The Audit Findings for Thanet District Council

Year ended 31 March 2020

25 November 2020

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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 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Thanet District Council (‘the Council’) and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council . The Council as well as the finance team have faced a number of front line challenges including access to systems, the administration of support to businesses, closure of car parks and leisure services with additional challenges of reopening services under new government guidelines.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum in April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the possible impact on our VfM approach. Further detail is set out on page 6.

Restrictions for non-essential travel have meant that Council and audit staff have undertaken the accounts closedown and audit process remotely making use of remote access to financial systems and video conferencing, including screen sharing to verify information provided by the entity.

The financial statements were published and provided to the audit team on 1 September 2020.

No significant challenges were encountered in interactions between the Council finance team and the audit team as a result of remote working although, by its nature, remote working takes significantly longer than auditing onsite.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:

- give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during September-November . Our findings are summarised on pages 5 to 16. We have identified three adjustments to the financial statements that impact on the primary statements but these net off so there is no impact on the Council’s financial position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year’s audit are detailed in Appendix B.

Our work is substantially complete subject to the following outstanding matters;

- Response from management’s legal advisors;
- Response from management in relation to critical judgements;
- Resolution of queries relating to operating expenditure.
- Finalisation of audit testing in progress on journals, PPE valuation testing, creditors, employee benefits, Debtors, Grants and agency Costs.

Headlines

Financial Statements **(cont)**		- Completion of revenue completeness testing; - Completion of housing benefit expenditure testing; - Completion of disclosure review including related parties note and leases note; - Review of the level of bad debt and other provisions; - Completion of internal review procedures; - receipt of management representation letter; and - review of the final set of financial statements. - Management's response relating to a recent court ruling involving the potential overcharging of tenants in social houses by social landlords and whether this represents a post balance sheet event for the Council. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting PPE valuation material uncertainties for both the Council property and your share of the Pension Fund assets included in the IAS 19 pension fund actuarial position.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We are unable to issue our conclusion in respect of this work for 2019/20 as we have not yet issued our value for money conclusion in respect of the 2018/19 audit. The work in this area is still ongoing. Our findings are summarised on pages 17 to 24.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: - report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and - To certify the closure of the audit.	We have completed the majority of work under the Code but are unable to issue our completion certificate until we are able to issue our value for money conclusion, which cannot be issued we complete our work on the 2018/19 value for money conclusion and resolution of elector objections.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

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

Audit approach

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

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

We have had to alter our audit plan, as communicated to you on 20 February 2020, to reflect our response to the Covid-19 pandemic.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance and Audit Committee meeting on 25 November 2020, subject to the resolution of outstanding items are listed on page 4.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our materiality level for the financial statements remains as previously reported in our audit plan. On receipt of the draft financial statements we reduced performance materiality from £1,770k to £1,652k in response to our revised assessment of the risk.

	(£000)
Materiality for the financial statements	2,360
Performance materiality	1,652
Trivial matters	118
Materiality for senior officer remuneration	100

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	Audit procedures undertaken in response to the identified risk included: • working with management to understand the implications the response to the Covid-19 pandemic had on the organisation’s ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported as a result of Covid-19 specifically. The draft financial statements were provided on the 01/09/2020; • liaison with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council’s property valuation expert • evaluating the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluating of whether sufficient audit evidence could be obtained through remote technology; • evaluating whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluating management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment; • discussion with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. The Council’s property valuation specialists reported that valuations of land and buildings were subject to a ‘material valuation uncertainty’ as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. In addition, the fund managers for the Kent County Council Pension Fund’s pooled property investments declared material valuation uncertainties around the valuation of these investments on the same basis. This impacts the valuation of the net defined benefit liability in the Council’s balance sheet. Management has disclosed these uncertainties in Note 3 to the Council’s financial statements. These disclosures will be referred to in our auditor’s reports for the Council in emphasis of matter paragraphs. These references do not constitute qualifications of the audit opinions. To date, no further issues have been identified which are required to be reported to those charged with governance. We will update this position to the date of issuing our auditor’s report.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
The Revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	We considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, and in our Audit Plan we determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Thanet District Council, mean that all forms of fraud are seen as unacceptable. Therefore we did not consider this to be a significant risk for the Council. There are no changes to our risk assessment reported in the Audit Plan.
Management override of controls 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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We undertook the following audit work: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our work is ongoing and we are not able to conclude at this stage. Our work to date has not identified any issues to report to you against this risk

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings **Other land and buildings and investment property - Rolling revaluation** The Council revalues its land and buildings and investment property on an rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date. We therefore identified valuation of land and buildings including investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • wrote to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council’s valuer’s report and the assumptions that underpin the valuation. This included how the impact of Covid-19 impacts on the valuations; • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register; and • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. Our work is ongoing and we are not able to conclude at this stage. Our work to date has identified one issue relating to Council dwellings and the use of indices. We are satisfied there is no material impact but have raised a recommendation in Appendix A. As discussed under ‘Covid-19’ above, the Council’s property valuation specialists reported that valuations of land and buildings, including investment properties and council dwellings, were subject to ‘material valuation uncertainty’ as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. We have agreed additional disclosures with management relating to Note 5 in financial statements. This disclosure will be referred to in our auditor’s report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion. To date, no further issues have been identified which are required to be reported to those charged with governance. Should any issues arise that require reporting, we will do so before issuing our auditor’s report.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability 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. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. 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.	We: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • 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 • obtained assurances from the auditor of Kent 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. Our audit procedures in this area are now complete subject to receipt of the controls assurance from the auditor of the Kent Pension Fund. As discussed under 'Covid-19' above, the fund managers for Kent County Council Pension Fund's pooled property investments reported that valuations of these investments were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. As approximately 2% of the Pension Fund's assets are attributable to the Council, this material uncertainty impacts in turn upon the valuation of the net defined benefit liability in the Council's balance sheet. Management has disclosed this uncertainty in Note 3 to the financial statements. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. We discussed the level of disclosure required with management and upon receipt of the draft financial statements feedback on the disclosure included. This resulted in minor amendments being made to ensure compliance with Code requirements.

Significant findings – key estimates and judgements

Accounting area	Summary of management’s policy	Auditor commentary	Assessment
PPE– Council Dwellings - £152,960k	The Council owns 3,019 dwellings and is required to revalue these properties in accordance with DCLG’s Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council uses an internal valuer to complete the valuation of these properties. The year end valuation of Council Dwellings was £152,960k, a net decrease of £872k from 2018/19 (£153,832k). This decrease in valuation related to assets that had been purchased being revalued at the EUV-SH methodology. Thanet’s initial assessment identified that the assets should be revalued at the 31st March 2019 value due to their having been no significant change in property prices in the area.	We have assessed management’s estimate, considering: • Assessment of management’s expert • Completeness and accuracy of the underlying information used to determine the estimate • Impact of any changes to valuation method • Consistency of estimate against a national benchmarking report produced by our auditors expert, Gerald Eve • Reasonableness of the movement in estimate • Challenge of the sensitivities used by the valuer to assess completeness and consistency with our understanding • Adequacy of disclosure of estimate in the financial statements Whilst our work is in progress we have identified concerns regarding the Council’s methodology relating to HRA valuations. The Council’s valuer compared indices movements for dwellings from 31 January 2019 to 31 January 2020 rather then 31 March 2019 to 31 March 2020. The Council therefore in forming their estimate did not capture movements in the valuation in the last two months of the year which would, if applied, suggest an increase in the vale or HRA dwellings of £1.5m. We note the uncertainty regarding property prices as at 31 March 2020 and that the nature of the Council’s housing stock (being in more deprived areas) means it would not necessarily be appropriate to apply the Council wide area valuation. The Council’s assessment that the movement would be closer to 0-1% is reasonable and consequently they have not updated their valuation as the movement would be immaterial. We have raised a recommendation regarding the Council’s process as there is risk using older indices in the future could lead to the Council not identifying a material movement in the valuation of its assets at balance sheet date.	TBC

Assessment

- 🔴 We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- 🟠 We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- 🟡 We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- 🟢 We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £69,581k **Investment Property - £22,965k**	Land and buildings comprises of approximately £69 million assets including specialised assets which are required to be valued at depreciated replacement cost (DRC) at year end, on a modern equivalent asset basis to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council engaged its internal valuers to complete the valuation of properties as at 31 December 2019. The valuation of properties valued by the valuer has resulted in a net increase of £2,146k. Management have considered the year end value of non-valued properties to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. Investment properties are valued based on their fair value. The Code requires that investment property be revalued annually however due to the number of properties this is not considered practical. Management has assessed that the average increase in 2019-20 would have resulted in those assets not being revalued being adjusted by £125k. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's non-current assets at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 3.	We have assessed management's estimate, considering: • Assessment of management's expert • Completeness and accuracy of the underlying information used to determine the estimate • Impact of any changes to valuation method • Consistency of estimate against a national benchmarking report produced by our auditors expert, Gerald Eve • Reasonableness of the movement in the estimate • Challenge of the sensitivities used by the valuer to assess completeness and consistency with our understanding • Adequacy of disclosure of estimate in the financial statements Our work in this area is ongoing and we are not able to provided a conclusion at this time	TBC

Assessment

- 🔴 We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- 🟠 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- 🟡 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- 🟢 We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £90,435k	The Council's net pension liability at 31 March 2020 is £90,435k (PY £86,724k) comprising the Kent Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £2,524k net actuarial loss during 2019/20.	Our assessment of the estimate has considered: • Assessment of management's expert • Use of PwC as auditors expert to assess actuary and assumptions made by actuary – use table to compare with Actuary assumptions (see table below) • Completeness and accuracy of the underlying information used to determine the estimate • Impact of any changes to valuation method • Assessment of the information received from pension fund auditor • Reasonableness of the Council's share of LPS pension assets. • Reasonableness of increase/decrease in estimate • Adequacy of disclosure of estimate in the financial statements	●

Assumption	Actuary Value	Assessment
Discount rate	2.4%	●
Pension increase rate	2.0%	●
Salary growth	3.0%	●
Life expectancy – Longevity at 65 for current pensioners - Males - Females	21.8 23.7	●
Life expectancy – Longevity at 65 for future pensioners - Males - Females	23.2 25.2	●

Assessment

- 🟥 We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- 🟧 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- 🟨 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- 🟩 We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

The Council’s financial statements have been prepared on a going concern basis, as disclosed in Note 1.

Management provided a narrative going concern assessment, cash flow forecast and Medium Term Financial Strategy extending over the four year period to 31st March 2024. Management’s assessment acknowledges that the financial outlook for the Council was challenging before COVID-19 because of its relatively low reserve position. The Council has the trend of the past few years of adding to its reserves, with an overall increase of £1m for 2019/20. The Council will be able to recoup a large proportion of COVID-19 costs but there is a potential shortfall particularly in relation to lost income that is not necessarily going to be covered by government grants. The Council has estimated the overspend for the 2020/21 could be £5.7m, 32% against the net revenue budget, which after consideration of expected government support in the region of £2.6m resulted in a forecast budget gap of £3.05m for 2020-21.

Work performed

We reviewed management’s disclosures, going concern assessment, cash flow forecasts and Medium Term Financial Strategy, corroborating key inputs and assumptions to our wider knowledge gained through the audit process, and where applicable to supporting documentation. We considered, based on our understanding of the entity and the wider political and economic climate, whether material uncertainties may exist which were not explicitly covered by management’s assessment.

We are satisfied that management’s assessment is based on accurate information including prudent assumptions around future income and expenditure levels, and likely shortfalls based on known events and best available information. Whilst we note in the medium term the Council has significant financial challenges with relatively low reserves these balances are sufficient in the short term should the Council need to absorb any COVID-19 related costs or losses of income streams for the purpose of preparing the financial statements on a going concern basis through the period of management’s assessment.

Concluding comments

We are satisfied from the work performed that:

- the going concern basis of preparation is appropriate for the Council’s financial statements
- no events or conditions exist which may give rise to material uncertainties casting significant doubt on the Council’s ability to continue as a going concern
- the disclosures in the Council’s financial statements relating to going concern are adequate.

Our audit opinion in respect of going concern will be unmodified.

Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council which is included in Appendix F.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all banking and investment counterparties. This permission was granted and the requests were sent.
Disclosures	We have summarised on page 29 the adjustments we requested the client to make to the disclosures.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management were provided. The finance team worked well with the audit team despite the challenges of remote working. Whilst most information was provided promptly we are currently awaiting for the two key items supporting management judgement: • Response to Planning inquires from Those charged with Governance • Responses from legal regarding the latest updates regarding the sale of Dreamlands and the CPO case relating to Dreamlands.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We have completed the majority of work under the Code but are unable to issue our completion certificate until we are able to issue our value for money conclusion. This cannot be completed until the 2018/19 value for money work is finalised.

Value for Money

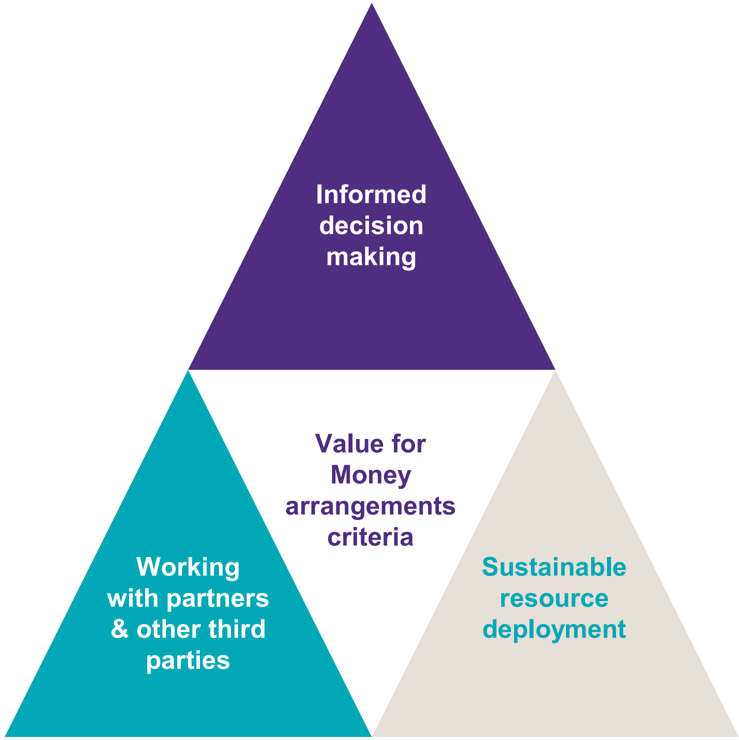
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single 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."

This is supported by three sub-criteria, as set out below:



Informed decision making

Value for Money arrangements criteria

Working with partners & other third parties

Sustainable resource deployment

Risk assessment

We carried out an initial risk assessment in December 2019 to January 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 20 February 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We have not identified any new VfM risks in relation to Covid-19, however we have considered and commented on the potential impact of Covid-19 on the Council's future financial sustainability, and plans for addressing the arising issues, as part of our work in addressing the previously identified significant VfM risk around the arrangements in place for Medium Term Financial Planning

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Revenue and capital outturn for 2019/20
- Approved revenue and capital budget for 2020/21
- Officer assessment of the impact of Covid-19 on forecasted costs and income for 2020/21 and future years, as reported to members
- Medium term financial plan for 2020/21-2022/23
- Analysis of reserves position relative to other comparable local authorities
- Discussions with key officers and internal audit

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 19 to 23.

Our 2018/19 value for money conclusion was not issued due to objections raised by local electors. We have updated this report with the findings to date.

Overall conclusion

2018/19

We have made significant progress on two of the objections and have gained sufficient understanding of the matters raised within one of the other objections to understand the impact on the value for money conclusion. However there is one remaining objection, relating to parking charges, where further enquiries are required to allow us to conclude on the 2018/19 VFM conclusion.

Whilst we are yet unable to conclude on the 2018/19 VFM conclusion, our work to date on the objection in respect of a contract for the provision of central heating, gas and hot water repairs to council houses will impact on the VFM conclusion. East Kent Housing was responsible for managing contracts in respect of the housing stock on behalf of the Council. The Council identified weaknesses in the management of the P&R contract and as part of a wider review identified weaknesses in the delivery of the service provided by East Kent Housing to the Council.

2019/20

Our 2019/20 value for money conclusion work has focused on two areas: ongoing financial sustainability; and governance arrangements in relation to responding to grievances concerns.

We have completed our work on ongoing financial sustainability and have included commentary on page 20.

An objection to the 2019/20 has been received which relates to the use of non disclosure agreements in resolving grievances. Further enquiries are required to allow us to conclude on the 2019/20 VFM conclusion.

Overall

We have

- Identified a weakness in the 2018/19 arrangements in the delivery of the service provided by East Kent Housing
- Been unable to conclude the 2018/19 value for money due to an outstanding objection from a local elector
- Been unable to conclude the 2019/20 value for money conclusion due to delays in the 2018/19 conclusion and outstanding objection from a local elector.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
Ongoing Financial Sustainability	The Council is continuing to face pressure on its financial budget in a number of areas. The MFTS 2020-24 projects that, over each of the next four years, the Council has a budget shortfall of £0.897 million in 2021/22, £1.03 million in 2022/23 and £1.022 million in 2023/24. This pressure along with other savings that have been identified as required, places significant pressures on the Council's financial sustainability going forwards. Although relatively speaking this represents an improvement on the equivalent analysis in the previous Strategy (2019-23) this is partly reliant on increased income generation and the achievement of significant efficiencies in future years. We note the following: • In 2019/20 the Council reported a revenue budget overspend of £0.5 million. • The Council set a balanced budget in February 2020 for 2020/2021 assuming savings of £0.8 million and income generation of £0.2 million. The MTFS was updated. • The Council has very low level of usable reserves compared to other District Councils with £2 million in General Fund and £12.5 million in earmarked general fund reserves. • The impact of Covid-19 on the revenue outturn for 2019/20 was minimal, due to the pandemic only arising within the final few weeks of the financial year. However, the impact on the 2020/21 budget is significant both in respect of increased expenditure and loss of income. The government is providing grants to offset COVID-19 costs and income losses and to date the Council has received just under £3 million against a 2020/21 cost pressure of £5.7 million. The gap of £2.7 million is expected to be funded from earmarked reserves. • The Council has sufficient reserves to mitigate the in-year financial pressure. However the use of earmarked reserves to address in-year service overspends is not sustainable in the medium term. • The updated financial position was reported to Members and shows the need for required efficiencies of £6.8 million between 2021/22 and 2023/24. These are significant amounts for a Council the size of Thanet with low levels of reserves. As of the date of the MTFS £2.9m of these planned efficiencies remained unidentified. There is a real risk if savings or income generation do not deliver the planned amounts the Council will need to draw on reserves leaving the Council in an unsustainable financial position. It remains critical to your financial health that you continue to take action to control costs and deliver identified savings. • If the assumptions in the MTFS change, the Council has a real risk that reserves are insufficient to offset any other additional gaps especially given the significance of the funding gap already identified. • The capital programme for 2019/20 showed significant underspends of £9.1 million withing the HRA capital programme and £9.9 million within the General Fund capital programme. This was caused due to reprofiling of the forecasts and delays in key projects such as Ramsgate port (£1.5 million) and Homelessness accommodation (£3 million). Whilst slippage in delivery of capital programmes is not uncommon, it is important to understand the reason for the slippage as there is a risk that key projects will not deliver intended benefits with a wider impact beyond the capital programme.	

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Ongoing financial sustainability (continued)	**Conclusion** We have concluded that the level of savings needed represents a significant challenge for the Council combined with a low level of reserves however the Council has plans in place to manage cost pressures and to identify and deliver savings. There is very little headroom to cope with any further cost pressures or income reduction without reducing reserves further. Whilst many other councils are in a similar position, action needs to be taken now to address the identified budget gaps in a planned and managed way. Without taking early action the Council will need to rely on further depleting reserve levels to balance its budget. Repeated reliance on reserves without taking action to address the underlying budget gaps will lead to the risk that either reserves levels become unsustainable or rapid service cuts are required to maintain a sustainable position. **Recommendation:** • The Council needs to ensure it continues to take action to address any in-year overspends or slippage in delivery of savings. • The Council must urgently develop realistic savings plans to meet the identified budget gap going forward together with clear monitoring of delivery of savings to avoid further depletion of reserves.
Governance arrangements During 2019/20 a number of matters were brought to the auditor's attention regarding grievances and the arrangements in place to respond to those grievances.	During the audit we were made aware of a number of grievances being raised within the Council and have received an objection from a local elector relating to arrangements linked to the grievance process. As part of our value for money conclusion we are reviewing the arrangements the Council has followed to respond to the grievances. Part of the Council's arrangements to respond to grievances is the General Purposes Investigations & Disciplinary Sub-Committee (IDSC) which is currently considering matters linked to the concerns raised with the auditor. At the time of writing the matters have not yet been concluded and we are therefore unable to comment further at this time.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Management of contract with East Kent Homes – Sustainable Resource Deployment	East Kent Housing was set up in 2011 as an Arms Length Management Organisation ("ALMO") in order to manage and maintain the housing stock of 17,000 dwellings for four east Kent councils including Thanet DC. ALMOs were created to allow for a dedicated housing focus to meet the needs of tenants and leaseholders rather than it being one of a number of corporate priorities for individual councils. The Council retained ownership of the stock and the ultimate responsibility for providing safe, secure housing that meets the needs of stakeholders and complies with relevant legislation. The Regulator of Social Housing wrote to all councils following the Grenfell Tower fire to remind them of their obligations for tenants' safety, even where housing is outsourced. In terms of contract management, the responsibilities are clear. East Kent Homes ('EKH') should be responsible for day to day monitoring of contracts, with the Council exercising appropriate overview and scrutiny of its contract with EKH for management of the stock which costs the Council circa £2-2.5 million per annum. During 2018/19 it emerged that a contract with P and R Installation Services ('P and R') was not operating effectively. There were allegations of overcharging and non performance from the contractor. More significantly, failures to ensure that legal requirements were met in respect of completing gas safety inspections were identified towards the end of the financial year. The Monitoring Officer reported the Council's breach of law to Cabinet and the councils self-reported the breach to the Housing Regulator. The Council's internal audit provider, East Kent Audit Partnership issued a number of reports on contract management. The report of Heating and Installation resulted in a 'no assurance' conclusion on a contract which costs the four councils some £4 million per annum. 'No assurance' ratings are extremely rare in Internal Audit work in our experience. It indicates very clearly that insufficient arrangements were in place to monitor the P and R contract by EKH. The fact that P and R gave notice on their contract at the end of March 2019 suggests very strongly that the overall relationship was not effective. This leads us to the clear outcome that because of the seriousness of the matters emerging from the management of this contract, the Council's value for money arrangements in this regard were not adequate in 2018/19. There were strong claims and counter claims between the councils and P and R which suggests a combination of poor data, poor management of the contract and an understandable desire on the part of the councils to change contractors. Given the lack of assurance in respect of gas safety and general concerns over EKH performance, the four East Kent councils requested Internal Audit review the compliance against other health and safety requirements. Internal Audit concluded no assurance for fire safety, electrical safety, lift safety and legionella. The Regulator of Social Housing issued a regulatory notice in September 2019 against the Council for breaching the Home Standard. The councils commissioned an independent review of EKH which reported in December 2019. This identified systemic weaknesses in arrangements in the health and safety compliance service highlighting amongst others, weaknesses in data management, IT capability and record keeping, under the umbrella of poor leadership and governance within EKH and a 'dysfuntional relationship between EKH and the councils'. The councils accept their overview of the performance of EKH was not sufficiently robust. The arrangements the Council had in place to ensure EKH met their operational contract management obligations were not sufficient in 2018/19.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Management of contract with East Kent Homes – Sustainable Resource Deployment	As soon as the P and R issue emerged in 2019, the councils took robust action to strengthen EKH's arrangements for contract management by instituting enhanced weekly monitoring of the contract. A new procurement took place to replace the P and R contract and the appointment of a new contractor was approved by the councils' cabinet in July 2019. The new contractor met the specified quality arrangements put in place by the councils, although reports to Committee note that the chosen contractor was both the cheapest and had no existing contracts in the area. The councils have however put in place robust arrangements for monitoring of the new contractor including clear termination arrangements should contractual requirement not be met. It will remain fundamental that robust monitoring of this contract is not a new measure that falls away but something embedded in the culture of the organization. Internal Audit are planning to review progress as part of their process as part of their 2020/21 plan. A detailed action plan arising from the commissioned review into EKH has been prepared and is being used to monitor improvements against the identified deficiencies and to provide assurance to the Regulator for Social Housing. We have seen the latest progress report against the actions and this indicates progress is being made. The challenges around EKH have led all the councils to consider the future strategic direction of their housing functions. A consultation took place in later 2019 which proposed taking back the Housing function into individual council hands. The consultation responses suggest an overwhelming desire for tenants and leaseholders to bring the service back in house. Thanet's Cabinet agreed this proposal in February 2020 and have put transformation arrangements in place to bring the service in house on 1 October 2020. There are of course risks in any insourcing arrangement but the Council has committed resources to ensure a smooth transition. **Conclusion** In our view, appropriate arrangements for the management of key contracts were not sufficiently robust in 2018/19.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified:

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £58,548 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	TBC on completion of audit (Prior year fee was £40,000)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the expected fee for this work in comparison to the total fee for the audit of £58,548 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Non-audit related			
Harbour authority audit	1,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £1,500 in comparison to the total fee for the audit of £58,548 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Action plan

We have identified 3 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 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
● High	**Savings identification** The updated financial position was reported to Members and shows the need for required efficiencies of £6.8 million between 2021/22 and 2023/24. This represents a considerable challenge for the Council and with relatively low levels of reserves there is a risk that slippage in delivery of savings will reduce the reserves to an unsustainable level. This represents a considerable challenge for the Council and with relatively low levels of reserves there is a risk that slippage in delivery of savings will reduce the reserves to an unsustainable level.	The Council must urgently develop realistic savings plans to meet the identified budget gap going forward together with clear monitoring of delivery of savings and income. **Management response** Due to the unprecedented times and associated uncertainty the council is in operating in, it has been considered not feasible to produce a meaningful Medium Term Financial Strategy at this time. As such it is not possible to currently gauge how the underlying £6.8m savings requirement will have developed since it was reported to Members in January 2020. That said work is well underway to deliver a balanced budget for 2021-22 and member briefings have already begun setting out the savings the council is planning to deliver next year's budget.
● Medium	**In-year budget delivery and savings** The impact of covid-19 on the 2020/21 budget is significant respect of increased expenditure and loss of income. Total general fund and earmarked reserves is relatively low. The current in year forecast plans to use £3 million of earmarked reserves to meet the in year variance. There is risk that further overspends or loss of income will continue and reserves will be further depleted.	The Council must ensure it continues to take action to address any in-year overspends or slippage in delivery of savings. **Management response** This risk of non-delivery of in-year budget savings is not isolated to the current in-year 2020-21 budget, but inherent to the council's financial operations. Management is aware of the track record of inconsistent delivery of agreed savings and as such, action to close the 2021-22 budget gap has been focused on defined expenditure reductions rather than broader income generation schemes that are subject to a greater degree of uncertainty. The 2021-22 budget strategy also sets out that from 2022-23 onwards the authority will reincorporate budgeted reserve contributions, in order to replenish those reserves that have been utilised for fund covid related pressures in 2020-21 and increase financial resilience.

Controls

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

Action plan (cont)

Assessment	Issue and risk	Recommendations
● **Medium**	**Council dwelling valuations** The Council's valuer compared indices movements for dwellings from 31 January 2019 to 31 January 2020 rather then 31 March 2019 to 31 March 2020. The impact of not using the correct date is immaterial to the financial statements but there is a risk using older indices in the future could lead to the Council not identifying a material movement in the valuation of its assets at balance sheet date. If the wrong indices are applied going forwards this could create the risk of compounding errors, when indices are used to uplift council dwelling valuations in between the full Beacon reviews.	The Council should ensure it uses the correct indices to inform its year end valuation process in years when a full valuation does not take place. **Management response** Management are aware of this risk and carefully consider and balance the need to apply the most up-to-date data with the requirements for faster closedown in a typical year. For next year's 2020-21 accounts this risk will be mitigated as the council undertakes its full five-yearly revaluation of the whole stock, meaning that all dwellings will be revalued as at 1 April 2020. However, management agree to consider this recommendation as part of the 2020-21 accounts closure process.

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Council's 2018/19 financial statements, which resulted in 1 best practice recommendation being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented our prior year recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Note 3 to the accounts sets out the key areas of estimation made by management. Expected practice is that a sensitivity analysis is provided for each key estimation to inform the reader of the impact of any change in the assumptions made in arriving at the estimate. The Council does this for some but not all of the disclosed key estimates and this should be considered for the future. The Council should include a sensitivity analysis for each key estimation disclosed within note 3 of its accounts.	For 2019/20 the Council has added an analysis of the impact to accompany the estimate.

Assessment

✓	Action completed
X	Not yet addressed

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	CIES £'000	Balance Sheet £' 000
Write off of uncollectable debtor relating to Dreamlands	874	Short Term Debtors (874)
Write off of creditor relating to Dreamlands grants	(874)	Long term Liabilities 874
Error relating to miscoding that resulted both income and expenditure being overstated.	Income 1,661 Expenditure (1,661)	
Overall impact	**0**	**0**

Misclassification and 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.

Disclosure omission	Detail	Adjusted?
Note 6 Expenditure and Income analysed by Nature	During of testing of the underlying transactions we identified that a number of items relating to income had been classified as expenditure resulting in income and expenditure being netted off when they should be presented gross. The error was limited to note 6 and did not impact the classification on the Comprehensive Income and Expenditure Statement.	✓
Note 12 Remuneration of Employees	Our testing of this note identified that the disclosure was incomplete and did not include the Head of IT nor the Head of Shared Services.	✓
Note 3 Assumptions made about the Future and other Major Sources of Estimation Uncertainty	Our discussions with the auditor of Kent Pension Fund identified that the pension fund accounts would be disclosing a material uncertainty regarding their property holdings. This required additional disclosure in Note 3 to reflect the impact on the Council's share of the pension fund's assets.	✓
Note 3 Assumptions made about the Future and other Major Sources of Estimation Uncertainty	Our testing of this note identified that the disclosure included estimations that did not represent a risk of material estimation uncertainty. We requested that the Council remove depreciation and the Busines rates appeals provision on this basis.	✓

Audit adjustments

Disclosure omission	Detail	Adjusted?
Note 3 Assumptions made about the Future and other Major Sources of Estimation Uncertainty	Our testing of this note identified that the disclosure included estimations that did not represent a risk of material estimation uncertainty. We requested that the Council remove depreciation and the Busines rates appeals provision on this basis.	✓
Note 13 External Audit Costs	The note required amendment to reflect the actual fees charged in the year.	✓

Impact of unadjusted misstatements

Our work to date has not identified any unadjusted misstatements above triviality.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £‘000	Statement of Financial Position £’ 000	Impact on total net expenditure £’000	Action taken in 2019/20
Potential impact of the McCloud judgement	1,832	(1,832)	1,832	We have reviewed your IAS19 report to ensure the impact is reflected. From this work we have identified that the McCloud judgement has been considered and added into the accounts as a past service cost, the value being £985K. We deem this to be appropriate.
Overall impact	**£1,832**	**£(1,832)**	**£1,832**	

Fees

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

Audit fees	Proposed fee as per audit plan	Final fee
Council Audit	£58,548	TBC*
Total audit fees (excluding VAT)	**£58,548**	**TBC**

*There are a number of matters that will impact on our final fee including

- Resolution of outstanding objections
- Finalisation of the 2018/19 and 2019/20 value for money conclusion
- Impact of covid-19

  We are proposing an uplift to our audit fees for 2019/20 of £8,800 to reflect the additional work required as a result of the COVID-19 pandemic. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:

  - Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.
  - Management's assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges on areas such as credit loss allowances, financial guarantees, and other provisions. We have include an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values.
  - Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260.
  - Remote working – the most significant impact in terms of delivery is the move to remote working. Working remotely is inherently less efficient. Gaining an understanding of working papers and supporting evidence via Microsoft Teams, Zoom or via phone is more time consuming then sitting with a officer as we would usually do.

  We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC. Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

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