



Annual Audit Letter

Year ending 31 March 2018

Thanet District Council

29 August 2018



Contents



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Section

1. Executive Summary
2. Audit of the Accounts
3. Value for Money conclusion

Page

- 3
5
9

Appendices

- A Reports issued and fees

Executive Summary

Purpose

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 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Governance and Audit Committee as those charged with governance in our Audit Findings Report on 25 July 2018.

Our work

Respective responsibilities

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

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

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

Materiality	We determined materiality for the audit of the Council's financial statements to be £2,231,000, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2018.
Whole of Government Accounts (WGA)	As the Council was below the £500m threshold to require work on the WGA Return, no detailed work was performed in this area.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2018.

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 2018. We will report the results of this work to the Governance and Audit Committee in our Annual Certification Letter.

Certificate

We certify that we have completed the audit of the accounts of Thanet District Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in June and early July, delivering the accounts in two and a half weeks, which was two weeks less than last year. We also cleared all of our outstanding queries in a timely manner as well.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports with Management and the Governance and Audit Committee.
- Providing training – we provided your teams with training and support on the accounts throughout the course of the year.

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
August 2018

Audit of the Accounts

Our audit approach

Materiality

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

We determined materiality for the audit of the Council's accounts to be £2,231,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for cash, which we set at £500,000.

Finally, we set a lower threshold of £111,000, above which we reported errors to the Governance and Audit Committee in our Audit Findings Report.

The scope of our audit

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

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

We also read the remainder of the Statement of Accounts, and the Annual Governance Statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach is 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

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition Under ISA 240 (UK) there is a 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>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition could 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, including Thanet District Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we did not consider this to be a significant risk Thanet District Council.</p> <p>However as Revenue is a material balance for the Council, we performed the following:</p> <ul style="list-style-type: none"> • reviewed and tested the Council's revenue recognition policies; • performed testing on material revenue streams. 	<p>Our audit work did not identify any issues in respect of improper revenue recognition.</p>
<p>Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we completed the following:</p> <ul style="list-style-type: none"> • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness; • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; and • evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

Audit of the Accounts

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment The Council revalues its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we completed the following:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • considered the competence, expertise and objectivity of any management experts used; • discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions; • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; • tested revaluations made during the year to ensure they are input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>Our audit work did not identify any issues in respect of the Property, Plant and Equipment Valuations included within the Accounts at year end.</p>
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represents a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>As part of our audit work we completed the following:</p> <ul style="list-style-type: none"> • Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have also gained an understanding of the basis on which the valuation is carried out; • Undertaken procedures to confirm the reasonableness of the actuarial assumptions made; • Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work did not identify any issues in respect of the valuation of the pension fund net liability in the Accounts.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in advance of the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, 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 to the Council's Governance and Audit Committee on 25 July 2018.

We identified one adjustment to the core financial statements, along with some presentation and disclosure amendments, almost all of which were processed by the Council within the final set of Accounts. As in previous years, we identified one unadjusted misstatement around the Council's treatment of Council Dwellings being redeveloped and held as Other Land and Buildings, rather than Assets under Construction. However this area was immaterial to the overall financial statements, and thus had no impact on our audit opinion.

Annual Governance Statement and Narrative Report

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

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

Whole of Government Accounts (WGA)

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

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Thanet District Council in accordance with the requirements of the Code of Audit Practice. We issued this certificate on 31 July 2018 following the completion of our work on the audit.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 risk we identified and the work we performed is set out overleaf.

As part of our Audit Findings Report agreed with the Council in July 2018, we agreed one recommendation around the continued need to look ahead in respect of savings plans and efficiencies, the detail of which, along with a management response, can be seen below.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Action plan

We identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this recommendation during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
1  Amber	VFM – Medium Term Financial Plan Whilst the Council has been able to deliver a balanced budget in 2017-18 without drawing down any Reserves, and has identified all of the savings needed for 2018-19, there remain challenges ahead longer term. The new Local Government Spending Review, which is due in December 2019, may adversely impact the Council, and thus there is a need to ensure savings are being considered as far in advance as possible to make sure the Council is well placed to tackle the potential challenges post-2020.	<p>The Council need to continue to look longer term to ensure that savings needed for later years are being considered in a timely manner to reduce the risk of reserves being put under even further pressure in later years. This is becoming even more acute given the next Local Government Spending Review is due in December 2019 ahead of 2020</p> Management response The budget build factors in the four year span of the Medium Term Financial Strategy. In addition, the budget monitoring process has recently been reviewed to better focus on targeted savings on an ongoing basis. New opportunities for more efficient working and income generation are being continually reviewed by finance staff in a business partnering role with other departments.

Value for Money conclusion

Key Value for Money Risk

Significant risk	Work to address	Findings and conclusions
<p>Overall Financial Position – Medium Term Financial Plan (MTFP)</p> <p>The Council has identified that a significant level of savings are needed over the life of the next Medium Term Financial Plan. Council reserves have been depleted over the past few years reducing future flexibility.</p>	<p>We performed the following work in respect of this area:</p> <ul style="list-style-type: none"> Review the assumptions behind the MTFP for the coming four years; Consider the 2017-18 Budget outturn and any implications for the MTFP, along with the latest year to date outturn against budget for 2018-19; Review the savings proposals which have been identified to date in respect of the savings gap, along with how the Council is planning to identify the remaining gap at this stage. 	<p>The key points from our work in this area were the following:</p> <ul style="list-style-type: none"> The Council delivered a breakeven position against its General Fund Budget in 2017-18, within which it managed some small under and overspends within each of the Council's directorates to achieve the breakeven position. The outturn included a net transfer of £1.4 million to earmarked reserves covering the planned drawdown on reserves assumed in the budget setting. General Fund Balance was maintained at £2.011m. The Council also delivered £6.05m of its Capital Programme, against a revised plan of £15.637m. The Council has deferred the remaining spend into 2018-19 to ensure the planned projects are still delivered. Some £3m of the deferred balance was spent in the early part of 2018-19. The performance for the Housing Revenue Account (HRA) against budget was positive with a surplus of £1.039m in 2017-18. The Council set a balanced budget for 2018-19, which includes £2.808m of savings (£1.66 million) and additional income (£1.15 million). The previous MTFS (covering 2017/19 to 2021) assumed savings of £1.9 million would be required in 2018/19. Additional cost pressures account for the increased requirements for income and efficiency savings. The Council had fully identified the £2.808m of savings and additional income ahead of the start of the year, which is a positive achievement. The Council has four broad themes, Income Generation, Digitalisation, Alternative Delivery Models, and making the most of the assets it owns around which income generation and efficiency savings are framed. Unlike in the prior year, there is no planned use of reserves to help achieve breakeven and similarly for later years covered by the MTFS, there are no plans to support the annual budgets through reserves. Usable Reserves, covering both the general fund and HRA, increased by nearly £3.5m, helping to offset some of the one-off costs supported by reserves in recent years. Rebuilding Reserves remains a key tenant of the MTFS. The Council's latest Financial Plan (MTFP) covers the period from 2018 to 2022. Whilst the 2018-19 savings have been fully identified, the Council has yet to set out its plans for delivering the savings needed over the remainder of the Plan. There is a risk of the Council not identifying all of £2.878m of savings needed over the remainder of the MTFP (from 2019/20 onwards) in a timely manner. This also continues to put pressure on the savings identified in any one year to deliver as there are a lack of contingency plans should some of these savings not deliver as required. There is also a degree of uncertainty around the impact of the Local Government Spending Review due in December 2019. This could have a significant impact on the Council's financial position once the next settlement is known. <p>Recommendation</p> <p>The Council should 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 during the course of the MTFP. There is also a need for the Council to look further ahead with its savings plans to ensure it is well placed ahead of the new Local Government Funding Settlement, which takes effect from 2020.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	6 March 2018
Audit Findings Report	25 July 2018
Annual Audit Letter	29 August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	66,296	66,296	66,296
Housing Benefit Grant Certification	31,836	TBC	34,883
Total fees	98,132	TBC	101,179

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). We will be unable to confirm our final fee for our Housing Benefit Work until we have completed the work ahead of the November 2018 deadline.

Fees for non-audit services

Service	Fees £
Audit related services:	
- Certification of Housing Capital Receipts Return	2,500
- Audit of Council's Harbour Accounts	2,000
Non-audit services:	
None	n/a

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 table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.



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