



Thanet District Council Audit Plan

Year ending 31 March 2024

Thanet District Council

4 December 2024



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

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Key matters

National context

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local Government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we have taken account of this national context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our report [About time?](#) in March 2023 which explored the reasons for delayed publication of audited local authority accounts.

In our view, to enable a timely sign off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers.

Key matters

Local context

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. This means that the limitations of scope imposed by the backstop are pervasive and therefore, auditors have been unable to form an opinion on the financial statements by the due date. The auditors, therefore, plan to issue a disclaimer of the audit opinion for 2022/23.

The fact that previous year audit have been disclaimed brings with it a number of challenges. Not least of these is the fact that we will not have assurance over the opening balances in the financial statements for 2023/24. In addition, there are risks that the allocation of funds between different reserves could be misstated, and also that prior year errors in areas such as the Minimum Revenue Provision could have gone undetected. The opening position for usable reserves for 2023/24 may remain unaudited.

Our intention is that over time we will re-build assurance in respect of prior years. The NAO and FRC are currently working on guidance to support auditors, and we will update you as and when this is received. In the meantime, recognising that the next backstop date is set for 28 February 2025, our intention is to prioritise (amongst other things) the following areas:

- Risk assessment and evaluation of the control environment for 2023/24 including ISA 315 assessment
- Audit of closing balances as at 31 March 2024 (as far as this is possible within the constraints of not having assurance on opening balances)
- Audit of income and expenditure and movements within financial year 2023/24 and associated cut off testing
- Testing of journals within 2023/24
- Testing of Movement of Reserves statements and other primary statements (within the constraints that we will not have opening balance assurance)
- Financial statements disclosure
- Recognising the sensitivity of cash, we propose to look at the opening cash position as at 1 April 2023.

Our current aim is to be able to complete the above work before the next Governance & Audit Committee on 26 February 2025. We will provide an Audit Findings Report to those charged with governance setting out the findings from our work and any key outcomes along with the outcome of Value for Money work. At this stage, given the inherent challenges outlined above, we consider that it is unlikely to be possible to undertake sufficient audit work by 28 February 2025 that would enable us to regain full assurance on opening balances, or on carried forward property plant and equipment values which were not revalued in financial year 2023/24.

The consequence of this is that there is a strong possibility audit year 2023/24 will be disclaimed in respect of opening balances. We are working with the NAO and FRC to identify the best way to regain full assurance and return to a clean opinion as quickly as possible over the coming years. We will keep you updated on the progress of our work.

Key matters - continued

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, are set out in this Audit Plan.
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Chief Executive twice a year, and with the Director of Finance quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Governance and Audit Committee, to brief them on the status and progress of the audit work to date.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Governance and Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Governance and Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the Council. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Thanet District Council ('the Council') for those charged with governance.

Respective responsibilities

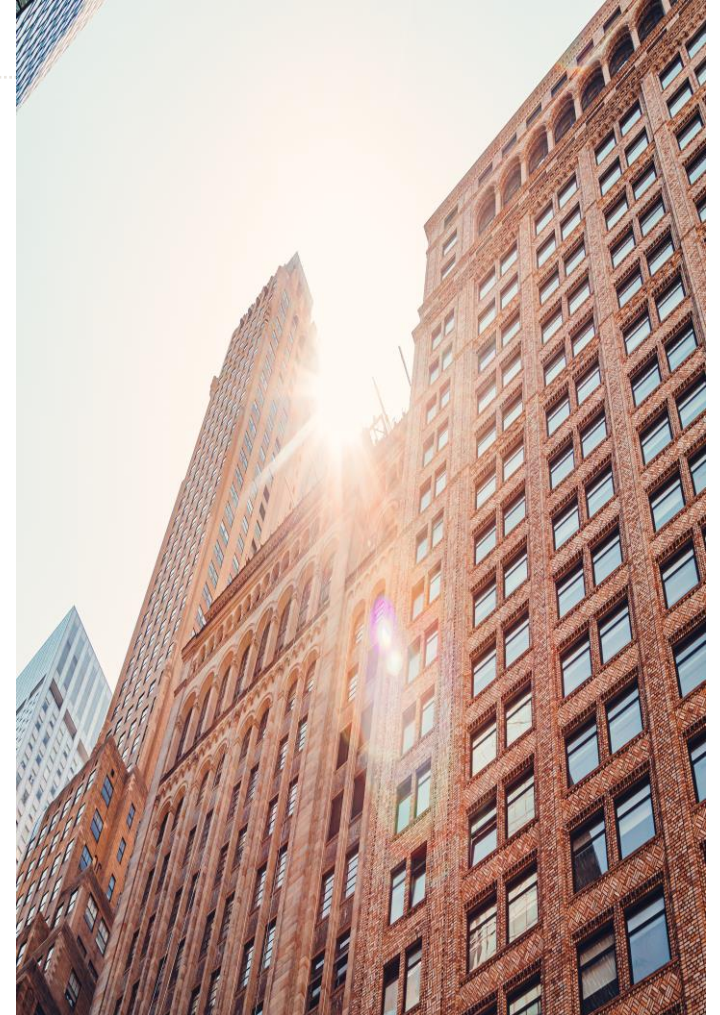
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment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

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 (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 Governance and Audit Committee of your responsibilities. It is the responsibility of the Council 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 Council is fulfilling these responsibilities.

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



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of land and buildings and council dwellings
- Valuation of investment properties
- Valuation of the net pension liability
- Risk of fraud related to expenditure recognition prevalent at year end

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined an planning materiality of **£2.252 million (£2.370 million** in the previous audited year) for the Council, which equates to 1.9% of your 21/22 gross operating costs for the year.

Please note this our assessment at the planning stage of the engagement and will be updated for our fieldwork procedures based on the Council's 23/24 position.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at **£0.112million (£0.118 million** in the previous audited year) for the Council.

A low % was used to determine materiality because of the fact that the Council has not being audited in the previous year as a whole.

We have identified senior officer remuneration as a balance where we will apply a lower materiality level, due to the sensitive nature of the disclosures. We have set this at **£20,000** per officer (not cumulative).

Value for Money arrangements

Our work on the risk assessment regarding your arrangements to secure value for money is currently ongoing. We will communicate if any significant risks of weakness is identified as a result of this risk assessment, and we will continue to update you on our findings up to the issuing of the Auditor's Annual Report.

Audit logistics

Our planning visit took place in April 2024 and our final visit will take place from November 2024 to February 2025. Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our preference is for all our work to take place on site alongside your officers, however we will look to work with you to ensure the audit is delivered as efficiently as possible during the relevant period.

Our proposed fee for the audit is set out on page 21 of this report for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Improper revenue recognition (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA 240 and nature of the revenue streams at Thanet District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Thanet District Council, mean that all forms of fraud are seen as unacceptable. <p>We do not consider this to be a significant risk for the Council</p>	<p>We will rebut the presumed risk of fraud in revenue, and as such there is no specific work planned for this risk.</p> <p>To gain assurance over revenue, we will:</p> <ul style="list-style-type: none"> • Test a sample of revenue to gain assurance over the accuracy and occurrence of revenue recorded during the financial year. • Perform testing over post year-end receipts to assess completeness of revenue and receivables recognition.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Risk of fraud related to expenditure recognition PAF - Practice Note 10</p>	<p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period) We have not deemed it appropriate to rebut the presumed risk of fraudulent financial reporting in respect of expenditure, especially as you continue to face pressures to meet required financial targets.</p> <p>The risk is heightened particularly around year end transactions due to lack of audit procedures in 2022-23, without adequate audit procedures in place, there is a higher likelihood of errors or fraud going undetected, which could have a significant impact on the process of recording transactions and financial reporting</p> <p>Pinpointing the risk:</p> <p>We plan to pinpoint the significant risk around the following:</p> <ul style="list-style-type: none"> • The risk that non-pay expenditure streams is not complete. • The risk that the accrued liabilities on balance sheet date do not exist or are not accounted for accurately or include fraudulent transactions. <p>As payroll expenditure is well-forecast and agreeable to underlying payroll systems, there is no increased risk of material misstatement for this expenditure stream. As such, the increased risk is considered for only non-pay expenditure streams.</p>	<p>As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.</p> <p>Having considered the nature of the expenditure streams of the Council, and on the same basis as that set out above for revenue, we do not consider this to be a significant risk however we do consider expenditure prevalent around year end as a significant risk</p> <p>To address this risk, we will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation effectiveness for operating expenses system; • Perform testing over post year-end transactions to assess completeness of expenditure recognition. • Test a sample of operating expenses to gain assurance over the accuracy and occurrence of expenditure recorded during the financial year.

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Valuation of land and buildings and council dwellings (£69.182 million and £180.924 million per 2022/23 Accounts)</p>	<p>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.</p> <p>Management utilise a 5-year rolling programme for their valuations of Other land and Buildings and a beacon methodology for the Council Dwellings assets. Key assumptions and judgements used in determining this valuation will include managements impairment assessments, valuations based on historic data, valuations of properties that have not been subject to inspection and those assets that have change in use in the year.</p> <p>Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value at the financial statements date. We therefore identified valuation of land and buildings and council dwellings as a significant risk of material misstatement.</p>	<p>To address this risk, in testing the 23-24 closing balances we will:</p> <ul style="list-style-type: none"> • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work. • Evaluate the competence, capabilities and objectivity of the valuation experts. • Discuss with or write to the relevant valuers to confirm the basis on which the valuation was carried out. • Challenge the information and assumptions used by the valuers to assess completeness and consistency with our understanding. • Test revaluations made during the year to see if they have been input correctly to Thanet District Council's asset register. • Assess the value of a sample of assets in relation to market rates for comparable properties. • Test a sample of beacon properties in respect of HRA dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group. • Evaluate 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 at year end.

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Investment Properties (£25.288 million per the 2022/23 Accounts)	<p>The Council revalue its Investment Properties on an annual basis to ensure that these assets are held at Fair Value at the financial statements date. 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. The key assumption for investment property is the yield rates utilised by the valuer and our testing will therefore focus on this area.</p>	<p>To address this risk, in testing the 23-24 closing balances we will:</p> <ul style="list-style-type: none"> • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • Evaluate the competence, capabilities and objectivity of the valuation expert • Write to the valuer to confirm the basis on which the valuations were carried out • Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • Focus our testing on the significant inputs and assumptions used by the valuer • Test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register.
Management override of controls	<p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. Thanet District Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for Thanet District Council, which was one of the most significant assessed risks of material misstatement.</p>	<p>To address this risk we will:</p> <ul style="list-style-type: none"> • Evaluate the design effectiveness of management controls over journals. • Analyse the journals listing and determine the criteria for selecting high risk unusual journals. • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Net Pension Liability (£14.330 million per 2022/23 Accounts)	<p>The Net Pension Liability, reflected in the Council's Balance Sheet as pensions liability, represents a significant estimate in the financial statements. Further, regulation 62 of the Local Government Pension Scheme (LGPS) requires pension fund administering authorities to obtain an actuarial valuation of defined benefit pension scheme every three years.</p> <p>Estimation of the net liability depends on a number of complex adjustments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages and mortality rates.</p> <p>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.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk.</p>	<p>To address this risk we will:</p> <ul style="list-style-type: none"> • Update our understanding of the processes and controls put in place by management to ensure that the Council's Pension net liability is not materially misstated and evaluate the design of the associated controls. • Evaluate the instructions issued by management to their management expert 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. • Assess the accuracy and completeness of the information provided by Council to the actuary to estimate the liability. • Test 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. • Undertake 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. • Identify, document and evaluate the procedures and controls used to establish the accuracy and completeness of the source data, and over the provision of this source data, to the actuary for the purposes of preparing the triennial valuation. • Obtain assurances from the auditor of the Council's Pension Fund auditors as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the Fund and the fund assets valuation in the Fund's financial statements

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act;
 - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Our approach to indicative 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.

Matter	Description	Planned audit procedures
1	<p>Determination</p> <p>We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the 2021/22 financial year, as this is the last set of Accounts which has been audited in full. Materiality at the planning stage of our audit is £2.252 million (£2.370million in the previous audited year) for the Council, which equates to 1.9% of your 21/22 gross operating costs for the year. Please note that this amount is indicative and will be updated for our fieldwork procedures based on the Council's 2023/24 position.</p>	<p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements.
2	<p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>	<p>An item may be considered to be material by nature where it may affect instances when greater precision is required.</p> <ul style="list-style-type: none"> – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £20,000 per officer (not cumulative).

Our approach to indicative 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.

Matter	Description	Planned audit procedures
3	<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<p>We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.</p>
4	<p>Other communications relating to materiality we will report to the Governance and Governance and Audit Committee</p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>	<p>We report to the Governance and Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.112million. If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Audit Committee to assist it in fulfilling its governance responsibilities.</p>

Our approach to indicative 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.

	Amount (£)	Qualitative factors considered
Materiality for the Council financial statements	1,730,000	<p>The following factors were considered when determining indicative materiality</p> <ul style="list-style-type: none"> • The financial information available at the time of drafting this report
Materiality for specific transactions, balances or disclosures - senior officer remuneration	20,000 (per officer - not cumulative)	<ul style="list-style-type: none"> • Our understanding of the internal controls in place. • Our review of your predecessor's auditors' reports



IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 21.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
E-Financials	Financial reporting	<p>To test design and implementation of the ITGCs.</p> <p>This includes:</p> <ul style="list-style-type: none"> - Security management - Change management - Batch Scheduling

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.



Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.



Governance

How the body ensures that it makes informed decisions and properly manages its risks.



Risks of significant VFM weaknesses

Our work on the VFM risk assessment is ongoing at the time of writing this plan and once completed we will share the risks identified alongside the further procedures we will perform. Upon completing this work, we may need to make recommendations. The potential different types of recommendations we could make are set out in the second table below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. 2023-24 is the first year of the new contract. The scale fee set out in the PSAA contract for the 2023/24 audit is **£179,588**.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here <https://www.psa.co.uk/appointing-auditors-and-fees/fee-variations-overview/>

Assumptions

In setting these fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

Proposed fee 2023/24

Thanet District Council Scale Audit Fee	£179,588
ISA 315	£9,410
Total audit fees (excluding VAT)	£188,998

Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

IFRS 16 ‘Leases’ and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

“a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.” In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an NHS body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset

Council's systems and processes

Within our procedures we will:

Verify the disclosure made by the council in relation to possible right of use assets and related lease liabilities for completeness and review the Council's process of capturing lease data for the purpose of IFRS 16.

Planning inquiries

As part of our planning risk assessment procedures, we have inquired with management across a range of areas. The responses to which are shared as an additional item at this meeting.

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link.

[IFRS 16 Application Guidance December 2020.docx \(publishing.service.gov.uk\)](#)

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit, we have made enquiries of all Grant Thornton UK LLP team providing services to the Council.

Independence and non-audit services

Other services

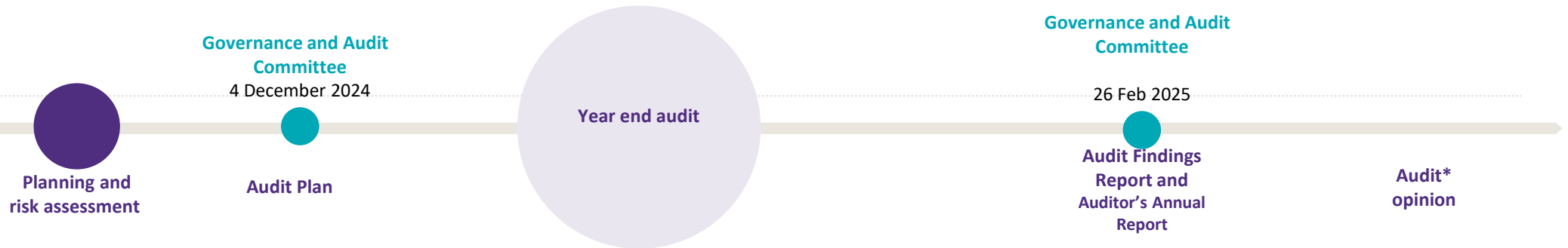
The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Capital receipts pooling grant	£10,000	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 £10,000 in comparison to the total fee for the audit of £188,998 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.
Certification of Housing Benefit Grant Audit	£45,460	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 £45,460 in comparison to the total fee for the audit of £188,998 and in particular relative to Grant Thornton UK LLP's turnover overall. These factors all mitigate the perceived self-interest threat to an acceptable level.

Audit logistics and team



Matt Dean, Key Audit Partner

Responsible for overall client relationship, quality control, provision of accounts opinions, meeting with key internal stakeholders and final authorization of reports. Attendance of Governance and Audit Committee meetings supported by Manager as required.



Ajay Jha, Audit Manager

Ajay is responsible for planning, managing the audit, and providing feedback to you throughout the audit process. Ajay will liaise with senior members of the finance team to ensure overall delivery of the audit.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations, we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations, we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

*subject to all audit queries and work being completed. Our opinion will be issued by 28 Feb 2025.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings Report
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings Report
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

