

# The Audit Findings Report for Thanet District Council

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**Year ended 31 March 2015**

19 September 2015

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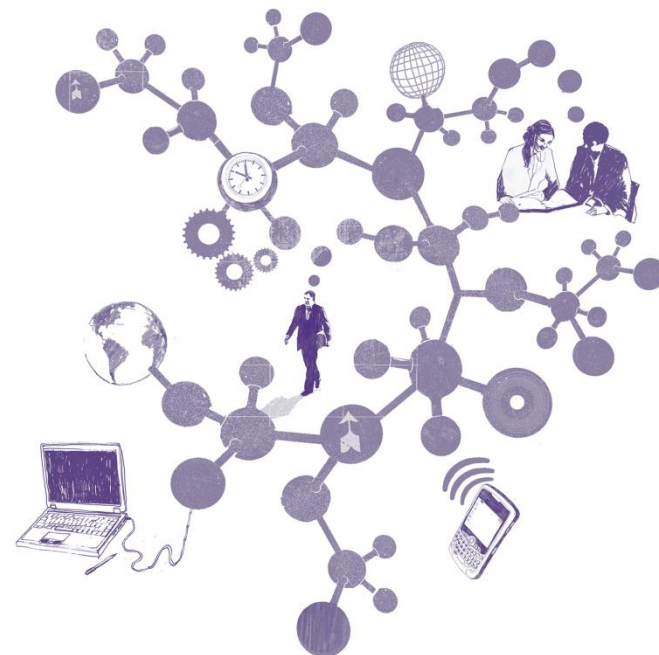
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15 September 2015

Dear Members

**Audit Findings Report for Thanet District Council for the year ending 31 March 2015**

This Audit Findings Report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Thanet District Council, the Governance and Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

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

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

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

Yours sincerely

Darren Wells – Engagement Lead  
for and on behalf of Grant Thornton UK LLP

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# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	4
2. Audit findings	7
3. Value for Money	20
4. Fees, non-audit services and independence	25
5. Communication of audit matters	27

## **Appendices**

- A Action Plan
- B Audit opinion

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# Section 1: Executive summary

**01. Executive summary**

**02. Audit findings**

**03. Value for Money**

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

**05. Communication of audit matters**

# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Thanet District Council's (the Council) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code). We are also required to reach a formal conclusion on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated March 2015.

Our audit is substantially complete although at the time of writing, we are finalising our work in the following areas:

- review of accounting entries for joint operations
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement
- final quality assurance and review processes and
- updating our post balance sheet events review, to the date of signing our opinion.

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

## Key issues arising from our audit

### Financial statements opinion

Subject to the successful completion of the outstanding work noted above, we anticipate providing an unqualified opinion in respect of the financial statements.

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

- The finance team have continued to prepare the accounts to a good overall standard supported by comprehensive working papers
- However, the audit trail for operating expenditure proved to be overly complex and the Council's reported expenditure was time-consuming to audit as a result. This needs to be addressed as the Council prepares to meet the earlier accounts opinion deadline of 31 July to be introduced in 2017/18.

We have not identified any adjustments that affect the Council's reported financial position (details are recorded in section 2 of this report). We did however identify a small number of suggested adjustments to improve the presentation of the financial statements. Further details are set out in section two of this report.

Your strong financial reporting processes mean you are well placed to bring the accounts and audit process forward ahead of the earlier deadlines planned for 2018. We aim to work with you to deliver earlier close in a manner that minimises the impact on your wider operations and service delivery.

### **Value for Money conclusion**

We are pleased to report that, based on our review of your arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

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

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

### **Controls**

#### **Roles and responsibilities**

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

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

### **Findings**

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

### **The way forward**

Matters arising from the financial statements audit and review of your arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Corporate Resources and the Interim Head of Finance.

### **Acknowledgment**

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

**Grant Thornton UK LLP**  
**September 2015**

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made changes to our Audit Plan as previously communicated to you on 17 March 2015.

## **Audit opinion**

We propose an unqualified audit opinion as set out in Appendix B.



# Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>As mentioned in our Audit Plan, we have rebutted this presumption because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Thanet District Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>However, due to the material nature of revenue, we have still completed the following as part of our audit work:</p> <ul style="list-style-type: none"> <li>• review of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p> <p>We have not been made aware of, or identified any unusual significant transactions.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk of management override of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We have not been made aware of, or identified any unusual significant transactions.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• performed substantive testing of the expenditure incurred during the year</li> <li>• testing of creditor payments, including accruals, for completeness, classification and occurrence</li> <li>• review of control account reconciliations</li> <li>• cut-off testing</li> <li>• review of allocating/appropriating expenses to meet the requirements of the Service Reporting Code of Practice</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Employee remuneration</b>	Employee remuneration accrual understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• reviewed the reconciliation between the payroll system and the general ledger</li> <li>• undertaken trend analysis on the employee remuneration expenses incurred during the year</li> <li>• performed substantive testing of the payroll expenditure incurred during the year</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

## Audit findings against other risks (cont.)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Welfare expenditure</b></p>	<p>Welfare benefit expenditure improperly computed</p>	<ul style="list-style-type: none"> <li>• We have undertaken a walkthrough of the Council's processes and controls over this area to gain an understanding of these.</li> <li>• An analytical review has been performed on the figures included within the draft Housing Benefit Subsidy Claim to identify any significant variances requiring explanation.</li> <li>• We have carried out detailed testing on the expenditure included within the draft HB Subsidy Claim, in line with the HBCOUNT methodology provided by the Audit Commission.</li> <li>• We also tested a sample of Local Council Tax Support cases to ensure expenditure on these cases has been correctly calculated for inclusion within the Accounts.</li> </ul>	<p>Our audit work to date has not identified any significant issues in relation to the risk identified.</p>

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included within your financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p><b>Revenue recognition</b></p>	<ul style="list-style-type: none"> <li>The only policy in the draft accounts relating to revenue recognition is the policy on 'Government and Non-Government Grants and Contributions', which states that government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:                             <ul style="list-style-type: none"> <li>the Authority will comply with the conditions attached to the payments, and</li> <li>the grants or contributions will be received.</li> </ul> </li> </ul>	<p>The draft accounting policy is not adequately disclosed in line with the requirements of the CIPFA Code. Policies are needed for all material income streams and transactions and should cover recognition and measurement. Management has agreed to review the policy and make improvements in future financial statements.</p> <p>Our testing of your various revenue sources to date has not identified any instances of inappropriate revenue recognition.</p>	<p style="text-align: center;"> <b>Red</b></p>
<p><b>Estimates and judgements</b></p>	<ul style="list-style-type: none"> <li>Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>Useful life of capital equipment</li> <li>Pension fund valuations and settlements</li> <li>Impairments</li> <li>PPE revaluations</li> <li>Depreciation</li> <li>Bad debt provisions</li> <li>Investment property asset values.</li> <li>Business rate appeals.</li> </ul> </li> </ul>	<p>Your critical judgements and estimation uncertainties are disclosed within Notes 3 and 4 of the financial statements, and are in line with the requirements of the CIPFA Code.</p> <p>We have reviewed your Business Rate appeals provision, along with the calculation of depreciation in respect of Property, Plant and Equipment, and are satisfied with the approaches taken in each of these areas.</p> <p>Following a ruling in January 2015 on business rates for purpose-built GP surgeries it is now anticipated that there will be substantial reductions in rateable value for some health-related premises, even where appeals have not been received at 31 March 2015, and that these rating reductions will be backdated to earlier periods. On the basis of the most recent information it was agreed with officers that the Council's provision was understated in respect of these cases. The Council has therefore revised its assessment and increased the provision for business rate appeals by a further £3,679,000, of which the Council's share is £1,472,000.</p>	<p style="text-align: center;"> <b>Green</b></p>



**Assessment**

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Estimates and judgements</b>	[Continued from previous page]	We considered the Council's process to estimate the carrying value of those assets not subject to external revaluation in 2014/15. We concluded that the Council's estimate was not materially misstated.	
<b>East Kent Housing</b>	<p>The Council is a joint owner of East Kent Housing Ltd, an arms-length management organisation (ALMO), whose principal activity is to manage each of the four partner authorities' council housing stock.</p> <p>Note 47 of the draft financial statements described this as being a joint operation under joint control. With the adoption of the new group accounts standard in 2014/15 (IFRS 10,11 and 12) we discussed with management their assessment of East Kent Housing. Based on there being no investment involved, management concluded that the company is not an associate under the standard, but should be treated as a related party and the transactions of the ALMO recorded as a service provider.</p>	We are satisfied with the updated consideration and consider that management's judgement is reasonable.	 <b>Green</b>
<b>East Kent Opportunities</b>	<p>The Council is also joint owner of East Kent Opportunities LLP (EKO), the purpose of which is to develop and market the sites known as Eurokent and Manston Park. The Council has 50% ownership and control of EKO, with Kent County Council owning the remaining 50%.</p> <p>Both parties have contributed land to EKO. Management has concluded that the Council should account for its share of the assets, liabilities, income and expenditure of EKO within its single entity accounts.</p>	We are satisfied that management's conclusion that EKO is a joint operation is in accordance with accounting standards. We are currently reviewing the accounting entries made to ensure these are consistent with management's judgement.	 <b>Green</b>



## Assessment

 Marginal accounting policy which could potentially attract attention from regulators



 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Linked to this, you have set a balanced budget for 2015-16 and have an updated Medium Term Financial Plan in place for the next four years. For these reasons, you continue to adopt the going concern basis in preparing the financial statements.	We have reviewed management's assessment and are satisfied the going concern basis is appropriate for the 2014/15 financial statements.	 <b>Green</b>
<b>Other accounting policies</b>	We have reviewed your accounting policies against the requirements of the CIPFA Code and accounting standards.	We have agreed a number of areas where the disclosure of accounting policies can be improved.	 <b>Amber</b>

## Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

# Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Governance and Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found a number of disclosures that could be improved by amending or expanding. Management has agreed to review these areas and make improvements in future financial statements.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed</li> </ul>
6.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmations from the PWLB for loans and requested from management permission to send confirmation requests to several counterparties for bank and investment balances. This permission was granted and the requests were sent, and all of these requests were returned with positive confirmation.</li> </ul>

## Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for employee remuneration, operating expenses and welfare expenditure as set out on page 10-11.

The controls were found to be operating effectively and we have no matters to report to the Governance and Audit Committee.



# Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	x	<p><b>Lack of user access rights review – Network</b></p> <ul style="list-style-type: none"> <li>A review of user management processes identified that user accounts and associated permissions within network and network folders were not being routinely reviewed for appropriateness.</li> <li>In the absence of formalised users access rights reviews, access to information resources and system functionality may not be restricted on the basis of legitimate business need. Users access rights may become disproportionate to their responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>Work is now in train to implement a process to manage changes to permissions on “Information Assets” (eg network folders) and to periodically check that the access permissions are correct.</li> <li>This work is being led by the recently formed Corporate Information Governance Group which has representatives from each partner authority along with ICT, Internal Audit and HR.</li> </ul>
2.	x	<p><b>Weak Password Access Settings</b></p> <ul style="list-style-type: none"> <li>The password expiry is set to 90 days for Network, Efinancials and Civica, and minimum required password length is set 6 characters for Civica.</li> <li>As the password parameters are not configured as per the recommended best practice, there is an increased risk of unauthorised access to network, Efinancials &amp; Civica which could affect the integrity of financial data.</li> </ul>	<ul style="list-style-type: none"> <li>The Council continues with the password access policy noted in 2013/14.</li> </ul>

**Assessment**

- ✓ Action completed
- x Not yet addressed

## Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. There were no adjustments which affected your Statement of Comprehensive Net Expenditure or the Statement of Financial Position.

## Misclassifications & disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	7,427	Movement in Reserves Statement: Other Comprehensive Income and Expenditure	This amount in the General Fund column (and an equivalent negative amount in the Unusable Reserves total) should be transferred to the amount for 'Adjustments between accounting basis & funding basis under regulations'. This reverts to the Council's treatment in previous years and achieves consistency with the disclosures in Note 39 on the Defined Benefit Pension Scheme. No impact on financial position.
2 Misclassification	1,068	Note 28: Income from business rates / tariff	This line in Note 28 was understated while government grants were overstated by the same amount. No impact on financial position.
3 Disclosure	208	Note 25B, Note 26: Proceeds from sale of property plant and equipment	Amount should be £1,268k to be consistent with other Notes. No impact on financial position.
4 Disclosure	449	Note 15: Financial Instruments Balances	Correction of amount for trade creditors, to be amended to £5,441k. No impact on financial position.
5 Disclosure	620	Note 15: Financial Instruments Balances	Correction of amount for trade debtors, to be amended to £4,597k. No impact on financial position.
6 Disclosure	2,920	Note 15: Financial Instruments Balances	Additional entry for grant debtors to be included. No impact on financial position.
7 Disclosure	575	Note 43: Financial Instruments Risk	Trade debtors amount to be amended to £8,049k. No impact on financial position.
8 Other minor disclosure issues	-	Various	We agreed a number of minor amendments to disclosures to correct errors and reflect current best practice. No impact on financial position.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non-audit services and independence

05. Communication of audit matters

# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered your arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

### Challenging economy, efficiency and effectiveness

We have considered your arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Our work highlighted that again you have sound arrangements in place but we have identified the following areas of residual risk:

- delivery of savings for 2015/16 and beyond to ensure continued financial balance;
- the need for continued progress in addressing the findings of the Local Government Association Corporate Peer Challenge reported in April 2014.

Further details are included in the following pages, which discuss each of the specific themes considered under the Audit Commission guidance.

## Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects you have put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015. We are therefore proposing an unqualified VfM conclusion.

We set out below our detailed findings against six risk areas which have been used to assess your performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	<ul style="list-style-type: none"> <li>The Council achieved a balanced position on the General Fund budget and a decrease on the Housing Revenue Account Balance of £272k compared to a budgeted decrease of £531k. There has been a small reduction of £116k in the General Fund balance, but at £2.011m this remains at your approved level of 12% of net revenue expenditure, which has been consistently the case for several years now.</li> <li>The Council's budget for 2014/15 included £1.233m of savings, a challenging target. These were largely achieved, as reflected in the financial performance above.</li> </ul>	<b>Green</b>
<b>Strategic financial planning</b>	<ul style="list-style-type: none"> <li>The Council has updated its Medium Term Financial Plan (MTFP) through to 2018/19, incorporating comprehensive analysis of expenditure pressures with compensating budgetary reductions designed to deliver continued financial balance.</li> <li>The level of savings required in 2015/16 and beyond, however, presents a significant challenge in the context of increasing financial pressures and demand for services. Although the MTFP provides some detail on how these savings will be delivered, a significant proportion are targets or areas to be explored.</li> <li>The Council has an impressive track record of working with other authorities to deliver services through alternative models such as shared services and our discussions with the Council earlier in the year indicated that further developments in this areas were a strong possibility. However, the current MTFP does not include any substantial savings from this source, and with the change in administration following the May election the Council's appetite for transformational initiatives is being revisited.</li> </ul>	<b>Amber</b>
<b>Financial governance</b>	<ul style="list-style-type: none"> <li>In 2013/14 we qualified the value for money conclusion due to inadequate arrangements to promote and demonstrate the principles and values of good governance, following the results of Local Government Association's Corporate Peer Challenge (CPC) as reported in April 2014.</li> <li>The Council's progress in addressing the issues raised by the CPC has satisfied us that we no longer need to qualify on these grounds, although work needs to continue to ensure there is no recurrence of the issues reported in the CPC</li> <li>During the year the Council reached a reasonable settlement with its former Chief Executive, having obtained and acted on appropriate legal advice, and with proper consideration of the issue by a committee of Members.</li> </ul>	<b>Amber</b>
<b>Financial control</b>	<ul style="list-style-type: none"> <li>Budget setting and monitoring continue to be effective, as evidenced by the Council's overall financial performance in 2014/15</li> </ul>	<b>Green</b>

Theme	Summary findings	RAG rating
<b>Prioritising resources</b>	<ul style="list-style-type: none"> <li>• Sound arrangements for challenging economy, efficiency and effectiveness are in place and have delivered significant savings to date, although as noted above the financial position going forward remains challenging.</li> </ul>	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	<ul style="list-style-type: none"> <li>• The Council's actions to address the findings of the April 2014 CPC highlighted above have adequately addressed the potentially negative impact on the Council's capacity to focus on an effective response to the financial challenges it faces.</li> <li>• A potential barrier to progress in the Council's efforts to establish priorities, improve efficiency and ensure good governance has been the lack of permanent appointments to its most senior officer positions. This has now been largely resolved with the appointment of permanent postholders to the Chief Executive and Chief Finance Officer roles.</li> </ul>	<b>Green</b>

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Theme	Residual risk identified	Recommendation
<b>Strategic Financial Planning</b>	<ul style="list-style-type: none"> <li>• The Council agreed its 2015/16 budget and Medium Term Financial Plan to 2018/19 in February 2015. The plan makes some use of earmarked reserves alongside Council Tax increases of 1.99% from 2016/17 after no increase in 2015/16. A comprehensive analysis of expenditure pressures has been built into the plan, and compensating budgetary reductions are required which are 'frontloaded' in the MTFP, with 2015/16 requiring a £1.2m reduction, falling to £100k by 2017/18. The HRA plans to make surpluses each year ranging from £5.9m in 2015/16 to £9.9m in 2018/19, with increased income projected to more than cover expenditure growth over the period of the MTFP.</li> <li>• The level of savings required in 2015/16 and beyond, however, presents a significant challenge in the context of increasing financial pressures and demand for services. Although the MTFP provides some detail on how these savings will be delivered, a significant proportion are targets or areas to be explored, with the risk that these may prove to be undeliverable, particularly in areas where demand for services continues to increase.</li> </ul>	<p>Monitor the delivery of savings closely to ensure that these remain on track and that mitigating action is taken in the event of slippage in the current savings plans.</p>
<b>Financial governance</b>	<ul style="list-style-type: none"> <li>• In 2013/14 we qualified the value for money conclusion due to inadequate arrangements to promote and demonstrate the principles and values of good governance. This was primarily due to findings of the Local Government Association CPC reported in April 2014. This raised serious issues regarding member behaviour that impacted on our assessment of the effectiveness of the Council's governance, as a key element of its arrangements for value for money in the use of resources.</li> <li>• The Council has put in place a number of measures to address the findings of the CPC and we have noted the following progress during 2014/15. <ul style="list-style-type: none"> <li>• The Improvement Board has met monthly, and its work has been acknowledged by its Chair, leading members and senior officers in our interviews with them to have been of significant value in addressing the issues reported by the LGA.</li> <li>• A member/officer protocol has been developed to address the concerns of the CPC and foster co-operative and supportive working environment, and there has been an acknowledged improvement in working relations.</li> <li>• Equalities training has been delivered to councillors, and significant effort has been put into the induction of the large number of new members elected in May 2015.</li> </ul> </li> <li>• In our view the above developments provide sufficient evidence to justify no longer qualifying the conclusion. However, we do not contend that there are no signs of poor behaviour or that the reputation of the Council has yet been fully restored. Work needs to continue to embed good governance in the Council's proceedings to ensure there is no recurrence of the issues reported in the CPC.</li> </ul>	<p>Ensure that continued progress is maintained in addressing the issues reported in the April 2014 Corporate Peer Challenge.</p>



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

01. Executive summary

02. Audit findings

03. Value for Money

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

05. Communication of audit matters

# Fees, non-audit services and independence

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

## Fees

	Per Audit plan £	Actual fees £
Council audit	87,495	87,495
Grant certification on behalf of Audit Commission*	35,280	35,280
<b>Total audit fees</b>	<b>122,775</b>	<b>122,775</b>

\* Our work on the Council's Housing Benefit Return is still in progress at the report date, in line with the national timetable. Any fee variation in respect of this work will be discussed and agreed with the Council should the need arise, and will be reported to the Committee at a later date if applicable.

## 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 Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

## Fees for other services

Service	Fees £
<b>Audit related services</b> [e.g. grants outside AC regime]	
- Pooling of housing capital receipts	2,000

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

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

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

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

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

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

# Appendices

# Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Monitor the delivery of savings closely to ensure that these remain on track and that mitigating action is taken in the event of slippage in the current savings plans.	Medium	Monthly budget monitoring meetings take place with Budget Holders and CMT and Cabinet receive quarterly update reports with any need for mitigating action reported.	On- going / Director of Corporate Resources
2	Ensure that continued progress is maintained in addressing the issues reported in the April 2014 Corporate Peer Challenge.	High	An Improvement Board continues to monitor progress against the CPC report. In addition to the regular Board meetings, senior management hold regular monitoring meetings to ensure progress.	Ongoing / Improvement Board; senior management
3	Complete the reviews of user access permissions to IT systems currently in progress.	Medium	This work is being led by the recently formed Corporate Information Governance Group, which has representatives from each partner authority along with ICT, Internal Audit and HR.	Ongoing / Corporate Information Governance Group
4	Management should consider implementing stronger password access settings for systems and applications.	Low	The Council complies with its own corporate standard policy with this regard, in order to effect a change would require the corporate standard policy to be changed.	Comments are noted

**Priority**  
*High, Medium or Low*

# Appendix B: Audit opinion

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

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Thanet District COUNCIL

We have audited the financial statements of Thanet District Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Thanet District Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall

presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Thanet District Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

#### Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### Matters on which we report by exception

We are required to report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

## Appendix B: Audit opinion (continued)

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

### Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:  
securing financial resilience; and  
challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, *Thanet District Council* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

### Certificate

We certify that we have completed the audit of the financial statements of Thanet District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

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

Grant Thornton UK LLP  
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xx September 2015





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