



# The Annual Audit Letter for Thanet District Council

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**Year ended 31 March 2016**

28 October 2016

**Darren Wells**

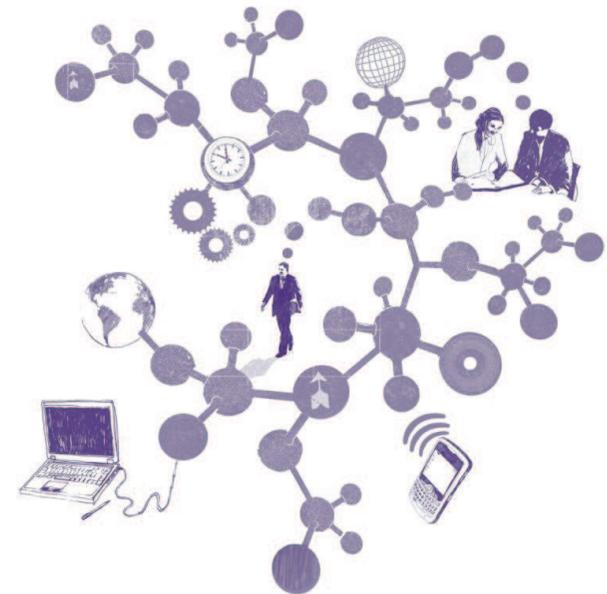
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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Thanet District Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Governance and Audit Committee as those charged with governance in our Audit Findings Report on 20 September 2016.

## **Our responsibilities**

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

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

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

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 29 September 2016.

### **Value for money conclusion**

We concluded that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 29 September 2016.

### **Certificate**

We are currently unable to certify the completion of the audit of the accounts of the Council as we have not yet completed our consideration of three objections to the 2015-16 Accounts.

### **Certification of grants**

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Governance and Audit Committee in our Annual Certification Letter.

### **Working with the Council/Authority**

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

**Grant Thornton UK LLP**  
**October 2016**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

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

We determined materiality for our audit of the Council's accounts to be £2,699,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower threshold of £134,000, above which we reported errors to the Audit, Governance and Standards Committee in our Audit Findings Report.

### **The scope of our audit**

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

This includes assessing whether:

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

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

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

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

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

# Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
<p><b>Employee remuneration accruals understated</b>            There is a risk that the Council's employee remuneration expenses included within the Accounts could be understated due to costs being omitted from the Accounts via incorrect processing during the year.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Undertook a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding;</li> <li>• We performed a review of the year-end reconciliation of the payroll system to the General Ledger;</li> <li>• A high level trend analysis was performed on the monthly employee remuneration totals to provide assurance over the completeness of the figures included within the Financial Statements;</li> <li>• Sample testing was also performed on the employee remuneration expenditure incurred during the year by the Council, including agreement back to relevant supporting documentation.</li> </ul> <p>No significant issues were identified from the audit work performed on this area.</p>
<p><b>Creditors understated or not recorded in the correct period</b>            There is a risk that the Council's expenditure and/or creditors balance could be understated by expenditure being either omitted completely from the accounts or included within the incorrect year.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Undertook a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding;</li> <li>• Performed a review of the year-end reconciliation of your Accounts Payable system to the General Ledger to provide assurance over the completeness of operating expenditure recorded within the Financial Statements;</li> <li>• Sample tested post-period end payments to identify any items which had been potentially omitted from the Financial Statements;</li> <li>• In year expenditure incurred by the Council substantively tested;</li> <li>• Amounts remaining outstanding at year end were tested to ensure they had been appropriately recorded as liabilities within the Financial Statements.</li> </ul> <p>No significant issues were identified from the audit work performed on this area.</p>

## Audit of the accounts (continued)

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

Risks identified in our audit plan	How we responded to the risk
<p><b>Welfare benefit expenditure improperly computed</b></p> <p>There is a risk that the Council's welfare benefit expenditure may be incorrectly calculated, resulting in incorrect payments to those claiming benefit which then has a knock-on impact on the subsidy claimed by the Council.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Undertook a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding;</li> <li>• Detailed testing was performed on the expenditure included within the draft Housing Benefit Subsidy claim;</li> <li>• We performed sample testing of Local Council Tax Support cases to ensure expenditure in relation to these cases has been correctly calculated for inclusion with the Financial Statements;</li> <li>• Finally, a high level analytical review was performed on the figures within the draft Housing Benefit Subsidy claim in order to identify any significant variances requiring explanation.</li> </ul> <p>No significant issues were identified from the audit work performed on this area.</p>
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts and comprises 63% of its total liabilities.</p> <p>The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and were sufficient to mitigate the risk of material misstatement;</li> <li>• We reviewed the competence, expertise and objectivity of the actuary who carried out the pension fund valuation. We also gained an understanding of the basis on which the valuation had been carried out;</li> <li>• procedures to confirm the reasonableness of the actuarial assumptions made;</li> <li>• Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary;</li> <li>• We also tested the data provided to the actuary.</li> </ul> <p>No significant issues were identified from the audit work performed on this area.</p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 29 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Council's Governance and Audit Committee on 20 September 2016.

In addition to the key audit risks reported on the previous page, we identified a number of recommendations which management have agreed to respond to – these were reported in the Audit Findings Report and have been repeated in Appendix 2 for information.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We received three objections relating to the 2015-16 Accounts, and we are currently reviewing the matters raised by the objectors.

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## Value for Money conclusion

### **Background**

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

### **Key findings**

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

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings Report agreed with the Council in September 2016, we agreed the outcome of our work and confirmed that three recommendations had been identified, which are included in Table 2 which follows, along with Appendix B at the end of the Report, which includes management's responses to these findings.

### **Overall VfM conclusion**

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Dreamland Project</b> The Council has had to increase the budget for this major regeneration project by £1.2m across 2015/16 and 2016/17, against a background of significant risk with the site operator having gone into administration.</p>	<p>We reviewed the Council's arrangements for managing the Dreamland project to ensure it meets its objectives and is delivered within budget.</p>	<p>The Council has a significant financial investment in the Dreamland project. It is taking reasonable measures to protect itself against the possibility of operator failure, and has plans and funding in place to see the capital scheme through to completion. The long term viability of the theme park may be open to question, however, and the Council should ensure that this is borne fully in mind when reaching decisions regarding the application of any further public funds to the scheme.</p> <p><b>Recommendation:</b></p> <ul style="list-style-type: none"> <li>Continue to monitor closely the costs of the Dreamland scheme and the performance of the operator, ensuring that any further commitment of public funds is supported by clear evidence of the scheme's sustainability.</li> </ul>
<p><b>Medium Term Financial Plan</b> The local government settlement has placed further pressure on the Council's finances and the Council's medium term financial plan includes the need for significant savings over the next four years.</p>	<p>We reviewed the Council's plans to deliver savings over the course of the medium term financial plan.</p>	<p>The Council has a range of savings schemes under continuous development and has reported achievement of £1.2m savings in 2015/16. At the same time there has been a £4m reduction in earmarked revenue reserves. The compensation payments made in year of £2.4m relating to the animal exports ban of September 2012 were a significant element behind this movement. Looking ahead, the Council has increased its estimated savings requirement for 2017/18 from £0.9m to £1.2m. With General Fund earmarked reserves having reduced to £6.2m as at 31 March 2016, the Council needs to avoid any further deterioration on the scale that occurred during 2015/16.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>Ensure that the risk of further compensation payments has been realistically assessed and provided for in forward financial planning.</li> <li>Consider the development of cost savings and income generation in excess of the estimated funding gap to cover the possibility of unforeseen additional financial pressures such as the animal exports compensation payments.</li> </ul>
<p><b>HRA Business Plan</b> The forthcoming rent reduction required by central government will reduce HRA income by £4.5 million over the next 4 years. This will have a significant impact on the HRA Business Plan.</p>	<p>We updated our understanding of the Council's HRA business planning.</p>	<p>The Council has implemented the 1% reduction and taken adequate measures to manage its effects and remain in overall surplus. The primary effect has been to curtail the Council's plans for building new properties.</p>

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## Value for Money (continued)

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Corporate Peer Challenge</b> The Council has done much to address the findings of the LGA Corporate Peer Challenge in April 2014 regarding Member behaviour. This work needs to continue to ensure there is no recurrence of these issues.</p>	<p>We reviewed the outcome of the forthcoming follow up to the Corporate Peer Challenge and the Council's continuing progress in addressing the findings of the original report.</p>	<p>In its follow up review LGA was satisfied that the issues that gave rise to its highly critical report of April 2014, and our subsequent qualification of the 2013/14 VFM conclusion have now been fully addressed.</p>

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# Working with the Council

## **Our work with you in 2015/16**

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness, and provided you with recommendations on how to continue to best manage the risks attached to Dreamland and the Medium Term Financial Plan.

Sharing our insight – we provided regular Audit, Governance and Standards Committee updates covering best practice. Areas we covered included our local government health checks and governance review, 'Reforging Local Government', along with our review of Audit Committee effectiveness, 'Knowing the Ropes', along with a range of other Reports. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

## Appendix A: Reports issued and fees

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

### Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	66,296	66,296	88,395
Housing Benefit Grant Certification	20,770	TBC	46,510
<b>Total fees (excluding VAT)</b>	<b>87,066</b>	<b>TBC</b>	<b>134,905</b>

Any potential fee variations for the work on the Housing Benefit Grant Certification are subject to approval by Public Sector Audit Appointments Ltd, and we will report this back to the Audit, Governance and Standards Committee once any additional fees have been agreed.

### Fees for other services

Service	Fees £
<b>Audit related services</b>	
- Assessment of the Empty Property Intervention Programme (Grant Funding from HCA)	17,990
- Pooling of Housing Capital Receipts Return	2,000
- Work on Harbour Accounts	1,000
<b>Non-audit services</b>	
	Nil

### Reports issued

Report	Date issued
Audit Plan	15 March 2016
Audit Findings Report	20 September 2016
Annual Audit Letter	28 October 2016

## Appendix B: Action plan

### Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should look to strengthen procedures around accruals during the year to ensure they are all supported by valid documentation and that all accruals which are paid are reversed out in a timely manner to ensure the position during the year is correctly stated, including the balance at year end.	Medium	Whilst moving towards earlier close down, Management within Finance and Procurement will work together during the year to deliver comprehensive training to cover all aspects of accruals to include all areas of the Authority's accounts, in order to minimise the potential impact of failure to recognise expenditure in the appropriate year and at the appropriate level.	December 2016 to March 2017 Head of Financial Services
2	The Council should ensure all revaluation gains are allocated to individual properties so any further revaluation movements, either upward or downward are charged to the correct place in the Accounts.	Medium	Financial Services will review accounts starting from 2010 to ensure the relevant revaluation balances are recorded to facilitate this work from 2016/17 onward.	Information will be available in readiness of the 2016/17 Accounts. Head of Financial Services
3	The Council should continue to monitor closely the costs of the Dreamland scheme and the performance of the operator, ensuring that any further commitment of public funds is supported by clear evidence of the scheme's sustainability.	Medium	Whilst the Council has no direct control over the day to day operations of the Dreamland theme park, it exercises close strategic control and constantly monitors risks. It is also seeking to exploit any opportunities to enhance the offer across the whole site, whilst reducing exposure to risk. There are revised project management arrangements in place that will help monitor costs and ensure sustainability.	On-going Director of Corporate Resources

## Appendix B: Action plan (continued)

### Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	The Council needs to ensure that the risk of further compensation payments has been realistically assessed and provided for in forward financial planning	Medium	The Council has sought and obtained legal advice on the likelihood of future claims in respect of live animal exports. It has made appropriate provisions on the basis of this advice.	On-going Director of Corporate Resources
5	Going forward, cost savings and income generation need to be developed in excess of the estimated funding gap to help cover the possibility of unforeseen additional financial pressures such as the animal exports compensation payments.	Medium	The Medium Term Financial Strategy will take a prudent approach to addressing the budget gap and identify deliverable, sustainable cost savings and income generation. Steps will be taken to replenish reserves where possible to help manage the known and unknown financial risks.	On-going Director of Corporate Resources



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