

# The Annual Audit Letter for Thanet District Council

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Year ended 31 March 2019

13 September 2019



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Thanet District Council Council ( the Council) for the year ended 31 March 2019.

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 22 July 2019.

## Our work

### Materiality

We determined materiality for the audit of the Council's financial statements to be £2.37 million, 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 2019.

### Use of statutory powers

We are required under the Act to give electors the opportunity to raise questions about the Council's financial statements and we consider the objections received in relation to the financial statements.

Local government electors have raised four objections with us challenging aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. These cover:

- losses made by Ramsgate Port;
- Governance and contract management for housing services overseen for the Council by East Kent Housing;
- the management of parking charges;
- The financial accountability framework covering the awarding, payment and receipt of services.

We cannot conclude on the VFM conclusion until we have dealt with the objections.

## 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 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 financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

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# Executive Summary

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<b>Value for Money arrangements</b>	We have completed our risk based review of the Council's value for money arrangements covering arrangements to ensure financial sustainability and preparations for Brexit. Given we have not yet given a value for money conclusion, we remain alert to matters that develop at the Council that maybe indicative of weaknesses in proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
<b>Certification of Grants</b>	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 the end of November 2019. We will report the results of this work to the Governance and Audit Committee separately.
<b>Certificate</b>	We are unable to certify that we have completed the audit of the financial statements of Thanet District Council until we have issued the value for money conclusion and concluded on the objections raised by local government electors.

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## 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 July;
- Understanding your operational health – through our value for money conclusion we provided assurance on your arrangements to ensure financial sustainability;
- Sharing our insight – we provided regular audit committee updates covering best practice, including our thought leadership reports.

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  
September 2019

# Audit of the Financial Statements

## 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 financial statements to be £2.37 million, 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.

No specific other materiality levels were set during the course of our audit

### 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 financial statements and the narrative report and Annual Governance Statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements.

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

Our audit approach was based on a thorough understanding of the 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 Financial Statements

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p>The Council revalues its land and buildings on an rolling five-year 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>As mentioned in the Audit Plan, the potential impact of Brexit may also have an impact on the valuations included within the Accounts, and the Council will need to work closely with their experts to ensure any impact is reflected within the Accounts.</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 have:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>• considered the competence, expertise and objectivity of any management experts used;</li> <li>• discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions;</li> <li>• reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding;</li> <li>• tested revaluations made during the year to ensure they are input correctly into the Council's asset register;</li> <li>• 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;</li> <li>• checked that it is reasonable for the Council to make prior year adjustments for assets which were valued incorrectly by the Council valuer's in the prior year;</li> <li>• obtained an understanding of how management identified that those assets have been valued incorrectly and how they satisfied themselves that there were no other assets which valued incorrectly.</li> </ul>	<p>We reviewed the reasons for the prior period adjustment made by management and agreed this treatment. The Code of Practice allows a rolling programme of revaluation over a short period, but does place a requirement on management to consider and ensure that assets not revalued in year are not materially misstated. Officers estimate that assets not revalued could be some £2.1 million greater as at 31 March 2019. We reviewed this and considered this assessment as reasonable.</p> <p>The council housing stock was revalued completely in the year and was increased by £12m to £154m as at 31 March 2019. The Council applied a 7.4% uplift (allowing for property movements) to its housing stock. We challenged the reasonableness of this against market data. Following audit enquiries, officers demonstrated and we accepted that its valuation of its housing stock was materially correct.</p>

# Audit of the Financial Statements

## Significant Audit Risks - 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	Findings and conclusions
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's Pension Fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£86 million in the Council's Statement of Financial Position) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's Pension Fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none"> <li>• We 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</li> <li>• We evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out.</li> <li>• We checked the consistency of the pension fund asset and liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li> <li>• undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtained assurances from auditors of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>	<p>During the year two legal cases were heard impacting on pensions and their accounting. The McCloud case relates to the Court of Appeal ruling that there was age discrimination in certain public sector pension schemes where there were transitional protections given to scheme members. Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. The GMP case relates to the High Court ruling that GMPs must be equalised between men and women and that past underpayments must be corrected. The Council's actuary assessed the impact of the GMP matter as immaterial in its year end reporting to the Council.</p> <p>Officers requested an estimate from the actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £1.832k, and an increase in service costs for the 2019/20 year of £114k.</p> <p>The Council concluded the impact was not material to the accounts and no change was required to the draft Annual Financial Report.</p> <p>The audit team reviewed the actuary report and judgements made by management and we concluded that the valuation of the pension fund net liability was not materially misstated.</p>

# Audit of the Financial Statements

## Significant Audit Risks - 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	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</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;</p> <ul style="list-style-type: none"><li>• We evaluated the design effectiveness of management controls over journals;</li><li>• We obtained a full listing of journal entries which was then analysed to identify and test high risk unusual journals;</li><li>• We tested unusual journals recorded during the year and post year end for appropriateness and corroboration;</li><li>• We considered the reasonableness of significant accounting estimates and critical judgements made by management;</li><li>• We evaluated the rationale for any changes in accounting policies or significant transactions.</li></ul>	<p>No issues were identified from the work performed in this area.</p>

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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 31 July 2019.

## **Preparation of the financial statements**

The Council presented us with draft financial statements in accordance with the national 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 financial statements**

We reported the key issues from our audit to the Council's Governance and Audit Committee on 24 July 2019.

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

We are required to review the Council's Annual Governance Statement and Narrative Report. These were published on the Council's website in line with the national timetable.

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

We are unable to certify that we have completed the audit of the financial statements of Thanet District Council until we issue the value for money conclusion and conclude on objections received from local electors.

# 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 risks where we concentrated our work.

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

As part of our Audit Findings report agreed with the Council in July 2019, we agreed recommendations to address our findings.

## Overall Value for Money conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council has proper arrangements in place in these areas.

Local government electors have raised four objections challenging aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. These cover:

- losses made by Ramsgate Port;
- Governance and contract management for housing services overseen for the Council by East Kent Housing;
- the management of parking charges;
- The financial accountability framework covering the awarding, payment and receipt of services.

We cannot conclude on the VFM conclusion until we have considered the issues raised in the objections.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial sustainability</b></p> <p>The Council is continuing to face pressure on its financial budget in a number of areas, including the demand for temporary accommodation and the impact of nil resource to public funds. A budget gap of £1.8m was identified for 2019/20 in the MTFS 2019-23. Budget gaps exist in the following years covered by the MTFS. The Council needs to manage its resources carefully to ensure a sustainable future ahead of the 2020 Funding Settlement. Brexit potentially adds another unknown factor to this challenge.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> <li>reviewed the 2018-19 outturn, including details of performance against both the Revenue and Capital Budgets;</li> </ul>	<p>The Council delivered against its planned budget in 2018-19. There was a service overspend of approximately £1.54m offset by the one-off windfall of £2.4m from being part of the Kent Business Rates 100% pilot.</p> <p>The Council delivered £9.59m of its Capital Programme, against a revised plan of £14.028m. The Council has deferred the remaining spend into 2018-19 to ensure the planned projects are still delivered</p> <p>The financial position of the Council's reserve strengthened during the year with the General Fund Reserves increasing by £3.7m and total usable reserves increasing by £5.5m. The improved position for the General Fund reserve is largely backed by the one-off windfall from the additional Business Rates income retained in Thanet. A contribution was also made to reserves in 2017/18. The replenishing of reserves is a stated intention, to build flexibility for the future. This is a prudent approach.</p> <p>The Council set a balanced budget for 2019-20, after allowing for £1.35m of savings proposals to bridge the funding gap. The Council has identified budget pressures, target savings, and risks around delivering these savings. Savings totalling £305k have already been secured or delivered as part 2019-20. The budget also assumes a use of reserves (£220k) put in last year as a result of slippage, to assist with this year's budget.</p> <p>The projected General Fund deficit over the medium term is £962k in 2020-21; £1001k in 2021-22; and £1,112k in 2022-23.</p> <p>Last year we recommended that 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 in year and to build a future pipeline of saving and efficiency opportunities. The Council has since this year built a budgeted contribution to reserves of £150k into its budget and MTFP, such that the savings target has to increase to achieve this. This is a positive step forward. Seeking to build a future pipeline of savings and efficiency opportunities beyond the current year remains a relevant recommendation.</p>

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Brexit preparation</b></p>	<p>As part of our work we have: considered the impact of any financial issues arising as the position over Brexit develops.</p> <p>These included changes in property values, adverse changes to investment and borrowing rates, changes to business rate income, and the impact on the Authority's workforce.</p> <ul style="list-style-type: none"> <li>• .</li> </ul>	<p>In arriving at our conclusion, we recognised that plans to leave the European Union have been delayed a number of times and the exit date is now expected to be by the end of October 2019. The Council along with its partners has continued its preparations.</p> <p>The Council is part of the Kent Resilience Forum and work undertaken to assess the risk/opportunity and prepare for Brexit has involved a multi agency approach. The approach to date has involved considering how a no deal scenario would impact on Kent. This has included:</p> <ul style="list-style-type: none"> <li>• A coordinated approach and risk assessment across the county;</li> <li>• Exercises to test plans related to identified risks such as transport;</li> <li>• The provision of guidance. For example, guidance on the EU Settlement Scheme has been shared with Heads of Service;</li> <li>• The sharing of business continuity plans between the many organisations involved in the Kent Resilience Forum;</li> <li>• Brexit is one of your corporate risks overseen by the Deputy Chief Executive. Your assessment of this risk is informed by your involvement in the Kent Resilience Forum.</li> </ul> <p>In our view, appropriate arrangements are in place to support your preparations for Brexit.</p>

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and other audit related services. There were no fees for the provision of non audit services.

## Reports issued

Report	Date issued
Audit Plan	6 March 2019
Audit Findings Report	22 July 2019
Annual Audit Letter	13 September 2019

## Fees

	Planned fees £	Actual fees £	2017/18 fees £
Statutory audit	51,048	57,048	66,296
Housing Benefit Grant Certification	36,000	TBC	31,836
Homes England Audit	3,300	3300	
<b>Total fees</b>	<b>90,348</b>	<b>TBC</b>	<b>98,132</b>

### Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £51,048 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, leading to additional work as set out in the following table. This has been agreed with the Deputy s151 Officer and is subject to approval by PSAA.

Area	Reason	Fee proposed
<b>Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,600
<b>Pensions – IAS 19</b>	The Financial Reporting Council has concluded that improvements are required in the scope and coverage of work by audit firms on IAS 19 issues across local government audits. We have increased the scope and coverage of our work on IAS 19 issues this year in response to these findings.	1,200
<b>PPE Valuation – work of experts</b>	The Financial Reporting Council has concluded that improvements are required in the scope and coverage of work by audit firms on PPE valuation issues across the sector. We have increased the scope and coverage of our work on PPE valuation issues this year in response to these findings. We also specifically increased audit input to assess the approach to council house valuation.	3,200
<b>Total</b>		<b>6,000</b>

## Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

## Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

## Grant Thornton in Local Government

### Our client base and delivery

- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

### Our connections

- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

### Our people

- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

### Our quality

- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

### Our technical support

- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies



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