

The Audit Findings for Folkestone and Hythe District Council

Year ended 31 March 2019

30 July 2019



Contents



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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.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Folkestone and Hythe District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>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 group and Council's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the group and Council and the group and Council's 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. <p>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.</p>	<p>Our audit work was completed on site during July 2019. Our findings are summarised on pages 5 to 18. We have identified one adjustment to the financial statements that have resulted in a £856k adjustment to the Council's Comprehensive Income and Expenditure Statement. In addition, we have identified a small number of numerical and disclosure adjustments to the financial statements. Audit adjustments are detailed in Appendix A.</p> <p>In terms of your closedown process and key findings from the audit:</p> <ul style="list-style-type: none">• you provided us with a complete set of financial statements together with supporting documents and working papers in line with the agreed timetable• you prepared high quality draft financial statements and the volume and quality of the supporting working papers was good• your finance team was responsive, helpful and fully engaged with the audit process, and provided responses in line with agreed turnaround times which enabled us to carry out the audit effectively. <p>One material adjustment was made to the Comprehensive Income and Expenditure Statement:</p> <ul style="list-style-type: none">• your draft financial statements for the year end 31 March 2019 recorded 'Total Comprehensive Income and Expenditure' of £85,169k and our work, as set out in the bullet point below, has resulted in a change to the reported position by £856k to £86,025k• our review of the HRA valuation report identified a material difference in the indices used by management's expert to value the council dwellings and the auditor's expert valuation. The reason for the difference is the timing of the valuers report being provided at year end but based on the February 2019 published indices to ensure the accounts preparation deadline is met. The indices at the point in time the valuer prepared the valuation showed a larger increase in the market for the Folkestone area than the March 2019 indices – an upwards valuation of £6,071k. Following discussion during the audit, the valuer reviewed the March 2019 indices and this resulted in a smaller increase of the council dwellings by £325k for the year. This has resulted in an amendment to the Core Financial Statements as set out in Appendix A. <ul style="list-style-type: none">• Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix C), subject to the following outstanding matters:<ul style="list-style-type: none">• long term debtors testing• final recalculation of the council dwellings valuation
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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Folkestone and Hythe District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>Our work is subject to the following closing procedures which necessarily take place at the end of the audit:</p> <ul style="list-style-type: none">• Senior management quality reviews• Review of final signed accounts• Receipt of Letter of Representation• Review of post balance-sheet events <p>Should any further matters arise during the completion of our work that we need to report to you, we will do so before issuing the opinion.</p> <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
Value for Money arrangements	<p>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').</p> <p>We have completed our risk based review of the significant risks identified in our audit plan on Council's value for money arrangements. Our findings on the significant risks identified in our audit plan are summarised on pages 21 to 25.</p> <p>However, we have identified a new significant risk relating to the management of the contract with P&R for the provision of central heating, gas and hot water repairs and work on this risk is ongoing.</p> <p>We will therefore not issue a value for money conclusion at this stage. We will issue a summary of our work on the newly identified significant when it is complete.</p> <p>We will consider our final value for money conclusion once our work in respect of all significant risks is completed.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">• 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. <p>We have not exercised any of our additional statutory powers or duties.</p> <p>We received an objection to the 2018/19 accounts and work to respond to the local elector will be carried out over the coming months.</p> <p>As the work on value for money is still ongoing, and we have an objection that we have not yet responded to, we are unable to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

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 group business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;

- An evaluation of the component of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for investment property and loan balances of Oportunitas Limited was required, which was completed by the audit team; 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 not had to alter or change our audit plan, as communicated to you on 5 March 2019 except for including planned procedures on Group Accounts and the inclusion of a new significant risk in relation to the valuation of Level 3 investments.

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 Audit and Governance Committee meeting on 30 July 2019, as detailed in Appendix C. These outstanding are listed on page 3.

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 assessment of the value of headline materiality has been adjusted to reflect the 2018/19 gross expenditure and group materiality. We detail in the table below our determination of materiality for Folkestone and Hythe District Council and the group.

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	1,650,000	1,600,000
Performance materiality	1,240,000	1,200,000
Trivial matters	83,000	80,000

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Auditor commentary</p> <p>During our audit risk assessment ahead of issuing the Audit Plan, we considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, 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 • the culture and ethical frameworks of local authorities, including Folkestone and Hythe District Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we did not consider this to be a significant risk for Folkestone and Hythe District Council.</p> <p>Through our ongoing risk assessment and performance of audit work, we have made no changes to the our assessment reported in the Audit Plan.</p>
<p>2 Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The 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, which was one of the most significant assessed risks of material misstatement.</p>	<p>Auditor commentary</p> <p>We have :</p> <ul style="list-style-type: none"> • 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. <p>Our audit work has not identified any issues in respect of management override of controls.</p>

Significant findings – audit risks

Risks identified in our Audit Plan

3

Valuation of land and buildings (including council dwellings) and investment property

The Council revalues its land and buildings on a 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 at the financial statements date, where a rolling programme is used

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement

Commentary

Auditor commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- discussed with the valuer the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

For further detail of work completed on the valuation of land and buildings, see Significant findings – key judgements and estimates section from page 11.

Our audit work has identified one issue in respect of the valuation of the council dwellings. Our review of the HRA valuation report identified a material difference in the indices used by management's expert to value the council dwellings and the auditor's expert valuation. The reason for the difference is the timing of the valuers report being provided at year end but based on the February 2019 published indices to ensure the accounts preparation deadline is met. The indices at the point in time the valuer prepared the valuation showed a larger increase in the market for the Folkestone area than the March 2019 indices – an upwards valuation of £6,071k.

Following discussion during the audit, the valuer reviewed the March 2019 indices and this resulted in a smaller increase of the council dwellings by £325k. This has resulted in an amendment to the Core Financial Statements as set out in Appendix A.

Our audit work has not identified any other issues in respect of the valuation of property, plant and equipment and investment properties.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>4 Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£70 million in the Council's balance sheet in 2017/18) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority'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; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority 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; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary PwC (as auditor's expert) and performed any additional procedures suggested within the report; and • Undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary PwC (as auditor's expert) and performing any additional procedures suggested within the report. This has included: <ul style="list-style-type: none"> – Review of the scope of the actuary's work; – Review of the source data provided to the actuary to confirm its validity and completeness; – Performed checks on accounting policy disclosures in relation to IAS 19; – Reviewed the duration of liabilities of the Council to ensure assumptions used are appropriate to the asset and liability profile of the authority; – Reviewed if there are any departures from the actuary's recommended assumptions – none noted; and – Performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over roll-forward valuation. <p>Findings</p> <p>In the 'Significant findings – other issues' on pages 9 we set out the potential impact of the McCloud judgement on the pension fund net liability. We are satisfied that this has not resulted in a material difference in the 2018/19 accounts and the narrative disclosure in Note 27 has been updated to reflect the latest position.</p> <p>Our audit work has not identified any other issues in respect of the valuation of the pension fund net liability.</p>

Significant findings – audit risks

Risks identified in our Audit Plan

5

New risk identified following receipt of the draft financial statements

Level 3 financial assets and liabilities

The Council has reviewed the fair value of the finance assets as part of the IFRS 9 assessment in preparing the draft accounts and concluded that the soft loans for private sector housing improvement purposes and the equity investment in Oportunitas Limited are Level 3.

Fair value hierarchy level 3 financial assets are hard to value as they have unobservable inputs for the assets or liability. By their very nature, level 3 assets require a particularly high degree of judgement.

There is a risk to reach an appropriate valuation at year end, as well as ensuring the asset is classified correctly in line with the new accounting requirements of IFRS 9.

Commentary

Auditor commentary

We have:

- gained an understanding of the council's process for valuing hard to value financial assets and evaluate the design of the associated controls
- reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuation provided for the loans to companies and shares in unlisted companies
- considered the competence, expertise and objectivity of any management experts used
- assessed the council's policy undertaken in regard to the new accounting standard and ensured all financial assets and liabilities are subsequently categorised correctly
- challenged management about the disclosure of the level 3 financial assets.

Findings




Our audit work has not identified any other issues in respect of the valuation of Level 3 financial assets and liabilities.

Significant findings - other issues





This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>1 Potential impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £1,005k, and an increase in service costs for the 2019/20 year of £86k, creating a total potential misstatement of £1,091k.</p> <p>Management's view is that the impact of the ruling is not material for Folkestone and Hythe District Council, and will be considered for future years' actuarial valuations.</p>	<p>We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p> <p>We have included this as an uncertainty within Appendix A.</p>


Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals - £1,659k	The Council are responsible for repaying a proportion of successful rateable value appeals. Management calculate the level of provision required themselves. Management's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Due to a reduction in outstanding appeals, the provision has decreased by £248k in 2018/19.	<p>We assessed management's provision for NNDR appeals by considering:</p> <ul style="list-style-type: none"> the appropriateness of the underlying information used to determine the estimate the impact of any changes to valuation method the consistency of estimate against peers the reasonableness of increase/decrease in estimate the adequacy of disclosure of estimate in the financial statements <p>We consider management's process is appropriate.</p>	 Green
Land and Buildings – Council Housing - £170,888k	The Council owns 3,381 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 has engaged Sibley Pares (Taylor Riley) Ltd to complete the valuation of these properties. Due to the timing of the valuation and the availability of housing price data, the valuer applied a percentage increase based on the increase in property prices between April 2018 and February 2019. The year end valuation of Council Housing was £170,888k, a net increase of £5,454k from 2017/18 (£165,434k).	<p>We have assessed management's estimate, considering;</p> <ul style="list-style-type: none"> an assessment of management's expert; the completeness and accuracy of the underlying information used to determine the estimate; the consistency of estimate against near neighbours and a report produced by our auditors expert, Gerald Eve; the reasonableness of the assumptions behind the valuations; the reasonableness of increase in estimate; and the adequacy of disclosure of estimate in the financial statements. <p>We consider management's process is appropriate, though due to a decrease in house prices in Folkestone and Hythe in March 2019 that is not reflected in the valuer's percentage at the end of February 2019, we consider that management's estimation process contains assumptions we consider optimistic.</p> <p>The council dwelling valuation has been amended in the final version of the accounts. See page 7 for further details.</p>	 Red (Note: the revised accounts are assessed as  Green)

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 judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – £17,328k	<p>Other land and buildings (£17,328k) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Sibley Pares (Taylor Riley) Ltd to complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. The largest 20 assets by value were revalued during 2018/19. This equates to around 75% of this class of assets. The valuation of properties valued by the valuer has resulted in a net increase of £1,864k. Management have considered the year end value of non-valued properties, by considering the movements in their other assets to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has concluded that in general terms, there was little evidence of significant local prices changes to the council's remaining property portfolio. The total year end valuation of Other land and buildings was £17,328k, a net increase/decrease of £1,864k from 2017/18 (£15,150k).</p>	<p>We have assessed management's estimate, considering;</p> <ul style="list-style-type: none"> • an assessment of management's expert; • the completeness and accuracy of the underlying information used to determine the estimate; • the consistency of estimate against near neighbours and a report produced by our auditors expert, Gerald Eve; • the reasonableness of the assumptions behind the valuations; • the reasonableness of increase in estimate; and • the adequacy of disclosure of estimate in the financial statements. <p>We consider management's process is appropriate,</p>	 Green

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 judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Surplus Assets - £10,706k	Surplus assets (£10,076k) are not specialised in nature and have been valued at fair value, estimated at highest and best use from a market participant's perspective. The Council has engaged Sibley Pares (Taylor Riley) Ltd to complete the valuation of properties as at 31 March 2019. This class contains land at Princes Parade and Recreation Ground & Woodland at Stombers Lane. The total year end valuation of surplus Assets was £10,076k, a net increase of £9,822k from 2017/18 (£263k). This is primarily due to the increase in the value of Princes Parade following the submission of the planning application.	<p>We have assessed management's estimate, considering;</p> <ul style="list-style-type: none"> • an assessment of management's expert; • the completeness and accuracy of the underlying information used to determine the estimate; • the consistency of estimate against near neighbours and a report produced by our auditors expert, Gerald Eve; • the reasonableness of the assumptions behind the valuations; • the reasonableness of increase in estimate; and • the adequacy of disclosure of estimate in the financial statements. <p>We consider management's process is appropriate,</p>	 Green
Investment property - £31,841k	Investment property comprises £27,240k of agricultural land, a significant majority of which relates to land purchased in 2015 for the development of Otterpool Park. The remainder of the investment properties relate residential properties, commercial units, commercial land and assets under construction. Investment property is required to be valued at fair value at year end. The Council has engaged Sibley Pares (Taylor Riley) Ltd to complete the valuation of properties as at 31 st March 2019. 100% of total assets were revalued during 2018/19. The total year end valuation Investment property was £31,841k, a net increase from fair value adjustments of £21,857k and acquisitions of £1,048k from 2017/18 (£8,003k). Most of this increase from fair value was due to the increase in value of the land for the development of Otterpool Park.	<p>We have assessed management's estimate, considering;</p> <ul style="list-style-type: none"> • an assessment of management's expert; • the completeness and accuracy of the underlying information used to determine the estimate; • the consistency of estimate against near neighbours and a report produced by our auditors expert, Gerald Eve; • the reasonableness of the assumptions behind the valuations; • the reasonableness of increase in estimate; and • the adequacy of disclosure of estimate in the financial statements. <p>We consider management's process is appropriate.</p>	 Green

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
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Significant findings – key judgements and estimates

Summary of management’s policy	Audit Comments	Assessment																									
<p>Net pension liability – £64,881k</p>	<p>The Council’s net pension liability at 31 March 2019 is £64,881k (2017/18 £70,690k) comprising the Kent County Council Pension Fund Local Government defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council’s assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £8,052k actuarial gain recognised in the comprehensive income and expenditure statement during 2018/19.</p>	<p>We assessed management’s estimate for the net pension liability, considering:</p> <ul style="list-style-type: none"> • An assessment of management’s expert • An assessment of actuary’s roll forward approach taken, detail work undertaken to confirm reasonableness of approach • The use of PwC as auditor’s expert to assess actuary and assumptions made by actuary 	 Green																								
<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.40%</td> <td>2.35% - 2.45%</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.45%</td> <td>2.40% - 2.45%</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Salary growth</td> <td>3.95%</td> <td>3.10% - 4.35% scheme-specific</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>45: 23.7 60: 22.0</td> <td>22.2 – 25.0 20.6 – 23.4</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>45: 25.8 60: 24.0</td> <td>25.0 – 26.6 23.3 – 24.8</td> <td style="text-align: center;">●</td> </tr> </tbody> </table>				Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.40%	2.35% - 2.45%	●	Pension increase rate	2.45%	2.40% - 2.45%	●	Salary growth	3.95%	3.10% - 4.35% scheme-specific	●	Life expectancy – Males currently aged 45 / 65	45: 23.7 60: 22.0	22.2 – 25.0 20.6 – 23.4	●	Life expectancy – Females currently aged 45 / 65	45: 25.8 60: 24.0	25.0 – 26.6 23.3 – 24.8	●
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.40%	2.35% - 2.45%	●																								
Pension increase rate	2.45%	2.40% - 2.45%	●																								
Salary growth	3.95%	3.10% - 4.35% scheme-specific	●																								
Life expectancy – Males currently aged 45 / 65	45: 23.7 60: 22.0	22.2 – 25.0 20.6 – 23.4	●																								
Life expectancy – Females currently aged 45 / 65	45: 25.8 60: 24.0	25.0 – 26.6 23.3 – 24.8	●																								
<ul style="list-style-type: none"> • The completeness and accuracy of the underlying information used to determine the estimate • The impact of any changes to valuation method • The reasonableness of the Council’s share of LPS pension assets. • The reasonableness of increase in estimate • The adequacy of disclosure of estimate in the financial statements • The materiality of the impact of the McCloud judgement on the council’s liabilities <p>We consider management’s process is appropriate.</p>																											





Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
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- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 2 investments and borrowing	The Council has investments and borrowing that are valued on the balance sheet as at 31 March 2019. In order to gain assurance over existence and accuracy of these balances, we obtain direct confirmations from the institutions.	<p>We have received external confirmations and for balances we could not received external confirmations we have undertaken alternative audit procedures to gain assurance over existence and accuracy of the balance.</p> <p>Our work has not identified any issue in respect of investments held.</p>	 Green

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 and key assumptions to be reasonable

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

Management's going concern assessment is implicit in the forward planning documents such as the Budget 19/20 and Medium Term Financial Strategy. The Council has healthy earmarked reserves of £16.2m and £2.7m of General Fund reserves. Whilst local government funding continues to reduce over time, the Council is well placed financially to deliver services for local residents in the longer term

Auditor commentary

- We agree with management's assessment that the Council is a going concern.

Work performed

Auditor commentary

In common with other public sector bodies, even if a local authority were unable to continue as a business, we would normally expect the accounts to be prepared on a going concern basis. This is because there is a public sector interpretation of IAS 1 that means, unless the services provided by a public sector body are likely to be transferred outside the public sector, the financial statements should be prepared on a going concern basis.

A review of the draft financial statements have not identified the existence of going concern events or conditions which cast significant doubt on Folkestone and Hythe District Council's ability to continue as a going concern. There is a significant volume of evidence available to support the conclusion of officers that it is appropriate that the accounts are produced on a going concern basis such as the detailed information on the Council's Budget for 2019/20, the MTFS and the STS

Concluding comments

Auditor commentary

- We have reviewed management's assessment and are satisfied that the going concern basis is appropriate for the 2018/19 financial statements.

Other communication requirements

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	Commentary
① Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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.
④ Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Audit and Governance Committee papers.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to banks, investment fund managers, and loan counterparties. This permission was granted and the requests were sent. Where we have not received a positive confirmation to these requests we have undertaken alternative procedures, including agreeing year end balances to the statements held by the council.
⑥ Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
⑦ Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> The draft accounts and supporting working papers were provided to us for audit on 28 May 2019, 2 days before the statutory deadline. All information and explanations requested from management was provided. We encountered no significant difficulties during our audit.

Other responsibilities under the Code

Issue	Commentary
1 Other information	<ul style="list-style-type: none"> 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. <p>A minor change has been identified in the Narrative Report and has been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to Appendix A.</p>
2 Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> 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 <p>We have nothing to report on these matters.</p>
3 Specified procedures for Whole of Government Accounts	<p>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.</p> <ul style="list-style-type: none"> Note that work is not required as the Council does not exceed the threshold;
4 Certification of the closure of the audit	<p>We cannot certify the closure of the 2018/19 audit of Folkestone and Hythe District Council in the auditor's report, as detailed in Appendix C. This is because we have received an objection to the 2018/19 financial statements and our work in respect of objection, and the related value for money risk, is ongoing.</p>

Value for Money

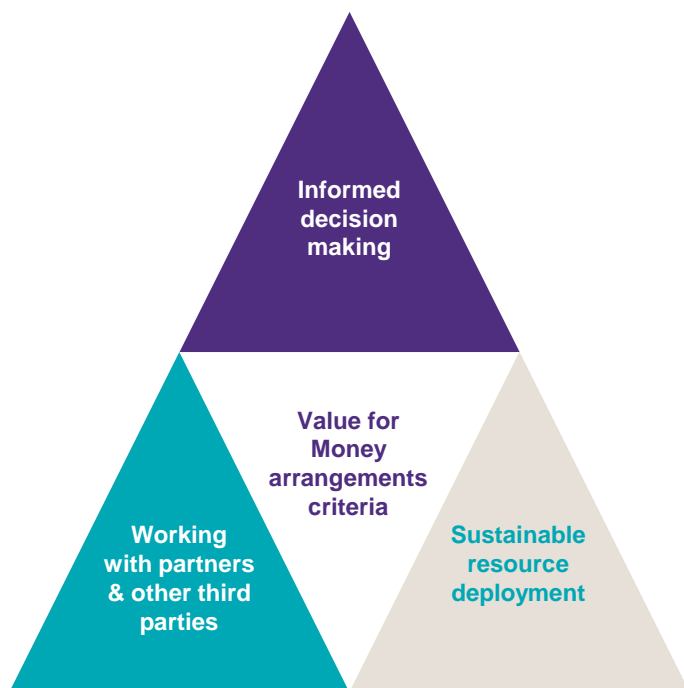
Background to our VFM approach

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 November 2017. 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:



Risk assessment

We carried out an initial risk assessment in January 2019 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 February 2019.

Our risk assessment is a dynamic process and we have had regard to new information which emerged since we issued our Audit Plan:

- The management of the contract with P&R for the provision of central heating, gas and hot water repairs

We carried out further work only in respect of the significant risks we identified from our initial risk assessment and reported to you in our audit plan. 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:

- due to the UK imminent exit from the European Union and the national and local implications for you, we planned to review your arrangements and plans to mitigate any risks on Brexit
- your budget and savings plans to ensure you deliver financial resilience over the medium term
- your continued arrangements to ensure you deliver the full potential on capital plans.

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 21 to 26.

Overall conclusion

As part of our continuous planning process we identified a new significant risk to the value for money conclusion which is set out on page 26. The risk relates the management of the contract with P&R for the provision of central heating, gas and hot water repairs. Our work for this risk will be carried out in the coming months so we cannot reach an overall value for money conclusion.

We have undertaken work on the 3 significant risks we identified in our audit plan in respect of our value for money work. We have not identified any issues in relation to these risk that will impact on the value for money conclusion.

However, we will consider our final value for money conclusion once we have concluded work on the significant risk which emerged since our audit plan was issued.

Recommendations for improvement

We have not identified any recommendations for improvement in the work completed and concluded to date.

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.

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

1

Brexit

With the UK due to leave the European Union on 29 March 2019, there will be national and local implications resulting from Brexit that will impact on you, which you will need to plan for.

We will review your arrangements and plans to mitigate any risks on Brexit. Our review will focus on areas such as workforce planning, supply chain analysis, regulatory impact and impacts on finances including investments.

Findings

Traffic and general planning

The council's Brexit preparedness planning has been focused on reacting to this potential no-deal scenario and the immediate considerations that would rise from that, applicable to the delivery of Folkestone and Hythe District Council services. Central Government has warned that a no-deal scenario could lead to 6 months of disruption. Working together with the Kent-wide Brexit Taskforce made up of emergency services, the County Council, NHS bodies and other local authorities through the Kent Resilience Forum (KRF), the council has produced a work plan that uses the guidance from the KRF to address the most significant impacts. Folkestone and Hythe District Council has identified the main risk arising from a no-deal Brexit would be the threat to business continuity the impact of likely major traffic congestion on Kent motorways and major roads resulting from delays at Kent ports. The 'Freight Traffic Management Plan' plan to utilize Operation Fennel, which uses a phased approach to manage the flow of freight and other traffic through Kent's motorways and A-roads. However, experience from Operation Stack in 2015 suggests that even with plans such as these in place, there can still be significant disruption of major and local roads throughout the county. Congestion such as this could impact the council's ability to deliver key and statutory services as staff may be unable to get to their places of work. We agree that this is the largest and most likely impact on Folkestone and Hythe District Council from a no-deal Brexit scenario.

In order to mitigate this risk, the council have taken several actions. The actions include redoing its business continuity plans for all departments across the council; liaising with members of the KRF; drawn up a rota for senior officers to be lead on strategic, tactical and communications roles on key on key dates; mapping staff home locations to plan how to get them to work if required. Since the council moved to a more flexible way of working around five years ago, much of the equipment to enable staff to work from home have been in place which mitigated one of the major risks. The planned implementation of a new telephony system focused the roll out on the departments where home working with the current equipment wouldn't be possible. These are proportional responses to the implications on Folkestone and Hythe of a no-deal Brexit scenario that will help maintain key council services to be delivered in the case of a no-deal Brexit. Additionally, key staff have been sent on operational, tactical and strategic command and control training; and a communication strategy was produced for keeping the public informed of the impact on services.

To reclaim the costs of their Brexit preparations, in January, the council applied for funding from the Brexit Contingency Fund that was to be managed by Kent County Council. This funding was to be used to support the council providing mutual aid to Kent County Council and other Kent districts. However, as a result of a decision from the Ministry of Housing, Communities and Local Government, instead of locally managed contingency funds, each district council in the country was given £35,000 over two years to support Brexit preparedness. As Folkestone has a port, they were also received a share of £1,500k set aside by Central Government for local authorities facing immediate impacts from local ports.

Finance

A risk relating to 'Brexit and Wider Market conditions' has been on the Council's Strategic Risk Register since December 2018 when the Council refreshed Corporate Risk Register based upon the updated Risk Management Policy & Strategy which was adopted by Cabinet in July. This was upgraded from an amber risk in December 2018 to red in March 2019 to reflect the increased risk of a no-deal Brexit and the potential impact on business continuity this could have. Additionally, the Treasury Management Strategy Statement 2019/20 has taken Brexit into consideration and its potential impact on interest rates, the value of sterling, European banks and access to credit.

Key findings (continued)

Significant risk

1 Brexit (continued)

Findings

The majority of the plans detailed above are all rather short-term plans for a no-deal Brexit. There has not been much planning for the medium- and long-term impact of a variety of Brexit outcomes. However, the Council have taken into consideration the longer term impact of Brexit on the economy and labour market that could impact on services provided by the council, such as housing responsive repairs and waste services. Additionally, key strategic projects have been modelled with tolerances built in for market volatility. As acknowledged in the Strategic Risk Register, we would expect to see reference to any medium- to long-term financial impacts of whichever Brexit scenario occurs in the Medium-Term Financial Strategy when it is next refreshed.

Governance

The oversight of Brexit planning is carried out by the council's Assistant Director of Environment & Corporate Assets. He has provided regular sessions to members and officers on the preparations for a no-deal Brexit scenario. These arrangements are sufficient to keep members and senior officers abreast of Brexit planning.

Change in the Brexit deadline

Following an agreement between the UK central government and the European Union, to move the Brexit deadline back from 29th March 2019 to 31 October 2019, since year end, we have continued to consider how the Council is approaching and managing the risks associated with this risk, especially with the prospect of a no deal departure looming larger. However, as our VFM conclusion relates to the same period as the statement of accounts, evidence of actions taken by the Council since the year end in respect to planning for Brexit has not been referred to above.

Conclusion

On this basis we concluded that the risk identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Key findings (continued)

Significant risk

2 Medium Term Financial Resilience

The Council will need to manage its financial position and savings targets closely during the medium term period to avoid a negative impact on the long term financial stability of the Council. You have savings plans in place including:

- Service redesign and reviews around the future operating model
- Generation of additional revenues through capital investment and Oportunitas.

We will review your Medium Term Financial Plan, including the robustness of assumptions. We will review arrangements in place for monitoring savings plans and revenue generating schemes.

Findings

Outturn Performance 2018/19

During 2018/19, the council reported a better than budgeted general fund deficit before recharges and depreciation of £1,232k against a latest approved deficit position of £3,435k deficit. This is a positive variance of £2,203k against the budget. This continues your track record of delivering outturn results to budget or surplus positions.

Most of the reported outturn variances were relatively small, with significant £3,226k positive variances for business rates income due to the reduced levy as a result of participation in the Kent Business Rates Pool and the benefit from 100% Retention Pilot. The local government provisional settlement announced that the Kent and Medway business rates pilot application for 2019/20 was unsuccessful meaning the Kent and Medway Business Rates Pool will revert to the 50% retention scheme.

We have discussed how the performance is monitored and reported to Cabinet and we consider this process to be structured.

The Budget for 2019/20 and beyond

Your 2019/20 budget, finalised in February 2019, used the 2018/19 budget and forecast outturn as the starting point. You made adjustments for changes in assumptions and known changes such as council tax requirement, and the Local Government Finance Settlement 2019/20, and then sought to identify growth and savings to close the £721k gap highlighted in the September 2018 MTFS. The budget reports have been subject to review by the Overview and Scrutiny Committee throughout the budget setting process.

Your Medium Term Financial Strategy (MTFS) is the key financial planning document which sets out the financial implications of your corporate strategy over 5 years for the purposes of decision making and for you to provide assurance that you have a sustainable position in place to deliver service priorities and other investments in the local area.

You established your Medium-Term Financial Strategy by using the current year 2019/20 year budget as a baseline along with known variances from the outturn. The 2019/20 budget work completed feeds into the extrapolation of this performance through to 2023 by the application of known and estimated increases to income and expenditure.

We have analysed your detailed breakdown of anticipated and estimated reductions/increases in income and expenditure and 2019/20 and subsequent periods. We discussed the key items with management and looked at the key assumptions in the MTFS. Through this work we concluded that they were realistically and prudently estimated, despite the uncertainty of the outcome of the Government's Fair Funding Review which is expected to be introduced in 2021/22.

You identified a cumulative gap of £4,362k through to 2022/23 to achieve balanced positions and maintain the general fund at its current level. This financial position has been significantly impacted by steep reduction in the New Homes Bonus grant with the reserve set aside from this in prior years due to be depleted in 2021/22. Management have undertaken work to address the funding gap, primarily by developing plans to:

- Take advantage of commercial opportunities wherever possible, such as the planned purchase of Connect 38 in Ashford, development of Princes Parade and Biggins Wood
- Develop alternative income streams and maximise existing ones

Key findings (continued)

Significant risk

2 Medium Term Financial Resilience (continued)

- Develop alternative income streams and maximise existing ones
- Continued to develop and implement transformational plans for efficiencies based on the 2018 'Transforming Shepway' with the aim of saving up to £1,800k over the longer-term period
- Ensuring financial discipline based on previous budget performance
- Use of reserves in a sustainable and prudent manor to invest to save

Savings plans are monitored through budget monitoring processes and management discuss plans which were falling behind and mitigations. Based on your track record of successfully achieving savings targets, and the reasonableness of the underlying planning process and assumptions, you have appropriate planning and monitoring arrangements to achieve the current savings requirement in the MTFs.

Conclusion

Based on our work we have found no evidence that the Council does not have proper arrangements and therefore the risk is mitigated.

Key findings (continued)

Significant risk

3 Delivering the full potential on capital plans

The development of the Otterpool Park Garden Town, alongside smaller scale capital plans, has the potential to make a long term positive contribution to the finances of the Council as well as a long term impact on the area.

We will review the ongoing governance arrangements and decision making processes around the capital investment plans during 2018/19. We will review the business case process for major projects.

Findings

Since 2017/18, the council has continued to progress its major capital investment plan. The largest of these are the development of Otterpool Park and is where we have focused our work.

Otterpool Park

Building on the progress in 2018 when Homes England invested in the Otterpool development, and the approval by the cabinet of the of the draft Otterpool Park Framework Masterplan, the council has continued to move forward on this project. In November 2018, additional borrowing of £10m was approved in order to fund purchase of land for the Otterpool Park Garden Town and to enable the scheme to proceed to the point where development can commence. The Council commissioned an independent health check of the draft masterplan by Savills, a global real estate services provider. They provided a number of recommendations including changes to the density of dwellings, and layout of the town for placemaking purposes. Members and officers of the council, along with representatives from relevant stakeholders including Historic England, Kent County Council (KCC), KCC Heritage and promoters of the project met on a regular basis for Planning Performance Agreement meetings. Minutes from these meetings have been published on the council website, to ensure as transparent a process as possible. These meetings were to refine the details of the draft FINAL for committee services Otterpool Park Framework Masterplan ahead of the submission of the final business case for approval by cabinet.

Through our discussions with management and our review of key documents we were able to take assurance that the Council has put in place proper arrangements for making decisions about the capital developments through its reporting to members, and these governance arrangements are understood by key officers. The Council needs to ensure that governance arrangements are maintained as the projects develop and that transparency is maintained. You intend to develop and publish a full business case process for the other projects.

Development since the end of 2018/19

We note that since 31st March 2019, there have been local elections that have changed the political make up of the council. Some of the new councilors have been elected based on their opposition to the re-development of Princes Parade. However, as our VFM conclusion relates to the same period as the statement of accounts, evidence of actions taken by the Council since the year end in respect to the significant development plans has not been referred to above.

Conclusion

Based on our work we have found no evidence that the Council does not have proper arrangements and therefore the risk is mitigated.

Key findings (continued)

Significant risk (identified since issuing the Audit Plan as part of our continuous risk assessment planning procedures)

3

The management of the contract with P&R for the provision of central heating, gas and hot water repairs

The Council has identified weaknesses in the management of the contract with P&R for the provision of central heating, gas and hot water repairs. There have been a number of problems with the contractor during the year and potential overpayments have been made to P&R. These payments relate to the prior financial year.

We will review the contract management arrangements for P&R as part of the value for money conclusion work and as part of our response to elector who has raised an objection to the 2018/19 accounts.

Findings

We are planning to carry out this work and respond to the objector over the coming months. Because of this we are not able to conclude against this significant risk at this stage.

Conclusion

We will conclude our value for money conclusion once we have had an opportunity to consider the objection raised and consider the impact on our conclusion.

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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

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 audit services were identified. No non-audit services were identified which were charged from the beginning of the financial year to July 2019, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	2,000	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 £2,000 in comparison to the proposed fee for the audit of £46,553 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 Benefits claim	10,500	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 in 2017/18 was £18,084 in comparison to the proposed fee for the audit of £46,553 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.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee. None of the services provided are subject to contingent fees.

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 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reserves £'000	Impact on total net expenditure £'000
1 PPE –council dwellings revaluation				
The draft accounts included a revaluation upwards for the council housing stock of £6,071k. Our review of the valuation identified that our auditor experts view was a smaller increase in the property indices in the Folkestone area of £325k. The difference is due to the timing of the valuers report as the indices used by us were not available at the time of preparing the draft accounts.				
The accounts have been amended as follows:				
Dr Local Authority Housing – exceptional item	856			856
Dr Revaluation Reserve			5,042	
Cr PPE – council dwellings		(5,898)		
2 Management identified changes				
We received draft financial statements by the end of May 2019 and following internal checks by management after this date, management informed us of minor errors identified in the Property, Plant and Equipment note. This version changed the Core Financial Statements as follows				
	86	(145)	(86)	86
Overall impact	942	(5,978)	4,956	942

There is nil impact on the Balance Sheet overall as the adjustment is also made through the Movement in Reserves Statement.

Audit Adjustments

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.

Misclassification or disclosure omission	Detail	Auditor recommendations	Adjusted?
Investment properties (note 20)	The Assets under Construction investment property cost of £143k was included in the Fair Value hierarchy table. As the asset is valued at cost this should not be disclosed in this note.	FHDC have agreed to change this disclosure.	✓
Disclosure only	Various	We have agreed a number of other minor disclosure changes such as typos, formatting and presentation.	✓
PPE –council dwellings revaluation	The impact of the change to the valuation of the Council Dwellings noted on the previous page filters through to many other notes throughout the financial statements.	FHDC have agreed to make these changes	✓

Audit Adjustments

Impact of unadjusted misstatements

We have not identified any adjustments during the 2018/19 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Impact	Reason for not adjusting
McCloud pension liability estimates	Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. This will therefore constitute an unadjusted estimate.	The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £1,005k, and an increase in service costs for the 2019/20 year of £86k creating a total potential misstatement of £1,091k.	Management's view is that the impact of the ruling is not material for Folkestone & Hythe District Council, and will be considered for future years' actuarial valuations. We accept this view. Narrative has been added to the Pensions Note to explanation the ruling.

Fees

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

Audit Fees

	Proposed fee (£)	Final fee (£)	Prior year fee (£)
Council Audit	46,553	TBC	60,458
Total audit fees (excluding VAT)	46,553	TBC	60,458

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

In common with all other councils there will be proposed additional fees related to Mcloud and other regulatory requirements for 2018/19. We do not propose any additional fees for other matters. We have not yet discussed the additional fees with management and will do so once the audit is complete.

Fees in respect of grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

Fees for other services	Fees (£)
Audit related services:	
• Housing Benefits Certification	10,500
• Pooling of Housing Capital Receipts Certification	2,000
	12,500

Audit opinion

We anticipate we will provide the Group with a modified audit report

Independent auditor's report to the members of Folkestone and Hythe District Council Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Folkestone and Hythe District Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account (HRA) Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the notes supporting the movement in reserves statement, the notes supporting the comprehensive income and expenditure statement, the notes supporting the balance sheet, the notes supporting the cash flow statement, other notes and notes to the group financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Authority and group financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Audit opinion

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages 17 to 18, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2019 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We are unable to issue our conclusion until we have completed our consideration of matters that come to our attention. We are satisfied that these matters do not have a material effect on the financial statements for the year ended 31 March 2019.

In addition, we cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that this matter does not have a material effect on the financial statements for the year ended 31 March 2019.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the

Audit opinion

Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Elizabeth Jackson, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]



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