Council's assessment it was agreed this did not meet the definitions set out in IAS 1.22 of being a key estimate. 	<p>Light purple-see key below</p>

Assessment

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

2. Financial Statements - key judgements and estimates

Summary of management's approach	Audit Comments	Assessment
<p>Provisions – Legal – £612k</p> <p>The Council made provisions in year in relation to ongoing disciplinary and grievance proceedings. This estimate was formed based on discussions with legal around the costs regarding the following:</p> <p>Costs of defending disciplinary and grievance cases taken out against the council.</p> <p>Legal costs of various investigations and costs associated with ISDC committee investigations into these matters.</p> <p>Management in setting the overall provision did not consider potential costs associated in relation to settlement payments or the potential loss of such cases.</p>	<ul style="list-style-type: none"> From the work performed no material issues have been identified in relation to the provisions value. We note the Council's cost in relation to employment matters at the end of the 2022-23 financial year were £1,076k and exceeded this provision. We reviewed the timing of decisions to determine the extent that the costs related to decisions taken by 31 March 2021. Additional costs have been incurred relating to decisions taken after 31 March 2021 and do not therefore meet the definition for recognition. Based on our review though the provision was based on external legal advice at the yearend we deem it reasonable and not indicative of any bias. We note that it is unusual for provisions to be required in relation to employment matters involving officers involved in approving the financial statements at the time the draft financial statements were prepared. This increased the level of sensitivity we applied to our audit work in this area and was a key cause of the delays in completing the audit whilst the matters were ongoing. <p>Our work is now complete on this area.</p>	<p>Light purple- see key below</p>
<p>Provisions – Port – Restated to £563k in final accounts</p> <p>Management have provided for revenue costs associated with the Berth 4/5 capital scheme. This relates to £383k of payments to the main contractor due to delays in the project, which do not meet the IAS 16 requirements of being capital spend. And £180k of costs associated to the Port operator for the costs of the port not being operational. Both figures were estimates.</p>	<ul style="list-style-type: none"> We have reviewed the underlying information behind the provision and are satisfied in the accuracy of the data used. Gained an understanding of the Council's basis for considering these costs as a Provision, which were linked to an obligation to provide a usable Berth at the site. We reviewed East Kent Audit Partnership's independent review of the project and considered if any of these matters impacted the provision. Discussed the provision with key officers including the Council's Director of Environment. Considered other potential risks associated with the project such as there being a potential onerous contract. <p>Based on our assessment the provision put forward by management was appropriate. We understand the Harbour project will be completed in July 2023, with only the finalisation of the electronic work still ongoing. From our review of the matter the updated provision of £563k reflects an appropriate provision which is in line with the current expected revenue outturn. Based on discussions with the Council the remaining element to make the site operational are electrical mechanical works, which are expected to be completed in August. Based on this we are satisfied there is no risk of material misstatement in relation to this provision.</p>	<p>Light purple- see key below</p> <p>Annex 1</p> <p>Agenda Item 8</p>

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £1.3m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year end MRP charge was £1.3m, a net increase/decrease of £0.13m increase from 2019/20.</p>	<ul style="list-style-type: none"> The MRP charge for the year has been calculated in accordance with the methodologies permitted in the statutory guidance The Council's MRP policy complies with statutory guidance. We have performed a benchmarking exercise which indicates that the Council's MRP provision is in line with expectation. There have been no changes to the Council's MRP policy since 2019/20 We identified the Council's disclosure of its MRP policy within its accounts was inconsistent with the method applied and that approved at council. Management has agreed to enhancements to the disclosure to ensure its consistency with their policy. 	Light purple

Assessment

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

2. Financial Statements - matters discussed with management and ongoing objections

This section provides commentary on the significant matters we discussed with management. We have also received 7 objections relating to the 2020/21 statement of accounts and have set out below the latest position.

Significant matter	Commentary
<p>As has been well publicised, the Council has had several internal challenges in relation to Governance and Grievance issues. The severity of these issues came to the auditor's attention during the 2020-21 year and the following matters took place:</p> <ul style="list-style-type: none"> In July 2021, the external auditor wrote to members of the Audit and Governance Committee setting out the need to urgently accelerate the Council's internal process of dealing with these matters. Setting an expectation that they should be sufficiently progressed by October 2021, or we would have to consider the use of wider audit powers available under the Local Authority and Accountability Act 2014. In September 2021, the Leader of the Council wrote to the Secretary of State Michael Gove to formally invite the MHCLG to provide the necessary intervention to rectify the situation having described the "governance of the local authority as not acceptable in its current form". We issued statutory recommendations on October 12 2021, regarding the Governance issues and recommending an Independent Monitoring Officer (IMO) be appointed to review the situation. In May 2022 the IMO completed a report on the governance issues within the Council. All four of the key CMT officers at the Council have since left the Council's employment: The then s151 officer left with a severance package and an apology by the Leader of the Council, regarding their treatment. The then Monitoring Officer was dismissed and this is subject to appeal. The then Chief Executive left with a severance package as did the then Director of Communities/Operational Services. <p>The reports identified concerns around the Council's whistleblowing policies, intimidating behaviour by senior officers and a lack of sufficient HR support on offer to staff during this period.</p> <p>Although the above matters largely have a limited impact on specific line items in the financial statements. They do create risks in relation to our audit in relation to the extent to which the issues were pervasive. In particularly it creates risks around:</p> <ul style="list-style-type: none"> Are officers free from the risk of undue pressure in setting budgets and posting Journals in the financial statements? Have we as auditors been made aware of all potential provisions in the accounts? Does the Council have an environment in which staff can freely raise concerns or issues as they come to light? Do the Narrative report and Annual Governance statement adequately reflect the above matters? 	<p>The factors mentioned have all impacted the time taken to resolve the audit both from an officer capacity and additional audit work perspective. During the extended period of the audit:</p> <ul style="list-style-type: none"> All 4 senior officers in the CMT left the Council by November 2022. This has enabled new leadership of the Council to take action and has brought greater clarity to judgemental matters relating to the 2020-21 financial statements. We have been able to review the IMO report regarding the Council's arrangements and Internal Audit's review of the Berth 4-5 project. Although instances of poor governance were identified there were no new matters of which we were unaware of that would impact the Council's financial statements. We have made further inquiries across the entity including HR, Head of services and the finance team regarding these matters and their potential impact on the financial statements. Reviewed latest Internal audit reports and latest budget positions to ensure no new matters had been identified that should have been reported in the 2020-21 financial statements. Considered the impact on the subsequent events note within the Council's financial statements. Reviewed provisions related to various grievances taken against the Council resulting from these issues. We note that the actual costs have exceeded the provision in the Councils accounts and reported this in our unadjusted misstatements log. <p>From the work undertaken we are satisfied that we have sufficient comfort that the above matters have not had a material impact on the Council's financial statements.</p>

2. Financial Statements - matters discussed with management and ongoing objections

Significant matter

Across the sector concerns have been raised regarding the accounting treatment of Infrastructure assets. This resulted in CIPFA launching consultations to identify a sector wide resolution around the following concerns:

- There is a risk that authorities are not disposing of infrastructure assets when these assets are damaged, or stop being used. This creates a risk that the Gross book value of the assets could be materially misstated.
- Authorities not setting appropriate useful lives for infrastructure spend due to not properly componentising the capital spend and reviewing when it is written off. This creates the risk of misstatement in the Net Book value of the assets.

Thanet District Council has £23,112k Gross book value of cost for Infrastructure assets with an associated net Book value of £14,215k, both values are significantly material. The majority of this balance relates to coastal protection assets.

Following CIPFA's consultation on the matter they released the CIPFA Bulletin 12, which enables authorities from the 1st April 2021 to the 31st March 2025 a temporary relief not to report on gross cost and accumulated depreciation for infrastructure assets.

Commentary

In relation to this matter, we have performed the following procedures:

- Reviewed capital projects spend on Coastal assets to determine if this relates to repairs of existing assets that should have been derecognised.
- Inspected bid documents for significant Coastal projects in recent years.
- Made inquiries of management regarding their process for derecognising Infrastructure assets and setting appropriate useful lives.
- Reviewed the Useful lives set of Coastal assets within other Local Authorities.

We identified that the oldest assets held on the asset register dated back to 1997 for Coastal assets. Based on our review we did not identify assets previously capitalised that had required replacement work performed in recent capital projects, instead these new projects were either new pieces of work or work that replaced older coastal defences that does not sit on the Council's Fixed Asset Register.

From our review we identified that management have set a useful life for Coastal assets of 40 years. Based on our work which involved reviewing other coastal authorities' useful lives set, inquiries of Estates and review of recent Coastal capital projects we deem this to be appropriate.

The Council has also updated the disclosure of Infrastructure assets following the CIPFA bulletin.

Objection - The Ramsgate Port Berth replacement has become known as Berth 4/5.

In relation to this project to replace the Port's Beth we have received correspondence from several members of the Council regarding concerns of the project's governance. This requested the matter to be audited in one instance and a formal objection being raised regarding the matter.

This led to one member raising an objection in relation to the matter. In which concerns around the procurement of the Berth and the process for undertaking an Environmental Impact assessment were raised as key areas of concern.

We have issued our Statement of Reasons on this objection. In this we outline that we do not consider it appropriate to issue a report in the Public Interest in relation to the two concerns raised. We have though raised a Key Recommendation in relation to governance failures in relation to the Council's project management in connection to this issue in our Annual Auditors report.

We have other members of the Public who we are in the process of responding to in relation to this matter who wrote to us in the inspection period regarding the matter. And therefore this aspect of the work is still ongoing.

We are satisfied the matters relating to the objection have had no material impact on the Councils financial statements.

Objection – purchase of diesel refuse collection vehicles

The objection relates to how the purchase relates to the Council's declaration of a climate change emergency.

Our review of this objection is still ongoing. Based on our review we consider the matters raised in the objection to relate to the value for money arrangements.

We expect to have completed this objection by the next Audit and Risk Committee in November.

2. Financial Statements - matters discussed with management and Objections

This section provides commentary on the significant matters we discussed with management, as well as Objections received during the course of the audit and their impact on the financial statements audit.

Significant matter	Commentary
<p>Objection – disposal of the Dreamlands site</p> <p>The objection relates to whether the Council received commercial value on the sale of the Dreamlands site.</p>	<p>Our work on this objection remains in progress. We have undertaken sufficient work on the disposal price and treatment of the asset from a financial statements perspective. The remaining aspects relate to the value for money arrangements.</p> <p>We expect to have completed this objection by the next Audit and Risk Committee in November.</p>
<p>Objections – Lottery and DPO licences</p> <p>The objections relate to the named accountable officer on both the Lottery and the Data Protection Officer licenses.</p>	<p>Our review of this objection is still ongoing. Based on our review we consider the matters raised in the objection to relate to the value for money arrangements.</p> <p>We expect to have completed this objection by the next Audit and Risk Committee in November.</p>
<p>Objection – Margate Town Deal Board</p> <p>The objection relates to the Council's governance arrangements for the Margate Town Deal Board.</p>	<p>Our review of this objection is still ongoing. Based on our review we consider the matters raised in the objection to relate to the value for money arrangements.</p>
<p>2019/20 Objection – use of Non-Disclosure Agreements</p> <p>The objection relates to the use of Non Disclosure agreements.</p>	<p>We identified that an element of the objection related to the governance matters that were the subject of our written statutory recommendations and further work was delayed whilst those matters were progressed.</p> <p>Our review of this objection is still ongoing. Based on our review we consider the matters raised in the objection to relate to the value for money arrangements.</p> <p>We are awaiting further documents from management to enable us to reach a conclusion on this objection.</p>

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
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, subject to the resolution of outstanding objections.
Written representations	A letter of representation will be requested from the Council once we have completed the matters noted on page 3.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking and investment counterparties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review identified some disclosures that were not consistent with the Code, these findings are detailed in Appendix B. No material omissions were identified in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements



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).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>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.</p> <p>We have discussed with management how matters which lead to the statutory recommendations are reflected in these disclosures. We also note the report has had to be updated in relation to this matter and others following the passage of time and events that have taken place since its initial publication. We are satisfied that in its current form it sufficiently complies with the Code requirements and is consistent with the Council's financial statements.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness <p>We were required to raise statutory recommendations which were presented to Full Council on the 02/11/21. These recommendations centred around Governance issues and the impact these are having on the council's financial sustainability.</p> <p>We are pleased to note all our statutory recommendations were accepted at this meeting by the Council. As our statutory recommendations directly impact the Governance of the council a significant weakness will be raised in relation to these arrangements. Note our VFM work is still ongoing in this area.</p>



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Work is not required on the council as it does not exceed the threshold requirements.</p>
Certification of the closure of the audit	<p>We intend to delay the certification for the closure of the 2020/21 audit of Thanet District Council in the audit report, due to the following reasons:</p> <ul style="list-style-type: none">• the work necessary to respond to 7 objections from local government electors, 1 being from 2019/20.• the fact prior year certificates are yet to be issued and remain outstanding due to outstanding objections in those periods.• Further work being required in relation to our value for money review of a number of matters in relation to the council's value for money arrangements.

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - Update

Due to having outstanding objections to work through in relation to the 2019/20 year and the 2020-21 financial year we are unable to conclude our 2020-21 Value for Money work for 2020-21. For 2020/21 the requirement changed to provide a commentary on the value for money arrangements and identify any significant weaknesses in those arrangements. The objections and their status is noted on pages 16-18 of this report.

2020/21

Our 2020/21 value for money conclusion work is substantially complete except for the ongoing work regarding objections relating to the 2020-21 and 2019-20 financial year. In undertaking our Value for money work and fulfilling our responsibilities as your external auditors as set out in the Local Audit and Accountability Act 2014, we issued statutory recommendations on October 12 2021, which the Council considered in its public meeting on 2 November 2021. These recommendations related to governance issues and the impact these are having on the Council's financial sustainability. For our full detailed findings these will be found in our Annual Auditors report.

In our work the following Significant weaknesses have been identified.

- Governance- Council Wide Governance and Transparency. This relates to the relationship of senior management with one another, the number of grievances raised within the Council, insufficient policies and procedures being in place to deal with these matters and the resulting financial impact of this on the Council.
- Governance- Service Legal Governance. This relates to a significant increase in no assurance reports from Internal Audit across several service lines which suggests pervasive issues. These findings also relate to several corporate priority areas, with a key theme being a lack of staff capacity and officers undertaking dual roles.
- Improving Economy, Efficiency and Effectiveness- Performance reporting. The Council in the 2020-21 financial year did not undertake performance reporting. We note in our report that performance reporting has now been put in place, in our report we identify some improvement recommendations regarding this reporting.
- Improving Economy, Efficiency and Effectiveness- Project and Contract Management. As is highlighted within the Internal audit report on the Berth 4-5 project which identified a number of issues in managements project management.

For more detail regarding these key Recommendations and our other findings please refer to the Annual Auditors report. Per the Code requirements we are required in our audit opinion to highlight these significant weaknesses in the Councils arrangements.

4. Other statutory powers and duties

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

Issue	Commentary
Statutory recommendations	We issued statutory recommendations on the 12 October 2021. The Council held its meeting in public to consider the statutory recommendations on 2 November 2021. The recommendations related to the Governance issues relating to grievances and the impact of dealing with the issues on the Council’s financial sustainability. All our statutory recommendations were accepted by the Council. Progress against the recommendations will be included within our Auditors Annual Report later this year.

5. 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

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

5. 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.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	7,500	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 £5,000 in comparison to the total fee for the audit of £81,548 (per audit plan) 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.
Certification of Housing Benefit Claim	40,000	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 £40,000 in comparison to the total fee for the audit of £81,548 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.

Appendices

A. Action Plan

We set out here our recommendations for the Trust which we have identified as a result of issues identified during our 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. Delete slide of not relevant.

Assessment	Issue and risk	Recommendations
Medium	<p>Manual adjustments to the Trial Balance made in producing the Financial statements</p> <p>We note the Council in part due to adjustments required to the accounts resulting from statutory adjustments, Collection Fund adjustments and other factors posts manual adjustments to the Trial balance in producing the accounts. This is not considered best practise</p> <p>Risk</p> <p>By making the process manual this may not lead to appropriate levels of review of the postings and increases the risk of human error.</p>	<p>The Council should look to post all Journals that are used to create the accounts through the General ledger and use appropriate coding to capture any required reporting adjustments.</p>

Key

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

B. Follow up of prior year recommendations

We identified the following issues in the audit of Thanet District Council's 2019/20 financial statements, which resulted in 3 recommendations being reported in our 2019/20 Audit Findings report relating to the financial statements. We have followed up on the implementation of our recommendations and note 1 is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Accounting for complex transactions</p> <p>The financial statements audit in 2019/20 was significantly delayed to due to challenges relating to the Dreamlands site. Our initial audit procedures in this area identified concerns around the disclosures made however management were unable to provide audit evidence to support the proposed treatment in a timely manner and corroborating evidence sought from outside of the finance team contradicted the position. The contradictory evidence was available and should have been considered in both preparing the financial statements and responding to auditor queries. There were a number of adjustments required in relation to the valuation of the Dreamlands asset and the potential liability of the CPO. It was a complex issue and significant additional work was undertaken by both management and the audit team to reach an agreed position.</p> <p>Recommendations.</p> <p>For complex transactions management should consider all available corroborating evidence and document the judgements with reference to accounting standards to enable the Council to include a robust review process.</p>	<p>Management have engaged with the audit team promptly regarding key transactions in the 2020/21 financial statements. We are therefore satisfied that management have implemented the recommendations identified in the previous year's audit.</p> <p>However, we did identify that in complex legal matters the Council could provide a clearer audit trail to support judgements reached at the year end.</p>

- Assessment**
- ✓ Action completed
 - X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Investment Property Valuations</p> <p>We identified £3,472K of Investment properties had not been revalued as of the 31st March 2020. This is not compliant with the code which requires all Investment property to be revalued on an annual basis.</p> <p>Recommendations.</p> <p>The council should ensure all Investment Properties are revalued on an annual basis.</p>	<p>We identified a large number of low value Investment properties totalling £6,261k had not been revalued in this year. However we are satisfied using indices that this does not create a risk of material misstatement as this has identified that the assets value would be overstated by £291k.</p> <p>Management response</p> <p>Management recognises this is not strictly code compliant, but the accounting policy was selected to ensure cost effectiveness in accounting for investment properties. A review will be undertaken for the 2020-21 accounts to ensure this policy is still appropriate.</p>
✓	<p>Council dwelling valuations</p> <p>The Council's valuer compared indices movements for dwellings from 31 January 2019 to 31 January 2020 rather than 31 March 2019 to 31 March 2020. The impact of not using the correct date is immaterial to the financial statements but there is a risk using older indices in the future could lead to the Council not identifying a material movement in the valuation of its assets at balance sheet date. If the wrong indices are applied going forwards this could create the risk of compounding errors, when indices are used to uplift council dwelling valuations in between the full Beacon reviews</p> <p>Recommendations.</p> <p>The Council should ensure it uses the correct indices to inform its year end valuation process in years when a full valuation does not take place.</p>	<p>A full Beacon revaluation of all council dwellings was performed by the council's external valuer in this financial year. Therefore an indices approach was not performed. Therefore this recommendation was not relevant to this financial year's audit.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

B. Audit Adjustments

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

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

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Income and expenditure overstated The Council overstated income and expenditure by £1,339k in relation to the Covid hardship funding. This was due to an error in the posting of a Journal that lead to this overstatement. This had no impact on the bottom line but led to income and expenditure in the cost of services to be overstated by this value.	Income and expenditure overstated 1,339, (1,339)	Nil	Nil
Debtors and Creditors overstated The Council understated its debtors and creditors by £146k. This was due to a local authority debtor being included in creditors in error. This error has no bottom line impact.	Nil	Debtors and creditors understated 146, (146)	Nil
Provisions understated In relation to the Berth 4-5 Provision the Council has restated the value of the provision by £118k based on further information becoming available about the impact of delays to the project had on the revenue liabilities associated with the project.	118	Provisions (118)	(118)
Overall impact	(118)	118	Nil

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C. 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 unadjusted misstatements

All unadjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
The Council as set out in their accounts chose not to revalue all Investment Property assets, which is contrary to the CIPFA Code. From our indices review we identified that this indicated that Investment Property may be understated by £705k.	Revaluations(705)	Investment Property £705	705
For Other land and Building assets not formally revalued by the Valuer we used indices to determine if this created a risk of material misstatement. Based on this review the projected misstatement was £388k. This would increase the value of Property Plant and Equipment assets.	Revaluations (388)	Property Plant and Equipment 388	388
Overall impact	(1,083)	1,083	1,083

C. Audit Adjustments – Council

Misclassification and disclosure changes

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

Disclosure amendment

Adjustment
agreed?

Comprehensive Income and Expenditure Statement

✓

The Council in year decided to change the presentation of this note along with all other expenditure notes. This was to show the GF and HRA service lines separately to provide greater transparency to the reader of the accounts. IAS 8 states that all such changes should clearly state which lines have been changed from the prior year and the reason for this. The statement has been updated to reflect the requirements in IAS 8.

The changes in the CIES have also resulted in note 5, and note 5a- Expenditure Funding Analysis, note 6 and note 6a- Segmental analysis and note 21 Investment Properties. We are satisfied in the updated financial statements the Council has complied with the requirements set out in IAS8.

Cash Flow Statement

✓

The Cash flow statement has been updated to reflect changes noted on the previous slides resulting from changes to the Debtors, Creditors and Provisions balances.

Accounting Policies

✓

Updates to the Councils policies have been made regarding the following areas:

- To reflect the latest position on IFRS 16's implementation.
- Include the Councils Minimum Reserve Provision policy.
- Note the changes made to the Councils accounts following the updated CIPFA Bulletin in relation to Infrastructure Assets.

Enhancements to the Key Estimates and Critical judgements notes

✓

Per IAS8 requirements not all disclosures within the draft financial statements met the requirements of being key estimates and critical judgements. In addition the disclosure did not contain sufficient disclosure regarding the level of estimation uncertainty within these balances. We note the Council should of considered adding more detail about the fact a full Beacon revaluation was carried out in year and updates made in the Valuers consideration of RICS guidance regarding the valuation of high rise flats.

Prior Period Adjustments

Not adjusted

We identified for several notes the Council made prior period adjustments. Although primarily the cause of this was a change of the way service lines were being reported there were one instance in exit packages that these changes were made due to updated information that should have been included in the 2019-20 accounts. We note as this was not material this amendment should not have been made. Our review identified that the changes made to other notes, and this were appropriate, however, additional disclosures as is required by IAS 1 in relation to this matter were required to meet the relevant reporting requirements for such amendments.

Note 5a Expenditure and Funding Analysis

✓

It was identified that more detail could be added relating to the differences between management reporting of the accounts shown in the EFA note and the CIES, particularly regarding capital movements which are not shown in management reporting.

C. Audit Adjustments – Council

Misclassification and disclosure changes

Disclosure amendment

Disclosure amendment	Adjustment agreed?
<p>Note 12 Remuneration of Employees</p> <p>A number of adjustments to this note were identified:</p> <ul style="list-style-type: none"> Within the Exit packages testing two errors totalling 30k were identified with an extrapolated impact on the note being below are triviality threshold. Disclosure inconsistencies were identified that have been subsequently amended in the exit packages note regarding the number of staff who received compulsory redundancies. We identified a number of disclosure changes in the staff banding note which discloses officers earning >£50k. The Council also made changes to the note regarding a prior period adjustment. We note this did not meet the requirement of being a prior period adjustment as it was not material but the Council restated the figures in spite of this. The Council has since updated the disclosure to make clear the restatement from the prior year and the reason for it. Insufficient disclosures relating to exit packages being restated in the prior year figures. We also note in our view these prior period adjustments should not of been made as they are not material, however, the council have chosen to do this as they deem this to be appropriate in providing a better year on year comparison. 	<p>The 30k difference resulting in an overstatement was not adjusted for. All other points have been addressed.</p>
<p>Note 13 External Audit Fees</p> <p>There are discrepancies to the audit fees set out in the note and that set out in our Audit plan, with the fees reflecting the values invoiced for rather than the cost of the 2020/21 audit fees. The Council has since updated this note and we deem this updated note consistent with the information provided to management at the year end in relation to audit fees.</p>	✓
<p>Note 14 Port and Harbours</p> <p>The note has been adjusted to take into account adjustments made of revenue liabilities attached to the Berth 4-5 project identified by management after the publication of the draft accounts.</p>	✓
<p>Note 15 Grant Income, Note 16 Reserves and Note 17 Earmarked Reserves</p> <p>Both notes has been produced to a greater level of detail in this year meaning the prior period figures have been split out at a more detailed level so they can be compared to one another. We have discussed with management the requirements set out in IAS8 regarding such changes and they have accordingly added the additional disclosure requirements required per the standards.</p>	✓
<p>Note 18 Property Plant and Equipment- Infrastructure Assets</p> <p>This note has been updated to remove Infrastructure assets from the main Property Plant and equipment table and to report them on a net basis within the note.</p>	✓
<p>Note 22 Financial Instruments</p> <p>We identified a transposition error that lead to the maturity analysis of liabilities being stated at £10,805k when the value should have been £10,085k. In addition the note was updated for errors found in the classification of Creditors and Debtors.</p>	✓

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C. Audit Adjustments – Council

Disclosure amendment

	Adjustment agreed?
<p>Note 30 Usable Capital receipts Reserve, HRA Income and expenditure note, HRA MIRS note and HRA Note 9</p> <p>These notes have been updated for minor changes that are not material relating to the prior period. Although the Council has updated the disclosure to show what the changes have been the changes are low in value and should not be made to the prior year signed financial statements as they are not material.</p>	Not agreed
<p>Note 36 Capital Expenditure and Capital Financing</p> <p>Several amendments were made to the disclosure note to ensure that it complied with the requirements of the Code of Practice on Local Authority Accounting:</p> <ul style="list-style-type: none"> The Council has not disclosed its Minimum Revenue Provision policy accurately in the draft financial statements. The line titled Voluntary Revenue Provision for the HRA incorrectly included £2,249k of the repayment of Dreamlands debt which should be shown separately and does not relate to Voluntary Revenue Provision and therefore this wording should not be used to describe the balance. 	✓
<p>Note 37 Finance Leases and Operating Leases</p> <p>Finance lease note understated the finance lease liabilities associated with one specific asset that were understated by £1.6m.</p>	To be confirmed not material
<p>Note 38 Defined Benefit Scheme</p> <p>This has been updated to note the significant impact bringing back East Kent Housing has had on the Council's Pension Fund liability, which increased liabilities by £10.6m and assets by £6.9m.</p>	✓
<p>HRA Note 3</p> <p>This has been updated to reflect the incorrect figures and split being shown in the capital spend on other land and buildings under construction and Council Dwellings.</p>	✓
<p>Minor presentational and disclosure amendments</p> <p>A number of minor disclosure enhancements and presentational adjustments were identified and amended within the financial statements.</p>	✓

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services/ confirm there were no fees for the provision of non-audit services.

Note all additional audit fees are subject to PSAA approval, the below is our proposed final fee.

	Fee
Fee communicated in Audit plan	£81,548
Additional vfm work agreed in relation to governance issues	£25,000
Statutory recs resulting from additional vfm work	£15,000
External Legal costs associated with management challenge re statutory recs	4,487
Additional work on provisions for berth 4/5 and employment matters	£5,000
Additional work on Infrastructure assets (national issue and fee applies across all impacted local authorities)	£5,000
Collection Fund reliefs testing- additional work required as a result of significant changes to Business rate and Council tax income as a result of Covid-19 reliefs	£750
Payroll Change of circumstances – additional scope to work following regulator reviews	£500
Additional HRA procedures – additional scope to work following national concerns around this matter	£500
External Legal costs associated with Objections	3,294
Costs relating to 2020-21 Objections	35,000
Costs associated with objections relating to 2019/20	7,500
Final Audit fee	183,579

Non-audit fees for other services

	Proposed fee	Final fee
Audit Related Services Housing Benefit grant claim	40,000	40,000
Audit Related Services Pooled Housing receipts claim	5,000	5,000
Total non-audit fees (excluding VAT)	£45,000	£45,000

Note the above fees were those charged for the 2020-21 Council grant reviews. The fees for the 2021-22 and future grant audits are likely to increase significantly due to reflect the updated market rates.

E. 2018/19 Audit Certificate - Update

As has been reported previous we received a total of 4 objections relating to 2018/19's accounts. As has been previously communicated going into this years audit there remained one outstanding regarding Parking Charges.

The Objection

The objection to the accounts related to the Parking Charges and claims the Council was acting in accordance with "The Road Traffic Regulation Act 1984", in relation to concerns regarding surpluses in the car parking service line. From the work performed we did not deem it necessary to issue a report in the Public interest or identify any matters that would further impact our Value for Money work.

2018/19 Audit Opinion and Certificate

- As has previously been communicated in our work on the 2018/19 value for money arrangements we identified a significant weakness in the Councils arrangements regarding EKH's management of contracts. This specifically related to the P&R contract and wider weaknesses in the delivery of this service. This weakness was also identified in one of the four objections we considered regarding the Councils accounts. Now that the final objection has been complete we will make reference to this significant weakness when we issue our Audit certificate for 2018/19 following the September Committee meeting.
- Are opinion regarding the financial statements is an unmodified audit opinion.

E. 2019/20 Audit Certificate – Update

Due to receiving an objection in the 2019/20 financial statements we were unable to Certify our audit. In relation to this matter we have the following to report:

The Objection

The objection to the accounts relates to the use of non-disclosure agreements in resolving grievance issues at the council. In relation to this matter there are final documents we require the Council to provide for us to complete our review of this objection. Until this work is complete, we are unable to certify our audit opinion due to the need to consider this matter as part of our Value for Money conclusion. In the interim we have issued our opinion on the financial statements for the year.

2019/20 Audit Opinion and Certificate

- Audit opinion of financial statements will remain an unmodified opinion.
- As has been communicated previously our Value for Money work will include a significant weakness in relation to the Councils governance arrangements. This significant weakness is connected to the matters that lead to us issuing statutory recommendations in October 2021.
- We will seek to issue our Audit certificate once we have concluded our work on this outstanding objection and we will update the Committee at the next meeting regarding our progress on this matter.

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