

4 December 2024

To Cllr. Scobie  
 Governance and Audit Committee Chair  
 Thanet District Council  
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Dear Cllr. Scobie,

### **Thanet District Council: Conclusion of the audit for 2022/23 – letter to those charged with governance on the application of the local authority backstop**

As you will be aware, on 5 September 2024 the government published draft the Accounts and Audit (Amendment) Regulations 2024. These Regulations, which were approved on 30 September 2024, set a publication date for financial statements up to and including 2022/23 of 13 December 2024. The new National Audit Office Code, which is expected to be approved by 14 November, also requires that auditors should issue their audit report in time for the relevant authority to publish its accounts by the specified date in those Regulations. Where audit work is not concluded, this will result in either a qualification or disclaimer of opinion.

As discussed with your Director of Corporate Services and for reasons which I set out in more detail below, it will not be possible for us to complete our audit for 2022/23 by the statutory backstop date. We therefore propose to issue a disclaimer of our audit opinion. I attach a draft copy of this disclaimer for the attention of the Governance and Audit Committee.

We are required under Auditing Standards to report certain matters to the Governance and Audit Committee, including our responsibilities as auditor, the scope of the audit, independence, audit fees and any matters arising from the audit. I set out more details on the audit below. Information regarding our responsibilities, the scope of the audit and fees are included in the Appendix.

#### **Outcome of our audit for 2022/23 – Disclaimer of the opinion on the financial statements**

For reasons set out below, it will not be possible for us to undertake sufficient work to support an audit opinion by the statutory deadline of 13 December 2024. This means that the limitations of scope imposed by the backstop are pervasive and therefore we have been unable to form an opinion on the financial statements by the due date. We therefore plan to issue a disclaimer of the audit opinion. We have attached the draft wording of our Audit Report for your information.

The Accounts and Audit Regulations 2015 required the Authority to make its financial statements for each financial year available for public inspection by the first working day in June. However, the Authority did not make the 2022/23 financial statements available for public inspection until 1 November 2024. Consequently, we were not able to commence our audit of these financial statements before 16 September 2024 (the backstop date). As a result, we did not have enough time before 13 December 2024 to obtain sufficient appropriate audit evidence to conclude that the financial statements for the year ending 31 March 2023 as a whole are free from material misstatement.

#### **Outcome of this year's audit - Value for Money work and other work under the National Audit Office Code of Audit Practice**

We have completed our 2022/23 Value for Money work and have reported the outcome in our interim Annual Audit Report (AAR) of September 2023 that was presented to the Governance and

#### **Chartered Accountants**

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Audit Committee on 29 November 2023. Our report set out a combined commentary for 2020/21, 2021/22 and 2022/23.

We have nothing to report in respect of the above matter except for the year ended 31 March 2023:

- On 15 September 2023 we identified a significant weakness in the Authority's governance arrangements. This was in relation to the inability of the Authority's management team to work together effectively. This resulted in whistleblowing, raising of formal grievances and disciplinary action being taken against senior officers. We recommended that the Authority should prioritise development of its people strategy and behavioural framework and provide training on them to staff.
- On 15 September 2023 we identified a significant weakness in the Authority's governance arrangements. This was in relation to a significant increase in the number of 'no assurance' reports being issued by the Authority's internal audit function. Common themes across these reports included a lack of policies and procedures, internal audit recommendations not being addressed in the expected timescales and a lack of management engagement with internal audit. These reports covered several service lines which indicates that the issues identified are pervasive. We recommended that the Authority increase capacity in impacted service lines to ensure the required underlying governance arrangements are developed and monitored.
- On 15 September 2023 we identified a significant weakness in the Authority's arrangements for improving economy, efficiency and effectiveness. This was in relation to project and contract management issues arising from proposed berth replacements at the Port of Ramsgate. We recommended that the Authority should strengthen project management and contract management arrangements by seeking additional support from project management experts and prioritising the development of training on the new project management framework. We also recommended that the Authority prioritise the development and implementation of a contract management framework which includes performance monitoring, post completion reviews, inspections of works by contractors and review of all contracts to identify any overpayments and threats and risks to effective arrangements.
- On 15 September 2023 we identified a significant weakness in how the Authority plans and manages its resources to ensure it can continue to deliver its services. This was in relation to members have not receive reporting on the 2022/23 outturn position or quarterly budget monitoring since December 2022, which covers both revenue and capital positions. Nor has the Council been able to produce and publish the financial statements for these financial years either due to a lack of capacity within the finance team. We recommended that the Council should ensure that budget monitoring is reported each quarter and a year-end outturn report which allows members to make financial decisions effectively. All budget and treasury monitoring information should be presented to members in a timely manner with no more than a 2-month time lag between the date of information and the date of reporting to ensure reliable decisions can be made on up-to-date information.

We are also required to report by exception if we have applied any of our statutory powers or duties.

We wish to highlight the following information for your attention. On 12 October 2021 we issued written recommendations to the Authority under section 24 of the Local Audit and Accountability Act 2014 in relation to its whistleblowing, grievances and disciplinary procedures.

We recommended that the Authority should:

- commission an experienced, independent Monitoring Officer from a large local authority to report to the General Purposes Committee on:
  - a risk assessment of the current employment tribunal claims and propose actions which safeguard the Authority's best interests including a detailed financial analysis of the options available to the Authority

- an assessment of the status of all outstanding grievances, alleged whistleblowing complaints and any continuing suspensions and propose a plan of action to address them
- a lessons learnt report collating themes and recommendations from all externally commissioned reports and any other appropriate evidence
- bring the current General Purposes Investigations and Disciplinary Sub-Committee process to a conclusion with clear actions that are reported and action monitored
- revisit the financial plans and identify additional savings plans to address the further cost pressures created in resolving the grievances and whistleblowing complaints
- agree an approach where the Authority demonstrates that it is responding to the substance of concerns raised including a clear agreement on where Officer and Member responsibilities lie.

### **Independence**

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 and consider that an objective reasonable and informed third party would take the same view. 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. 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.

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.

### **Management letter of representation**

We have asked management to provide a letter of representation in respect of the financial statements covering 2022/23. This will be tabled as a separate agenda item.

### **Looking ahead**

The circumstances resulting in the application of the local authority backstop are clearly extremely unusual. The government has signalled its intent that where backstops have been applied, local authorities and their auditors work together to recover the position over subsequent years. We will follow relevant guidance including from the NAO and the FRC to work with you over the coming year, as we seek to rebuild audit assurance.

Yours sincerely

Matthew Dean

For Grant Thornton UK LLP

CC: Director of Corporate Services

Attachments: Draft Disclaimer of Opinion 2022/23

## Appendix

### Responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Thanet District Council. We draw your attention to both of these documents.

### Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Governance and Audit committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Committee of its responsibilities. It is the responsibility of the authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the authority is fulfilling these responsibilities.

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

### Audit Plan

We issued a joint draft Audit Plan covering the 2021/22 and 2022/23 financial years. This was considered at the 27 September 2023 Governance and Audit Committee.

### 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.

Due to delays in the completion of prior year audits, we were unable to determine a materiality level for 2022/23.

### Key financial reporting and audit issues identified during the audit

As we have not undertaken any detailed work in respect of this year's financial statements audit, there are no issues we need to draw to your attention.

### Going Concern

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).

In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector.

Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:

- the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities
- for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.

Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by a local authority meets this criteria, and so where undertaking work on your audit, we would normally expect to apply the continued provision of service approach. In doing so, we would consider and evaluate:

- the nature of the authority and the environment in which it operates
- the authority's financial reporting framework
- the authority's system of internal control for identifying events or conditions relevant to going concern
- management's going concern assessment.

As we have been unable to form an opinion on the financial statements, we are unable to draw a conclusion in this area.

### **Design effectiveness of internal controls**

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

We have nothing to report in respect of the above.

### **Other matters which we are required to report on to those charged with governance**

We are required to confirm the following:

- We have not been made aware of any incidents of fraud in the period and no issues have been identified during the course of our audit procedures.
- We are not aware of any related party transactions which have not been disclosed.
- We are not aware of any significant incidences of non-compliance with applicable laws and regulations.

### Audit fees and non-audit fees

PSAA set a scale fee for this year's audit of £58,549. Given the unusual circumstances of the backstop, we are awaiting a determination from PSAA as to the appropriate fee to be charged for this audit year.

We have also undertaken the following non audit work in respect of the year.

<b>Audit Service</b>	<b>Proposed Fee</b>	<b>Final Fee</b>
Audit of housing benefits grant return year ending 31 March 2023	£62,100	£62,100
Audit of the pooling housing capital receipts return year ending 31 March 2023	£10,000	£10,000

The fees do not reconcile to the financial statements, so we have provided a reconciliation:

	<b>31 March 2023</b>
Audit fees per financial statements	£106,000
Accrual for additional fees	(£47,451)
Total audit fees per above	£58,549

The proposed additional fees are consistent with the Audit Plan and represent areas over and above the Scale Fee, per the guidance issued by PSAA.

Certification of grants per financial statements	£64,000
Accrual over or underestimated	£8,100
Total grant fees per above	£72,100

The level of these recurring fees taken on their own is not considered a significant threat to independence in comparison to the total fee for the audit of £58,549 in 2022/23 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, there is no contingent element to it. These factors all mitigate any perceived self-interest threat to an acceptable level.

We have considered whether the grant claim work, the fee for which is higher than the audit fee for this backstopped year, represents a threat to independence. We are satisfied that it is not a threat, on the basis that grant claim work is carried out under instructions set by government, is undertaken on a routine basis each year, and has been assessed by the NAO in AGN 01 as not counting against the non audit cap.