Folkestone & Hythe District Council

Agenda

Meeting: **Audit and Governance Committee**
Date: **27 May 2021**
Time: **7.00 pm**
Place: **Council Chamber - Civic Centre Folkestone**

To: **All members of the Audit and Governance Committee**

The committee will consider the matters, listed below, at the date, time and place shown above. The meeting will be open to the press and public.

Members of the committee, who wish to have information on any matter arising on the agenda, which is not fully covered in these papers, are requested to give notice, prior to the meeting, to the Chairman or appropriate officer.

Due to current social distancing guidelines, only 6 seats are available for members of the public at meetings in the Council Chamber. These seats will be reserved for those speaking or participating at the meeting, and the remaining available seats will be given on a first come, first served basis.

Members of the public are encouraged to view the meeting online if they are not to address the meeting. Meetings will be streamed live to the internet, and can be viewed at:
https://folkestone-hythe.public-i.tv/core/portal/home

Further information on attending council meetings can be found at Advice for public attendance

1. **Apologies for Absence**

2. **Declarations of Interest (Pages 3 - 4)**

Members of the committee should declare any interests which fall under the following categories:

Queries about the agenda? Need a different format?

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Email: committee@folkestone-hythe.gov.uk or download from our website
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Date of Publication: Wednesday 19 May 2021

a) disclosable pecuniary interests (DPI);
b) other significant interests (OSI);
c) voluntary announcements of other interests.

3. **Minutes (Pages 5 - 14)**

To consider and approve, as a correct record, the minutes of the meetings held on 4 March 2021 and 19 April 2021.

4. **Grant Thornton Risk Assessment Work (Pages 15 - 56)**

Grant Thornton are seeking confirmation from the Committee about how it gains assurance from management and from the S151 Officer on the management processes in place. Their request includes a series of questions on fraud, laws and regulations. The proposed responses are enclosed.

5. **Accounting Policies 2020/21 (Pages 57 - 72)**

Accounting Policies are the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements. This report presents the Accounting Policies proposed to be adopted for the 2020/21 financial statements.

6. **Grant Thornton Audit Plan for the Year Ended 31 March 2021 (Pages 73 - 104)**

The report presents the Grant Thornton Audit Plan, which focuses on their proposed work on auditing the statement of accounts for 2020/21 and an update on the audit fees.

Declarations of Interest

Disclosable Pecuniary Interest (DPI)

Where a Member has a new or registered DPI in a matter under consideration they must disclose that they have an interest and, unless the Monitoring Officer has agreed in advance that the DPI is a 'Sensitive Interest', explain the nature of that interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a DPI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation permitting them to do so. If during the consideration of any item a Member becomes aware that they have a DPI in the matter they should declare the interest immediately and, subject to any dispensations, withdraw from the meeting.

Other Significant Interest (OSI)

Where a Member is declaring an OSI they must also disclose the interest and explain the nature of the interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a OSI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation to do so or the meeting is one at which members of the public are permitted to speak for the purpose of making representations, answering questions or giving evidence relating to the matter. In the latter case, the Member may only participate on the same basis as a member of the public and cannot participate in any discussion of, or vote taken on, the matter and must withdraw from the meeting in accordance with the Council's procedure rules.

Voluntary Announcement of Other Interests (VAOI)

Where a Member does not have either a DPI or OSI but is of the opinion that for transparency reasons alone s/he should make an announcement in respect of a matter under consideration, they can make a VAOI. A Member declaring a VAOI may still remain at the meeting and vote on the matter under consideration.

Note to the Code:
Situations in which a Member may wish to make a VAOI include membership of outside bodies that have made representations on agenda items; where a Member knows a person involved, but does not have a close association with that person; or where an item would affect the well-being of a Member, relative, close associate, employer, etc. but not his/her financial position. It should be emphasised that an effect on the financial position of a Member, relative, close associate, employer, etc OR an application made by a Member, relative, close associate, employer, etc would both probably constitute either an OSI or in some cases a DPI.

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Folkestone & Hythe District Council

Minutes

Audit and Governance Committee

Held at:	Remote Meeting
Date	Thursday, 4 March 2021
Present	Councillors Mrs Ann Berry (Vice-Chair), Laura Davison, Philip Martin (Chairman), Terence Mullard and Rebecca Shoob
Apologies for Absence	None
Officers Present:	Andy Blaszkowicz (Director of Housing and Operations), Kate Clark (Case Officer - Committee Services), Gavin Edwards (Performance and Improvement Specialist), John Holman (Assistant Director of Housing), Amandeep Khroud (Assistant Director), Derrick Miller (Corporate Health & Safety Officer), Mrs Christine Parker (Head of Audit Partnership), Mr Chris Parker (Deputy Head of Audit) and Charlotte Spendley (Director of Corporate Services) and Geoff Mills (Committee Services)
Others Present:	Andy Vanburen (A & G Independent Member) and Paul Dossett (Grant Thornton)

60. **Declarations of Interest**

There were no declarations of interest.

61. **Minutes**

The Minutes of the meetings held on 24 November and 3 December 2020 were submitted and approved. The Chairman’s signature would be added to these minutes showing approval

62. **Corporate Health and Safety Report**

Report AuG/20/17 summarised the District Council’s health and safety performance to the end of the annual year 2020 and outlined its intentions for 2021 and beyond.

The Health and Safety Specialist for the Council in presenting this wide-ranging report said, that health and safety was being monitored against an ongoing action plan devised by the Corporate Health & Safety Officer in agreement with the Director for Housing and Operations and the Operations Lead Specialist. The annual review against the action plan, revealed that significant areas of work had been undertaken in relation to abuse, aggression and violence procedures; fire safety procedures and direct labour organisation related safety.

The Director of Housing and Operations said, the report demonstrated that the District Council had a strong commitment to the health and safety of its workforce, and to others who may be affected by its activities. Members could therefore, have confidence in the hard work being undertaken across all the activities of the council to ensure risks were being reduced and the culture of health and safety was being enhanced.

In answer to questions from a member, it was said that although supplies of PPE had been difficult at the beginning of the pandemic, the Council now had sufficient stock. With regard to a question about having more regular reports to the Committee, the Director of Housing and Operations said he would discuss with the CLT how best that may be achieved.

Proposed by Councillor Laura Davison.
Seconded by Councillor Terence Mullard; and

RESOLVED:
That Report AuG/20/17 be received, and its content noted.

(Voting: For 5; Against 0; Abstentions 0)

63. **Annual report - maintaining Ethical Standards**

Report AuG/20/13 was introduced by the Assistant Director, Governance and Law, who said the Codes which Council was required to have in place under the Local Government Act 2000, supported the Council's ethical standards and governance framework. They set out the standards of behaviour that the Council expected of its Councillors and staff and how they related to one another.

The key issues which the report identified were:

- No dispensations had been granted by the Audit and Governance Committee to District Councillors during 2020/21.
- Training on the Code of Conduct was included in the District Councillor's Member Induction Programme after the May 2019 elections.
- All elected Members of the Council and all Town and Parish Councils had completed and submitted their Register of Interest forms.
- During the financial year 20/21, 17 complaints were received relating to district and parish Councillors, compared with 16 in 19/20 and 20 in 18/19.

- Two investigations had been concluded in 20/21.
- On 24 November 2020, Mr Andrew Vanburen was appointed as the Independent Member of the Audit & Governance. He would fulfil a very useful function with regard to the ethical framework.

In answer to a question from a Member**,** the Assistant Director, Governance and Law said as this report was more in the way of an overview of the Council's ethical governance, the details of the complaints and dispensations which it referred to were, as necessary, reported to Members in specific reports that came before the Committee.

Proposed by Councillor Mrs Ann Berry
Seconded by Councillor Terence Mullard; and

RESOLVED:
That Report AuG/20/13 be received, and its content noted.

(Voting: For 5; Against 0; Abstentions 0)

64. **Local Code of Corporate Governance**

Report AuG/20/18 was introduced by the Assistant Director, Governance and Law who said the Council needed to consider and adopt annually, a Local Code of Corporate Governance. The code is based on advice provided by the Chartered Institute for Public Finance and Accountancy and the Society of Local Authority Chief Executives as set out in their guidance document "*Delivering Good Governance in Local Government: Framework".*

The Code, a copy of which was appended to the report, was based on seven core principles as follows:

A. Strong commitment to integrity, ethical values, and the rule of law.

B. Openness and comprehensive stakeholder engagement.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.

D. Determining the interventions necessary to optimise the achievement of intended outcomes.

E. Developing the capacity of the entity, including the capability of its leadership and the individuals within it.

F. Managing risks and performance through robust internal control and strong public financial management.

G. Implementing good practices in transparency and reporting to deliver effective accountability.

The Assistant Director said under each principle was a list of actions that the Council takes to support the relevant principle, and these were actions which it was already taking.

In answer to a question from a Member, the Assistant Director, Governance and Law said prior to coming to this Committee, the core values, as set out in the appendix, had been part of the Council's values for some time and had previously been considered and agreed by the Corporate Leadership Team and the Cabinet.

In answer to a question on Member training, the Assistant Director said this was provided following council elections for both new and returning members. If a Member felt they needed specific training on any particular area of their responsibilities, then that can be discussed with them individually and appropriate courses recommended accordingly.

In answer to a question from a Member regarding the number of Personal Development Plans that were in place, the Assistant Director, Governance and Law said she did not that information to hand and would speak to the Member outside of the meeting.

Proposed by Councillor Terence Mullard
Seconded by Councillor Mrs Ann Berry; and

RESOLVED:

That Report AuG/20/18 be received, and the Local Code of Corporate Governance 2021, as set out in the appendix be adopted.

(Voting: For 5; Against 0; Abstentions 0)

65. **Annual governance statement Actions - update on 20/21 actions**

Report AuG/20/20 was introduced by the Performance and Improvement Specialist who said it presented to Members the current position on progress towards achieving the 2020/21 actions, as set out in the Annual Governance Statement.

The Annual Governance Statement for 2019/20 had identified a number of significant governance issues that were likely to arise during this year and therefore the Annual Governance Statement for 2020/21 presented an update on progress and action plan for improvement.

In answer to a question from a Member, the Performance and Improvement Specialist said he would provide a written response regarding the review of the Folkestone and Hythe Delivery Board.

Proposed Councillor Rebecca Shoob
Seconded Councillor Mrs Ann Berry; and

RESOLVED:

That report AuG/20/20 be noted together with the progress towards achieving the actions in the Annual Governance Statement 2021, as set out in Appendix 1 to the report.

(Voting: For 5; Against 0; Abstentions 0)

66. Grant Thornton Update Report

Report AuG/20/19 was introduced by Mr Paul Dossett of Grant Thornton. The report provided an update on recent audit work undertaken, progress in 2020/21 against the audit key deliverables and a brief technical update. The report also included a summary on national emerging issues and developments, relevant to the work of Committee and the Council. The report also included details of the new National Audit Office Code of Audit Practice for 2020-21 and revised auditing standards.

In answer to a question from a Member, Mr Dossett said the outcome of the objection to the 2018/19 accounts should be known within the next couple of weeks.

Proposed Councillor Mrs Ann Berry
Seconded Councillor Terence Mullard; and

RESOLVED:

That Report AuG/20/19 be noted together with the progress being made against the key actions undertaken by Grant Thornton.

(Voting: For 5; Against 0; Abstentions 0)

67. Annual report of the Audit and Governance Committee

Report AuG/20/14 was presented by the Assistant Director, Governance and Law.

The Assistant Director said this report summarised the achievements of the Audit and Governance Committee against its terms of reference for the period 1 April 2020 to 31 March 2021 and detailed the impact that it had made on the overall system of internal control in operation. The Audit and Governance Committee sought to ensure it had effective communication with the authority, which included the Executive, the Council's statutory officers, the Head of Internal Audit, the external auditor, and other stakeholders, that was mainly achieved through the work of the Committee but was further enhanced by the submission of this annual report to the Council's annual meeting.

In answer to a question from a Member, the Assistant Director said there had been 17 code of complaints, one of which was still ongoing, and she would provide further information on those outside of the meeting.

In response to further questions from Members, the Assistant Director said she was required to report all breaches of the Code of Conduct to Members, and that she would be happy to submit a quarterly report which provided a general overview of the number of complaints that had been upheld or not, together with the number that were currently under investigation. This was agreed.

Proposed Councillor Terence Mullard
Seconded Councillor Mrs Ann Berry; and

RESOLVED:

That Report AuG/20/14 be received, and noted and that the Assistant Director, Governance and Law submit a quarterly report to Members which provided a general overview of the number of complaints under the Councillors Code of Conduct that been received and whether they had been upheld or not, together with the number that were currently under investigation.

(Voting: For 5; Against 0; Abstentions 0)

68. **Internal Audit Progress Report from the Head of the East Kent Audit Partnership**

Report AuG/20/15 included the summary of work of the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee meeting together with details of the performance of the EKAP to the 31 December 2020.

The Deputy Head of Audit presented this report drawing members attention to the following:

- The summary of findings following the Council taking back responsibility for the management of its housing stock and residents from 1 October 2020.
- The report of the East Kent Audit Partnership on the current effectiveness of the Housing Landlord Compliance Service.
- None of the business grants paid out by the Council had been made to known fraudulent bank accounts as notified by the National Anti-Fraud Network.
- Land Charges – the assurance level had been revised and was now substantial/reasonable.
- Tenancy and Right to Buy Fraud – the assurance level was limited with the pilot counter fraud scheme being undertaken with Ashford Borough Council having been delayed due to Covid19.

- Waste Management – the level of assurance was now reasonable/limited.
- Progress against the 2020/21 Audit Plan was 88%.

Following on from this Members raised the following topics:

- Management of Housing Stock - The Director of Housing said the Council should be proud of the hard work and progress made since responsibility for the housing stock and tenants had been taken back under Council control. Housing stock action plans were in place and progress was being made to achieve targets. The Director said, he had met with the Regulator, who had confirmed the Council was doing everything that it should be doing.
- Homelessness Audit – The Deputy Head of Audit said the Team were currently handling a considerable amount of work, but this audit would be commenced as soon as possible. Updates on progress against the 2020/21 Audit Plan would be submitted to a future meeting.
- Covid 19 – Business Grants – Further to the data match assurance work undertaken the Deputy Head of Audit said it is possible that some more work regarding these grants may be proposed and there would be an update to a future meeting.

Proposed Councillor Laura Davison
Seconded Councillor Rebecca Shoob; and

RESOLVED:

1. **That Report AuG/20/15 be received and noted; and**
2. **The results of the work carried out by the East Kent Audit Partnership be noted.**

(Voting: For 5; Against 0; Abstentions 0)

69. **Draft Internal Audit Plan 2021-22**

Report AuG/20/16 was presented by the Head of Audit Partnership who said its purpose was to present to Members the draft Internal Audit Plan for 2021/22, and help the Committee assess whether the East Kent Audit Partnership had the necessary resources and access to information to enable it to fulfil its mandate and was equipped to perform in accordance with the professional standards for Internal Auditors.

The Head of the East Kent Audit Partnership said in her professional opinion, the draft 2021/22 internal plan presented for Members consideration would allow for an opinion to be given on the Council’s key risk areas and systems. That should be sufficient coverage to inform the Annual Governance Statement.

In answer to a question from a Member, the Head of EKAP said it would not be possible to bring forward the planned timetable for undertaking all the reviews identified within the housing service. However, she assured Members that any high-profile matters would be brought into the Plan and dealt with as appropriate. Having said, that the Head of EKAP said she would look at whether the planned review of Housing Allocations could be brought forward from its current planned timetable of 2024/25.

In answer to a question from a Member, the Head of EKAP said that generally they did not undertake audit reviews of Council working groups.

Proposed Councillor Mrs Ann Berry
Seconded Councillor Terence Mullard, and

RESOLVED:

1. **That Report AuG/20/16 be received and noted; and**
2. **The Audit and Governance Committee approve (but not direct) the Council's Internal Audit Plan for 2021/22.**

Voting: For 5; Against 0; Abstentions 0)

Folkestone & Hythe District Council

Minutes

Audit and Governance Committee

Held at:	Remote Meeting
Date	Monday, 19 April 2021
Present	Councillors Mrs Ann Berry, Laura Davison, Philip Martin (Chairman), Terence Mullard and Rebecca Shoob
Apologies for Absence	None
Officers Present:	Kate Clark (Case Officer - Committee Services), Amandeep Khroud (Assistant Director) and Jemma West (Committee Service Specialist)
Others Present:	Andy Vanburen (Independent Member)

70. **Declarations of Interest**

There were no declarations of interest.

71. **Exclusion of the Public**

Proposed by Councillor Mrs Ann Berry
Seconded by Councillor Terry Mullard

RESOLVED:
That the public are excluded for the following item of business on the grounds that it is likely to disclose exempt information, as defined in paragraph 1 Part 1 of Schedule 12A to the Local Government Act 1972 – Information relating to any individual.

(Voting: For 4, Against 0, Abstentions 0)

Part 2 – Exempt Information Item

(Councillor Rebecca Shoob joined for the remainder of the meeting)

72. **Investigation of possible breach of the Council's Code of Conduct for Councillors**

A complaint of the Council's code of conduct for councillors was referred by the Monitoring Officer to an independent investigating officer in November 2020.

The purpose of the investigation was to determine whether a possible breach of the Council's Code of Conduct had occurred. Report AuG/20/21 set out the conclusions of the investigation and the decision of the Monitoring Officer.

The Monitoring Officer presented the report to members bringing important aspects to members' attention.

Members discussed the following points:

- Subsequent training delivered.
- Criteria tests applied.
- Timings of process

RESOLVED:
1. That Report AuG/20/21 is received and noted.
2. That the conclusions of the Investigating Officer's report and the decision of the Monitoring Officer are noted.

(Voting: For 5; Against 0; Abstentions 0)

Agenda Item 4

This Report will be made public on 19 May 2021

Folkestone & Hythe District Council

Report Number **AG/21/01**

To:	**Audit and Governance Committee**
Date:	**27 May 2021**
Status:	**Non-executive Decision**
Head of Service:	**Charlotte Spendley, Director of Corporate Services**

Subject: Grant Thornton Risk Assessment Work

Summary: Grant Thornton are seeking confirmation from the Committee about how it gains assurance from management and from the S151 Officer on the management processes in place. Their request includes a series of questions on fraud, laws and regulations. The proposed responses are enclosed.

Reasons for recommendations:
The Committee is asked to agree the recommendations below and approve the recommended responses to Grant Thornton.

Recommendations:

1. **To receive and note Report AuG/21/01.**
2. **To note the proposed response from management to Grant Thornton's requests (Appendix 1).**
3. **To consider and approve the proposed response from the Chairman to Grant Thornton's requests (Appendix 2).**

1. INTRODUCTION AND BACKGROUND

1.1. Grant Thornton have requested the Chairman of the Audit and Governance Committee provide confirmation over the frameworks and processes in place within the Council. A copy of the request and the proposed responses from management are attached at Appendix 1. The purpose is to contribute to effective communication between the Council's external auditor and the Committee.

1.2. In order to comply with international auditing standards, each year Grant Thornton is required to confirm their understanding of how the Committee gains assurance over management processes and arrangements. The questions cover important areas relating to the auditor risk assessment, including processes for managing risks relating to fraud, law and regulation, related parties and accounting estimates.

1.3. In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty or require significant judgement. Questions relating to accounting estimates and the proposed responses are included within Appendix 1.

1.4. The Chairman is also requested to provide responses to a series of questions to the Audit & Governance Committee to confirm their understanding of management processes and the Committee's oversight of these. A copy of the request and proposed responses are attached at Appendix 2.

1.5. A representative from Grant Thornton will be in attendance at the meeting to present the report and answer Members' questions.

2. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

Legal Officer's Comments (AK)

2.1 There are no legal implications arising directly out of this report.

Finance Officer's Comments (CS)

2.2 There are no additional comments arising from this report.

Diversity and Equalities Implications (CS)

2.3 There are none arising directly from this report

3 CONTACT OFFICERS AND BACKGROUND DOCUMENTS

3.1 Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Charlotte Spendley, Director of Corporate Services
Tel: 07935 517986 E-mail: charlotte.spendley@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

No background documents have been used.

Appendices:

Appendix 1 - Response to questions raised by Grant Thornton to management.
Appendix 2 - Response to questions raised by Grant Thornton to the Chairman.

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Informing the audit risk assessment for Folkestone and Hythe Council 2020/21

Paul Dossett
Partner
T 020 7728 3180
E paul.dossett@uk.gt.com

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 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 your business or any 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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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Folkestone and Hythe's Council's external auditors and Folkestone and Hythe's Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance and Standards Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Governance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports the Audit and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management,
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Folkestone and Hythe's Council's management. The Audit and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	The ongoing impact of the pandemic during 2020/21 will have an impact on the financial statements in terms of revenue income and expenditure, the valuation of assets and collection fund income. The Housing Management service was also brought back in-house in October 2020 which will have an impact on the HRA revenue income and expenditure.
2. Have you considered the appropriateness of the accounting policies adopted by Folkestone and Hythe Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The accounting policies are considered to be appropriate for the preparation of financial statements and there are no proposed changes to accounting policies for 2020/21.
3. Is there any use of financial instruments, including derivatives?	Financial Liabilities: Loans borrowed (from the Public Works Loan Board and other lenders) for treasury management purposes Trade payables for goods and services Financial Assets: Bank account Investments made for treasury management purposes Loans made for service purposes, including Oportunitas Equity investment in Oportunitas Trade receivables for goods and services delivered
4. Are you aware of any significant transaction outside the normal course of business?	Purchase of Folca (former Debenhams building) in May 2020.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No

Grant Thornton

General Enquiries of Management

Question	Management response
8. Other than in house solicitors, can you provide details of those solicitors utilised by Folkestone and Hythe Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Becket Chambers – criminal proceedings, civil proceedings (planning injunction), disrepair cases, housing advice and drafting Anti-social Behaviour Order, excluded licenses advice and general advice Browne Jacobson - Property Invicta Law - General Contract and Procurement Advice Bevan Brittan - Governance, Procurement and Public Law Attwells - Planning JR Pinsents & Whitehead Monckton - Option agreements Exchange Chambers - Costs Counsel Mischon – Group action litigation in respect of VAT ASB Law - Development

Grant Thornton

General Enquiries of Management

Question	Management response
9. Have any of Folkestone and Hythe Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Amandeep Khroud is the solicitor to the Council. Amandeep reports to the Audit and Governance Committee. Nicola Murton is a solicitor who heads up the Legal Services Team and manages the team on a day to day basis. The legal services team were consulted on many issues during the last financial year.

Grant Thornton

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management. Management, with the oversight of the Audit and Governance Committee , needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Folkestone and Hythe Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Governance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Council's management.

Fraud risk assessment

Question	Management response
1. Have Folkestone and Hythe Council assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Council's risk management processes link to financial reporting?	The Council feel that the risk of material misstatement in the financial statements due to fraud is minimal. The Council has a robust system of internal controls in place that are regularly independently reviewed by the East Kent Audit Partnership (EKAP). The audit plan is drafted with relevant risks in mind. These reviews are reported to the Audit & Governance Committee on a quarterly basis providing assurance. There have been no known incidents during the financial year where material financial fraud is known to have occurred. The audit plan is drafted with reference to both the Council's risk register and known emerging risks in the sector. We undertake the frequency of budget monitoring on a risk based approach, so that high risk areas such as salaries are monitored more frequently than low volume, low risk transactional areas.
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Housing Benefit and Council Tax Reduction are the areas determined as most at risk of fraud. Since the Housing Service returned in-house we are starting to explore tenancy fraud. During 2020/21 we have also put a number of processes in place to manage the potential risk of fraud within Covid business grants and reliefs.

GrantThornton

Fraud risk assessment

Question	Management response
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Folkestone and Hythe Council as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	No In addition to the process of fraud reporting through EKAP, the S151 Officer & Monitoring Officer would alert the Chair of the Audit & Governance Committee as well as the relevant Cabinet Portfolio Holder, of any significant fraud at the earliest opportunity. The Head of EKAP also has the ability through the Chairman, to report suspicions of fraud to the A&G committee if required.
4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Folkestone and Hythe Council where fraud is more likely to occur?	No As stated above Housing Benefit and Council Tax Reduction are the areas determined as most at risk of fraud. Since the transition of the Housing Service back to the Council there is an increased risk of tenancy fraud and the business grants and reliefs announced by Government in response to the pandemic are both areas at risk of fraud.
5. What processes do Folkestone and Hythe Council have in place to identify and respond to risks of fraud?	As stated above, the results of the ongoing Internal Control Audits by EKAP are reported quarterly to the Audit & Governance Committee (A&G). EKAP will also undertake follow up audits and report the findings to A&G, bringing members attention to any high risk actions which have not been completed. Additionally the Head of EKAP will bring an annual summary to the July A&G meeting which will outline the level of assurance that can be taken in respect of all the main financial systems, and confirm any instances of fraud. The Council has a dedicated qualified Fraud investigation resource which is primarily utilised for Housing Benefit & Council Tax Reduction fraud but can also be deployed to investigate other suspected instances of fraud where required. More broadly, the Council also has policies in place for Anti-Corruption, Code of Conduct and Whistle Blowing, these documents are available on the website, and mandatory training is undertaken by all staff. The Councils Fraud response plan specifically outlines how Members, staff and members of the public can raise concerns regarding fraud or corruption should they need to and provides a framework for the resulting investigation where required.

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Fraud risk assessment

Question	Management response
6. How do you assess the overall control environment for Folkestone and Hythe Council, including: • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	The Council is an equal partner in EKAP who employ experienced professional internal auditors. Annually the audit plan is drafted with reference to risk, fraud and emerging Council priorities. The audit plan is developed with Heads of Service & CLT and is considered by the A&G Committee before its adoption. EKAP report on progress against the audit plan quarterly to A&G and present the summary of reports undertaken during the past period which identify the effectiveness of our internal controls and propose recommendations for improvements. There is a potential for override in the processing of accounting journals but there are authorisation processes in place to mitigate this risk.
7. Are there any areas where there is potential for misreporting?	No

Fraud risk assessment

Question	Management response
8. How do Folkestone and Hythe Council communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	The Council has policies in place for Anti-Corruption, Fraud Response Plan, Code of Conduct and Whistle Blowing, these documents are available on the website, and mandatory training is undertaken by all staff. Additionally there is a behaviours and competency framework which staff are expected to adhere to. All tenders for contracts include a questionnaire which asks bidders to confirm that they comply with F&HDC's minimum ethical standards (e.g. equality and diversity, whistleblowing, modern slavery, etc.). Our contract terms for suppliers also require appointed suppliers to commit to these standards and F&HDC's policies. Training is delivered so staff understand how to report concerns and are assured of confidentiality should they report any issues. Staff are encouraged to contact the relevant officers with any concerns with regard to fraud or corruption. No significant issues have been reported.
9. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	Directors, Procurement posts and those awarding major contracts, Revenues & Benefits Officers, Corporate Debt Officers, Officers named on the bank mandate and involved in the treasury management process. All staff are required to undertake mandatory training. Segregation of duties and a two step authorisation process is in place for treasury management activities. System messages and alerts for unusual activity.
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	No Councillors and Senior Officers are required to complete annual Related Party Disclosure forms and Managers complete annual Managers Assurance Statements which require disclosure of related party activities.

Fraud risk assessment

Question	Management response
11. What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee ? How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	The results of the ongoing Internal Control Audits by EKAP are reported quarterly to the Audit & Governance Committee (A&G). EKAP will also undertake follow up audits and report the findings to A&G, bringing members attention to any high risk actions which have not been completed. Additionally the Head of EKAP will bring an annual summary to the July A&G meeting which will outline the level of assurance that can be taken in respect of all the main financial systems, and confirm any instances of fraud. In addition to the process of fraud reporting through EKAP, the S151 Officer & Monitoring Officer would alert the Chair of the Audit & Governance Committee as well as the relevant Cabinet Portfolio Holder, of any significant fraud at the earliest opportunity. The Head of EKAP also has the ability through the Chairman, to report suspicions of fraud to the A&G committee if required. Based on the work undertaken during the year the Head of EKAP has confirmed that the overall assurance for FHDC will be sound and the annual report will be presented to A&G in July.
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	No
13. Have any reports been made under the Bribery Act?	No

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Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Governance Committee , is responsible for ensuring that Maidstone Borough Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

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Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does Folkestone and Hythe Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	During the year various update reports are presented to the Corporate Leadership Team which provide management with confirmation that the laws and regulations have been complied with. Legal provide comments for management and cabinet papers. The annual Managers Assurance Statements specifically asks managers to confirm that laws and regulations have been complied with. All legal officers follow high standards and are trained to identify and deal any issues that may arise. All legal officers regularly attend training courses to ensure that they are up to date with changes in the law. No
2. How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?	During the year various update reports are presented to the Audit and Governance Committee and other committees as deemed necessary which provide the relevant committee with confirmation that the laws and regulations have been complied with.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?	No
4. Is there any actual or potential litigation or claims that would affect the financial statements?	The Council are party to a long running group litigation case in respect of VAT, but it is not anticipated to give rise to a risk of material misstatement in the financial statements for 2020/21.

Impact of laws and regulations

Question	Management response
5. What arrangements does Folkestone and Hythe Council have in place to identify, evaluate and account for litigation or claims?	We do not have policies but each case is reviewed on an individual basis. Each litigation matter is different i.e. housing, planning, or property.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

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Related Parties

Issue

Matters in relation to Related Parties

Folkestone and Hythe Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Folkestone and Hythe Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
1. Have there been any changes in the related parties including those disclosed in Folkestone and Hythe Council's 2019/20 financial statements? If so please summarise: • the nature of the relationship between these related parties and the Council • whether the Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions	EKH was an ALMO shared service operating across the four East Kent Councils including FHDC managing the HRA Housing stock (FHDC owns 25% of EKH Ltd). All four owner Councils took the decision in February 2020 to return their housing services and ultimately cease EKH. The housing management service transferred back to the Council in October 2020 and EKH remains a related party of the Council during 2020/21 and a management fee was paid by FHDC to EKH to operate the service for six months. FHDC is the sole shareholder of Otterpool Park Development Company Ltd whose primary function is to be the second member of Otterpool Park LLP which is the delivery vehicle for the Otterpool Park Garden Town project. The Council owns 99.9% of Otterpool Park LLP. Council Officers support and undertake duties on behalf of Otterpool Park LLP so their time is recharged to them and the Council has made loans to the company.
2. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships?	A review of the prior year's assessment is undertaken and any changes in circumstances and relationships considered. A review of Council, Cabinet and other Committee reports during the financial year is undertaken to identify any new or changes to existing related parties and group relationships. Whilst Central Government has always been a related party it's worth noting that during 20/21 the value of transactions significantly increased due to the awarding of Covid grants and business grants. Councillors and Senior Officers are required to complete annual Related Party Disclosure forms and Managers complete annual Managers Assurance Statements which require disclosure of related party activities.
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Related parties are identified through disclosure forms. Beyond the normal controls there are no specific controls in place to approve and authorise transactions with related parties.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	Any such transactions would still be required to follow the same authorisation processes as prescribed in the constitution.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit and Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Where assets and liabilities are based on valuations (e.g. non-current assets, pension liability) or provisions are set aside (e.g. impairment of bad debts, business rates appeals) accounting estimates are made and disclosed in the financial statements.
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	The Council's corporate risk register is focussed on strategic risks emerging from the Corporate Plan, MTFS and wider sector. Where relevant these would be highlighted to the finance team so that appropriate changes to the accounting estimates can be made.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Where accounting estimates have been made they are based on the latest data and information available either internally or eternally, using professional judgement and external experts are used where appropriate, for example for non-current asset valuations and pension valuations.
4. How do management review the outcomes of previous accounting estimates?	The outcomes of previous accounting estimates are reviewed as part of in-year budget monitoring comparing actual outcomes to estimates and analysing data to identify trends and patterns and if any changes to estimation techniques are required.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	The Finance team ensure they remain up to date with changes to regulations, accounting standards and sector changes and attend relevant training and seminars to fully understand the impact of such changes and in turn consequences for accounting estimates. In addition the council uses specialist advisors where its own team are unable to perform that duty such as the use of valuers for non-current asset valuations and actuary for pension valuations.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	We utilise internal audit to provide us with control environment reviews, including on areas that accounting estimates exist in, such as business rates and valuations. As a member of the LGPS, the administering body is KCC and we rely on them for the management of the control environment. Contractual arrangements are in place with third parties. Where we utilise third parties for advice, the Council maintains a dialogue with the advisors to satisfy themselves that the estimates are appropriate.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Representatives from KCC and Barnett Waddingham regularly attend Kent Finance Officers Group to provide updates on the management of the pension scheme. Arrangements in place with EKAP who are used to monitor control activities of all processes. Use of source data from external parties where appropriate and validating them against previous data and information and discussing approach with neighbouring authorities.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	The Committee see the draft accounts in advance of them being asked to adopt them. We would draw their attention to significant changes in accounting estimates. The May meeting of A&G Committee is considering all accounting estimates including the methods and models used and the underlying assumptions.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
12. How is the Audit Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The Finance team use their professional skills and knowledge to arrive at accounting estimates, ensuring that they remain up to date with changes in any areas that may be subject to estimation. Where required the council uses specialist advisors and experts to provide accounting estimates such as the use of valuers for non-current asset valuations and actuary for pension valuations.

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Method • Depreciated Replacement Cost (DRC) • Existing Use Value • Existing Use Value - Social Housing (EUV-SH) • Fair Value. Approach • All assets revalued at least every 5 years. • Top 20 non-housing assets by value revalued annually as at 31 March (equates to approximately 80% of the net book value of this category of assets). • Surplus Assets revalued annually at 31 March. • HRA Stock – beacon record approach for full revaluation as at 31 March 2021	• Finance have liaised with Property and Housing to ensure property asset list is up to date. • Finance have undertaken comparison between latest and existing valuations and requested explanations of significant variations from valuer. • HRA Dwellings valuations compared to HM Land Registry indexation since the last 5 year revaluation.	External valuer appointed – For 2020/21 Wilks Head & Eve LLP	Assessment of degree of uncertainty for 2020/21 based on underlying guidance from CIPFA and RICS. A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and/or a loss recognised in the CIES. An increase in the estimated valuations would result in an increase to the Revaluation Reserve and/or a gain recognised in the CIES The valuations have been undertaken by a RICS qualified external valuer, compliant with the Code requirements and alternative estimates are not considered to be relevant	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Heritage Assets	Held at cost if asset is non-operational – Assets not subject to depreciation. If operational then valued as per land and buildings (above)	Purchase price of heritage asset acquired	External valuer – Wilks Head & Eve LLP	Assessment of degree of uncertainty for 2020/21 based on underlying guidance from CIPFA and RICS Only one asset classified as Heritage Asset at 31 March 2021– reasonable certainty value is correct Alternative estimate not applicable for 2020/21.	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Investment property valuations	Method - Fair Value (market value that would be paid for asset in its highest and best use). Properties are not depreciated. Approach – annual review of all investment assets as at 31 March	Finance liaise with Property to ensure property asset list is up to date including use of asset and income received where applicable Finance undertake comparison between latest and existing valuations and request explanations of significant variations from valuer.	External valuer – Wilks Head & Eve LLP	Assessment of degree of uncertainty for 2020/21 based on underlying guidance from CIPFA and RICS A reduction in the estimated valuations would result in a loss recognised in the CIES An increase in the estimated valuations would result in a gain recognised in the CIES The valuations have been undertaken by a RICS qualified external valuer, compliant with the Code requirements and alternative estimates are not considered to be relevant	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	Method Useful asset lives basis for different categories of assets. Approach The council uses the CIPFA Asset Register software to calculate the depreciation as this meets the accounting requirements of the Code.	Standard useful lives for categories of assets are used. Useful lives updated when assets are revalued New assets of material value are reviewed to determine which year depreciation should begin Finance undertake checks on information from Asset Register software to ensure depreciation being charged correctly	Useful lives determined through external revaluation process	If the useful life of assets is reduced, the value of depreciation charged increases and the carrying amount of the asset falls.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	Valuation undertaken by the actuary for the Kent Pension Fund. Finance review the figures provided against their own knowledge of pension payments made by the authority.	LGPS member data supplied to the actuary by HR	Barnett Waddingham	The estimate of the defined benefit obligation is sensitive to the actuarial assumptions. The financial statements include a sensitivity analysis. The valuations are undertaken by the actuary and alternative estimates are not relevant.	No
Level 2 investments	Valuation and treatment of investments held at 31 March 2021 based on advise from the council's treasury advisor, Arlingclose.	Advice from Arlingclose Finance Team will liaise with Arlingclose over any specific concerns	Arlingclose Ltd Contract awarded following open tender process	The council uses specialist external advice provided by Arlingclose for assessing the fair value of loans made for other purposes.	No
Level 3 investments	Unlisted Shares Valuation undertaken by Arlingclose based on discounted cash flow forecast for latest business plan and a credit assessment of the organisation.	Business Plan financial information supplied by Finance By discussion with Arlingclose to consider their valuation based on the methodology applied. Finance Team will liaise with Arlingclose over any specific concerns	Arlingclose Ltd	Significant changes in any of the unobservable inputs would result in a materially higher or lower fair value measurement for the financial instruments with the gain or loss being recognised in the CIES The council uses specialist external advice provided by Arlingclose for assessing the fair value of loans made for other purposes.	Arlingclose have advised they have revised their calculation in 2020/21 for valuing unlisted shares/holdings and this may lead to lower values compared to 2019/20

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair value estimates	Loans borrowed and made at 31 March 2021 for treasury management purposes and are held on the balance sheet at amortised cost (i.e. the value of the principal outstanding plus accrued interest) in accordance with proper accounting practice. Treasury management investments in pooled funds at 31 March 2021 are held at their market value and calculated by reference to information supplied by Arlingclose Loans made for other purposes are held at fair value calculated by Arlingclose which provides for an expected credit loss adjustment	For loans borrowed the source data is the original value of the loan taken up. For treasury management investments made the source data is either the original value or, in the case of pooled funds, the number of units purchased. For loans made for other purposes the source data is the relevant loan agreement.	Arlingclose Ltd The fair value of investments in pooled funds is independently checked to statements provided by the Fund Managers.	Significant changes in any of the unobservable inputs would result in a materially higher or lower fair value measurement for the financial instruments with the gain or loss being recognised in the CIES The council uses specialist external advice provided by Arlingclose for assessing the fair value of loans made for other purposes.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions (including NNDR appeals)	NNDR Appeals – For 2010 RV list the provision is based on outstanding appeals and the forecast success rate based on past experience. For 2017 RV list the provision is based on the assumption made at national level of potential successful appeals, adjusted to reflect local knowledge. This approach is agreed by all Kent authorities.	VoA lists of current outstanding appeals as at 31st March	No	NNDR appeals are difficult to forecast and the outcome of appeals and the financial impact on the Council are monitored regularly. Until appeals against the 2017 RV list since the implementation of 'Check, Challenge, Appeal' are assessed by the VoA it is difficult to assess the impact of successful appeals and use past experience. The agreed approach across Kent is thought to be best method of estimation.	No
Accruals	Accruals are recognised where they exceed £5,000.	Purchase orders are GRN'd on the procurement system for goods/serviced received prior to 31st March. Budget holders are asked to notify Finance of any accruals outside of the procurement system. A review of actuals against the quarter 4 projection is undertaken and payment runs in April are reviewed by the Finance team to identify any potential missing accruals.	No	The level of accruals is low, supporting documentation must be provided and all accruals are reviewed by Finance.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Credit loss and impairment allowances	Expected credit loss (ECL) on loans made is undertaken by Arlingclose. Methodology is discounted cash flow approach coupled with relevant loan default rates to calculate the ECL	Business plan and loan agreement information provided by Finance	Arlingclose Ltd	Finance Team will liaise with Arlingclose over any specific concerns The council uses specialist external advice provided by Arlingclose to calculate the expected credit loss on loans.	Arlingclose have advised they have revised their ECL calculation for 2020/21 which may result in a higher value compared to 2019/20
Finance lease liabilities	None for 2020/21	Not applicable	Not applicable	Not applicable	No

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Councillor Philip Martin
Chairman
Folkestone Hythe District Council
Civic Centre
Castle Hill Avenue
Folkestone
Kent
CT20 2QY

22 March 2021

Dear Councillor Martin,

Folkestone & Hythe District Council – Financial Statements for the year ended 31 March 2021

To comply with International Auditing Standards, we need to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with law and regulation. We are also required to make inquiries of management as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document Management's view on some key areas affecting the financial statements.

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the schedule set out in **Appendix 1**.

I would be grateful for your response by Monday 29th March 2021.

Please contact me if you wish to discuss anything in relation to this request, either by telephone 020 7865 2990 or by email on the following address: mary.t.adeson@uk.gt.com. Alternatively, please contact Paul Dossett, Audit Partner on 020 7728 3180 or paul.dossett@uk.gt.com

Yours sincerely

Mary Adeson

Audit Associate

For Grant Thornton UK LLP

Appendix 1: Responses from the Committee

Auditor question	Response
Fraud risk assessment	
Has the Authority assessed the risk of material misstatement in the financial statements due to fraud?	The Council feel that the risk of material misstatement in the financial statements due to fraud is minimal. The Council has a robust system of internal controls in place that are regularly independently reviewed by the East Kent Audit Partnership (EKAP). The audit plan is drafted with relevant risks in mind. These reviews are reported to the Audit & Governance Committee on a quarterly basis providing assurance.
What are the results of this process?	There have been no known incidents during the financial year where material financial fraud is known to have occurred.
What processes does the Authority have in place to identify and respond to risks of fraud?	The Council has a dedicated qualified Fraud investigation resource which is primarily utilised for Housing Benefit & Council Tax Reduction fraud but can also be deployed to investigate other suspected instances of fraud where required. More broadly, the Council also has policies in place for Anti-Corruption, Code of Conduct and Whistle Blowing, these documents are available on the website, and mandatory training is undertaken by all staff. The Councils Fraud response plan specifically outlines how Members, staff and members of the public can raise concerns regarding fraud or corruption should they need to and provides a framework for the resulting investigation where required.
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	Housing Benefit and Council Tax Reduction are the areas determined as most at risk of fraud for which the Council has a dedicated qualified fraud investigation resource. Since the Housing Service returned in-house we are starting to explore tenancy fraud. During 2020/21 we have also put a number of processes in place to manage the potential risk of fraud within Covid business grants and reliefs.
Are internal controls, including segregation of duties, in place and operating effectively?	Yes
If not, where are the risk areas and what mitigating actions have been taken?	N/A
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	There is a potential for override in the processing of accounting journals but there are authorisation processes in place to mitigate this risk.
Are there any areas where there is a potential for misreporting?	No
How does the Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	The results of the ongoing Internal Control Audits by EKAP are reported quarterly to the Audit & Governance Committee (A&G). EKAP will also undertake follow up audits and report the findings to A&G, bringing members attention to any high risk actions which have not been completed. Additionally the

	Head of EKAP will bring an annual summary to the July A&G meeting which will outline the level of assurance that can be taken in respect of all the main financial systems, and confirm any instances of fraud.
What arrangements are in place to report fraud issues and risks to the Committee?	In addition to the process of fraud reporting through EKAP, the S151 Officer & Monitoring Officer would alert the Chair of the Audit & Governance Committee as well as the relevant Cabinet Portfolio Holder, of any significant fraud at the earliest opportunity. The Head of EKAP also has the ability through the Chairman, to report suspicions of fraud to the A&G committee if required.
How does the Authority communicate and encourage ethical behaviour of its staff and contractors?	The Council has policies in place for Anti-Corruption, Fraud Response Plan, Code of Conduct and Whistle Blowing, these documents are available on the website, and mandatory training is undertaken by all staff. Additionally there is a behaviours and competency framework which staff are expected to adhere to. All tenders for contracts include a questionnaire which asks bidders to confirm that they comply with F&HDC's minimum ethical standards (e.g. equality and diversity, whistleblowing, modern slavery, etc.). Our contract terms for suppliers also require appointed suppliers to commit to these standards and F&HDC's policies.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	Training is delivered so staff understand how to report concerns and are assured of confidentiality should they report any issues. No significant issues have been reported.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	No
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Authority as a whole or within specific departments since 1 April 2020?	No
Laws and regulations	
What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?	All legal officers follow high standards and are trained to identify and deal any issues that may arise. All legal officers regularly attend training courses to ensure that they are up to date with changes in the law.
How does management gain assurance that all relevant laws and regulations have been complied with?	During the year various update reports are presented to the Corporate Leadership Team which provide management with confirmation that the laws and regulations have been complied with. Legal provide comments for management and cabinet papers.
How is the Committee provided with assurance that all relevant laws and regulations have been complied with?	During the year various update reports are presented to the Audit and Governance Committee and other committees as deemed necessary which provide the relevant committee with confirmation that the laws and regulations have been complied with.
Have there been any instances of non-compliance or suspected non-compliance	No

with law and regulation since 1 April 2020?	
What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	We do not have policies but each case is reviewed on an individual basis. Each litigation matter is different i.e. housing, planning, or property.
Is there any actual or potential litigation or claims that would affect the financial statements?	The Council are party to a long running group litigation case in respect of VAT, but it is not anticipated to give rise to a risk of material misstatement in the financial statements for 2020/21.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	No
Going Concern	
How has the Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?	CiPFA Code of Practice confirms that the going concern basis of preparation of accounts is appropriate for Local Authorities. This provision reflects the economic & statutory environment local authorities operate within. The underlying assumption of going concern for a local authority (as per the Code) is that "the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future" (2.1.2.9) and that as a local authority can only be discontinued under statutory prescription, accounts should be prepared on that basis (3.4.2.23).

Agenda Item 5

This Report will be made public on 19 May 2021

Report Number **AuG/21/02**

To: Audit and Governance Committee
Date: 27 May 2021
Head of Service: Charlotte Spendley, Director of Corporate Services
Cabinet Member: Councilor David Monk, Leader of the Council

Subject: **Accounting Policies 2020/21**

Summary: Accounting Policies are the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements. This report presents the Accounting Policies proposed to be adopted for the 2020/21 financial statements.

Reasons for recommendations:
The Committee is asked to agree the recommendations set out below because the council is required to adopt Accounting Policies in order to prepare the annual Statement of Accounts.

Recommendations:
1. **To receive and note Report AuG/21/02.**
2. **To approve the Accounting Policies 2020/21.**

1. INTRODUCTION

1.1 The council should adopt the accounting policies most appropriate to its particular circumstances for the purpose of giving a true and fair view.

1.2 The accounting policies should be reviewed regularly to ensure that they remain appropriate, and are changed when a new policy becomes more appropriate.

2. ANNUAL REVIEW

2.1 The annual review of accounting policies has found that there are no changes required to existing policies for the 2020/21 financial statements.

2.2 The accounting policies to be used in the preparation of the 2020/21 financial statements can be found at Appendix 1.

3. CONCLUSION

3.1 The Committee is asked to approve the Accounting Policies for 2020/21.

4. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

4.1 Legal Officer's Comments (AK)

There are no additional legal comments arising from this report.

4.2 Finance Officer's Comments (CI)

There are no financial implications arising from this report.

4.3 Diversity and Equalities Implications (CI)

There are none arising directly from this report

5. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Cheryl Ireland – Chief Financial Services Officer
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Charlotte Spendley – Director of Corporate Services
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email: charlotte.spendley@folkestone-hythe.org.uk

The following background documents have been relied upon in the preparation of this report:

Appendices:
Appendix 1: Accounting Policies 2020/21

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1. Accounting Policies

1.1 General Principles

This Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year end of 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 which require preparation in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20*supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts has been prepared on a 'going concern' basis. The accounting convention adopted is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments:

Class of Assets	Valuation Basis
Property, Plant and Equipment - Dwellings	Current value, comprising existing use value for social housing Dwellings are valued using market prices for comparable properties, adjusted to reflect occupancy under secured tenancies.
Property, Plant and Equipment – Land and Buildings	Current value, comprising existing use value Where prices for comparable properties are available in an active market, properties are valued at market value taking into account the existing use. Where no market exists or the property is specialised, current value is measured at depreciated replacement cost
Property, Plant and Equipment – Surplus Assets	Fair value
Investment Properties	Fair value
Financial Instruments – Available for Sale Assets	Fair value
Pensions Assets	Fair value

1.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place (not simply when cash payments are made or received) and with due regard to material levels of adjustment. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for income that might not be collected.

1.3 Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the CIES until conditions attached to the grant or contributions have been satisfied. The grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non ring-fenced revenue grants and all capital grants) in the CIES.

1.4 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.5 Changes in Accounting Policy

In 2019/20 the Council has purchased land which includes the freehold of the former Folkestone Racecourse site and several houses as part of the Otterpool Park Garden Town project. In order to present a true and fair view of the cost of property, plant and equipment the Council has changed its accounting policy for borrowing costs incurred where items of property, plant and equipment take a substantial period of time to get ready for their intended use. Previously the Council had expensed borrowing costs as they were incurred. A review of past transactions has not identified any similar assets with substantial construction periods where there would be a material misstatement of the asset balance and so no prior period adjustment is required.

1.6 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the CIES or in the notes to the accounts, depending on how significant the items are to the understanding of the Council's financial performance.

1.7 Overheads and Support Services

The costs of the Council's overheads and support services are fully charged, where relevant, to those that benefit from the supply or service.

1.8 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the MiRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account to score against (Surplus) or Deficit on the Provision of Services in the CIES. An amount is then transferred from the earmarked reserve to the General Fund via an entry in the MiRS so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, retirement and employee benefits, council tax and business rates income and financial instruments. They do not represent usable resources for the Council. These reserves are explained in the relevant policies.

1.9 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment (PPE).

Recognition

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

The Council has set a de minimis level in respect of the recognition of capital expenditure of £10,000.

Measurement

Items of PPE are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, where relevant.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the exchange transaction has no commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction - depreciated historical cost
- dwellings – current value, determined using the basis of Existing Use Value for Social Housing (EUV-SH)
- surplus assets – current value measurement basis is fair value**,** estimated at highest and best use from a market participant's perspective
- all other assets - current value, determined as the amount that would be paid for the asset in its existing use.

Where there is no market based evidence of fair value, because of the specialist nature of the asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non property assets have short useful lives or low values (or both) depreciated historical cost is used as a proxy for fair value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains may be credited to the CIES where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

The Revaluation Reserve contains revaluations gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all PPE assets, by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets), assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight line allocation usually over 5-7 years
- infrastructure – straight line allocation usually over 20 years

Where a PPE asset has a major component whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been charged based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposal

When an asset is disposed of or decommissioned, the net book value of the asset and the receipt from the sale are both charged to the CIES which could result in a net gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

All sale proceeds in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts below £10,000 are considered de minimis and treated as revenue.

The net gain or loss on disposals has no impact on taxation requirements as the financing of non-current assets is provided for under separate arrangements.

1.10 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and will be capitalised when it is probable that they will result in future economic benefits or service potential to the authority and the costs can be measured reliably. All other borrowing costs will be recognised as an expense in the period in which they are incurred.

Borrowing costs are interest and other costs that an authority incurs in connection with the borrowing of funds and may include:

- interest expense calculated using the effective rate of interest method, and
- finance charges in respect of finance leases.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

The commencement date for capitalisation of borrowing costs is the date when the authority first meets all of the following conditions:

- it incurs expenditure for the asset
- it incurs borrowing costs, and
- it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs shall be suspended during extended periods in which active development of a qualifying asset is suspended.

Capitalisation of borrowing costs will cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete; this may require capitalisation to be carried out in relation to specific parts of a project if the parts are capable of being used while preparation continues on other parts.

1.11 Non-current Assets Held For Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES.

Gains in fair value are recognised only up to the amount of any previously recognised losses in the (Surplus) or Deficit on the Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held For Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

1.12 Heritage Assets

Heritage assets are defined as assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for its contribution to knowledge and culture.

Heritage assets are initially recognised at cost or value in accordance with the Council's accounting policy on recognising Property, Plant and Equipment. Where information on the cost or value is not available, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, that asset is not recognised on the Balance Sheet and an appropriate disclosure is made instead.

Heritage assets are then carried at valuation rather than current or fair value, reflecting the fact that sales and exchanges of heritage assets are uncommon. Valuations may be made by any method that is appropriate and relevant, including replacement cost, purchase cost and insurance valuation. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations, but the carrying amounts of heritage assets carried at valuation must be reviewed with sufficient regularity to ensure they remain current. In some cases it may not be practicable to establish a valuation for a heritage asset, in which case the asset is carried at historical cost if this information is available.

Depreciation or amortisation is not required on heritage assets which have indefinite lives.

1.13 Investment Property

An investment property is one that is used solely to earn rentals or for capital appreciation or both. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment property is initially measured at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date.

As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Any gain or loss arising from a change in the fair value of investment property is recognised in the Financing and Investment Income and Expenditure line in the CIES. The same treatment is applied to gains and losses on disposal.

Rentals received are credited to the Financing and Investment Income and Expenditure line in the CIES.

Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the MiRS and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.14 Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the CIES in the year. Where the Council has determined to meet the cost of such expenditure from existing capital resources or borrowing, a transfer in the MiRS from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on council tax.

1.15 Employee Benefits

Benefits Payable during Employment

Short term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid on a monthly basis and reflected as expenditure in the relevant service line in the CIES.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These costs are charged on an accruals basis to the relevant service line in the CIES.

Post-Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Kent County Council (KCC). The Scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees work for the Council.

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- the liabilities of the KCC pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of earnings for current employees.
- the assets of the KCC pension fund attributable to the Council are included in the Balance Sheet at their fair value.
- the change in the net pensions liability is analysed into the following components:

  i) Service cost comprising:
    - current service cost - the increase in liabilities as a result of years of service earned for the year - allocated in the CIES to the services for which the employees worked
    - past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the (Surplus) or Deficit on the Provision of Services in the CIES as part of Non-distributed Costs
    - net interest on the net defined liability - the expected increase in the present value of liabilities during the year as they move one year closer to being paid offset by the interest on assets held at the start of the year and cash flows occurring during the period. The net interest expense is charged to the Financing and Investment Income and Expenditure line in the CIES.

  ii) Re-measurements comprising:
    - the return on plan assets excluding amounts included in net interest and actuarial gains and losses (changes in the net pensions liability that arise because the actuaries have updated their assumptions). These are charged to the CIES as Other Comprehensive Income and Expenditure.

  iii) Contributions paid to the KCC pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated in accordance with the relevant standards. This means that in the MiRS there are appropriations to or from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The debit balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.16 Events after the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the authorisation for issue are not reflected in the Statement of Accounts.

1.17 Financial Assets

Dividends are credited to the CIES when they become receivable by the Council.

Financial assets are classified into one of three categories:

- Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement.
- Fair Value Through Other Comprehensive Income (FVOCI) – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.
- Fair Value through Profit and Loss (FVPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances (including balances outstanding at the date of de-recognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES.

Changes in the value of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

1.18 Financial Liabilities

Financial liabilities are recognised when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable, plus any accrued interest, and interest charged to the CIES is the amount payable for the year in the loan agreement. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

1.19 Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made about the amount of the obligation.

Provisions are charged to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

1.20 Value Added Tax

Value added tax is included in income and expenditure accounts only to the extent that it is irrecoverable.

1.21 Interests in Companies and Other Entities

Where the Council has a material interest in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities, group accounts will be prepared. In the Council’s own single entity accounts, any interest in companies and other entities will be recorded as financial assets at cost, less any provision for losses.

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This Report will be made public on 19 May 2021

Report Number **AuG/21/03**

To:	**Audit and Governance Committee**
Date:	**27 May 2021**
Status:	**Non-Key Decision**
Head of Service:	**Charlotte Spendley, Director of Corporate Services**

Subject: Grant Thornton Audit Plan for the Year Ended 31 March 2021

Summary:

The report presents the Grant Thornton Audit Plan, which focuses on their proposed work on auditing the statement of accounts for 2020/21 and an update on the audit fees.

Reasons for recommendations:
The Committee is asked to agree the recommendation below to enable Grant Thornton to carry out their work in line with the plan.

Recommendations:
1. **To receive and note Report AuG/21/03.**
2. **To consider Grant Thornton's Audit Plan for the year ended 31 March 2021 and audit fees as outlined within the Appendix to this report.**

1. INTRODUCTION

1.1 Grant Thornton has recently concluded their risk assessment. They have now produced their Audit Plan for the Statement of Accounts audit for 2020/21, which includes an update on audit fees chargeable.

1.2 The full report is set out at Appendix 1. A representative from Grant Thornton will be attending the meeting to present the Audit Plan and answer Members' questions.

2. KEY MILESTONES AND DEADLINES

2.1 Grant Thornton's aim is to complete their 2020/21 audit work and issue the audit opinion and value for money conclusion by 30 September 2021. This is the date that Local Authorities are required to publish their audited accounts as outlined in the Accounts & Audit (Amendment) Regulations 2021.

2.2 A copy of the full plan is attached at Appendix 1.

3. FEES

3.1 Fees of £71,053 are proposed for the audit of the financial statements, which is an increase from the previous year's fees of £62,161. Estimated fees for grant certification work are also outlined within the plan at £17,000.

4. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

4.1 **Legal Officer's Comments (AK)**

There are no additional legal comments arising from this report

4.2 **Finance Officer's Comments (CS)**

There are no financial implications arising directly from this report.

5. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Charlotte Spendley – Director of Corporate Services
Telephone: 07935 517986 - email: charlotte.spendley@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

- None

Appendices:

1. Grant Thornton Audit Plan 2020/21.

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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change
and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY

Folkestone & Hythe District Council audit plan

Year ending 31 March 2021

Folkestone & Hythe District Council

29 May 2021

Contents

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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.

Key matters

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Factors

Council developments

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. The ongoing Covid-19 pandemic has and continues to have a significant impact financially and operationally. Moreover, in the short-term, the future for local authority funding remains uncertain as new Local Government funding arrangements that were meant to be in place by April 2020 have been delayed until at least 2022.

The Council set a balanced budget for 2020/21, supported by your 5 year Medium Term Financial Plan. As at January 2021 (reported to member March 2021) the MTFS projects a cumulative funding gap of £13.691m over the lifetime of the MTFS.

Impact of Covid 19 pandemic

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of a large number of public sector organisations. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

The Council has faced significant pressure in 2020-21 due to the Covid-19 pandemic. This included additional costs, resources required to process business grants to support the community and loss of income from sources such as parking and leisure facilities. This has impacted the Council's long and medium term budgetary plans.

Other Local developments

Following the end of the Council's partnership with Cozumel Estates, in May 2020 Cabinet agreed the corporate structing and initial activities of Otterpool Park LLP. The LLP is the Council's delivery vehicle in relation to the development of the Otterpool Park garden town. An assurance framework is being implemented to outline the funding agreements and the strategic flow of the land between the Council, LLP and developers. The Council has set aside £100m in respect of the development; on establishing the LLP £1.25m of financing was released by the Council for planning applications, business plan and operating costs.

The Princes Parade development has recommenced following the conclusion of the judicial review. The Council is updating the financial appraisal of the capital programme as it moves into its detailed design and procurement phases.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.

- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- At this time we have not identified a specific COVID-19 significant audit risk (as we did for Local Government audits in 2019/20 which covered a number of risks including the availability of Council staff to produce accounts and valuation uncertainties in relation to land and buildings). We will revisit this assessment should the current pressures the sector faces continues and impacts year end accounting and auditing processes.

- We will consider your arrangements for managing and reporting your financial and governance framework in respect of Otterpool Park and Princes Parade.

Key matters

Factors

Accounting and auditing developments

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty or require significant judgement.

Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8 . As a minimum, we would expect the Council to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this.

In the prior year the Council's valuer reported a material uncertainty regarding the valuations of properties due to the COVID-19 pandemic. In addition, there was a material uncertainty in relation to the valuation of the pooled property funds which impacted both the Council's and Pension Funds position. We will monitor the position for the 31 March 2021 valuations.

Our response

As part of our planning work, we considered whether there were any risks of significant weaknesses in the body's arrangements for securing economy, efficiencies and effectiveness in its use of resources that we needed to perform further procedures on.

We will consider your arrangements for managing and reporting your financial and governance framework in respect of Otterpool Park and Princes Parade.

We will continue to provide you with sector updates via our Audit Committee updates.

The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid 19 pandemic. We will Liaise with the Council's valuer to clarify any potential material uncertainties in 2020/21.

Introduction and headlines

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Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Folkestone & Hythe 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 Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Folkestone & Hythe District Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Governance 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.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of Oportunitas Limited, Otterpool Park LLP and Otterpool Park Development Company Ltd.

Significant risks

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

- The revenue cycle includes fraudulent transactions (rebutted)
- Fraud in expenditure recognition
- Management override of controls
- Valuation of land and building including investment property
- Level 3 financial assets and liabilities
- Valuation of the pension fund net liability

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.

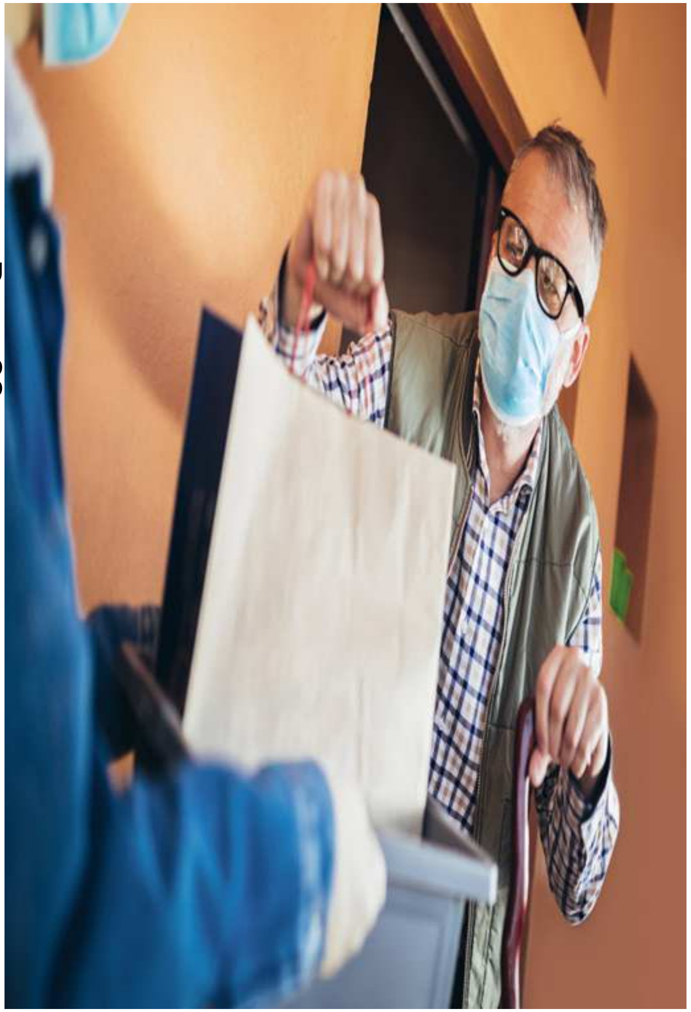
Materiality

We have determined planning materiality to be £1.75m (PY £1.68m) for the group and £1.7m (PY £1.65m) for the Council, which equates to 2% of your prior year gross expenditure for the year. 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 £0.0875m for the group (PY £0.084m) and £0.085m (PY £0.0825m) for the Council.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, your governance arrangements in respect of Otterpool Park and Princes Parade before we issue our auditor's annual report.

Introduction and headlines (continued)



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Audit logistics

Our planning visit took place in March and our final visit will take place in July- September..Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor’s Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £71,053 (PY: £62,161) for the Council, subject to the Council delivering a good set of financial statements and working papers.

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 statement.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Folkestone & Hythe District Council	Yes		• Refer to pages 8 to 11	Full scope audit performed by Grant Thornton UK LLP
Oportunitas Limited	Yes		• Valuation of Investment Properties	Full scope audit performed by Begbies Chartered Accountants. The nature, time and extent of our involvement in the work of Begbies Chartered Accountants will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the Begbies Chartered Accountants audit documentation and meeting with appropriate members of management.
Otterpool Park LLP	Yes		• None	Full scope audit performed by Kreston Reeves LLP. The nature, time and extent of our involvement in the work of Kreston Reeves LLP will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the Kreston Reeves LLP audit documentation and meeting with appropriate members of management.
Otterpool Park Development Company Ltd	No		• None	Analytical review performed by Grant Thornton UK LLP.

Key changes within the group

Otterpool Park LLP was exempt from an audit during 2019/20, following the completion of the freehold of the former racecourse and several residential properties the Council has now progressed the project as the master developer.

Otterpool Park Development Company Ltd was dormant during 2019/20, during 2020/21 pre-development costs have been incurred.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

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	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Council	Under ISA (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. Having considered the risk factors set out in ISA240 and nature of the revenue streams at Folkestone & Hythe District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Folkestone & Hythe District Council, mean that all forms of fraud are seen as unacceptable	We do not consider this to be a significant risk for Folkestone & Hythe District Council.
Fraud in expenditure recognition	Council	As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Council may manipulate expenditure to meet externally set targets and we had regard to this when planning and performing our audit procedures. Management could defer recognition of non-pay expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.	We will: • inspect transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period; • inspect a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year; compare size and nature of accruals at year to the prior year to help ensure completeness and • investigate manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Group and Council	Under ISA (UK) 240 there is a non rebuttable presumed risk that the risk of management override of controls is present in all entities. You face external scrutiny of your spending, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • 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 by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and buildings including Investment Properties	Council	The Council revalue 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 (£206.273m and £75.92m investment properties in 2019/20) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for investment properties) 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.	We will: • 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 expert; • write to the valuer to confirm the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation; • Consider whether or not to engage our own valuer to challenge the work of management's expert • test revaluations made during the year to see if they had been input correctly into your asset register; and • 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.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Level 3 financial assets and liabilities	Council	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 assets. By their nature Level 3 assets and liabilities valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 financial assets and liabilities by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We therefore identified valuation of level 3 financial assets and liabilities as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • gain an understanding of the council's process for valuing hard to value financial assets and liabilities evaluate the design of the associated controls; • review the nature and basis of estimated values and consider what assurance management has over the year end valuation provided for the assets and liabilities; • consider the competence, expertise and objectivity of any management experts used; • challenge management about the disclosure of the level 3 financial assets. • Consider whether we need to engage our own valuer to assess the assumptions that underpin the valuations

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£62.935m in your balance sheet in 2019/20) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the 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; and • obtain assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

We identified one recommendation in our 2019/20 audit in relation to the Council's estimation process for valuation of land and buildings.

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Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals, including NNDR appeals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments and borrowings

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainly is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have sent enquiries to management and to the Audit and Governance Committee. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

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 and any other information published alongside your financial statements 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 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 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.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 18). We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiaries/joint venture. If such a situation arises, we will consider our audit response for the group.

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the Council's financial statements, which resulted in one recommendations being reported in our 2019/20 Audit Findings Report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**The valuation of land and building was not carried out at 31 March** As part of the 2019/20 audit the valuation of other land and buildings was carried out as at 01 April 2019. The valuer provided an updated report as at 31 March 2020 and ascertained that there was no material change in value to the balance sheet date; management accepted this assertion. On review of indices, we calculated that a potential uncertainty of circa £802k existed as a result of the assertion that the valuation would not have been materially different, based on a review of indices from our auditor's expert, Gerald Eve. We recommended that valuations are carried out at 31 March the balance sheet date so that the risk that the fair value of other land and buildings materially differs from the carrying value is reduced. Alternatively, management consider asking the valuer to quantify any potential increase or decrease in valuation at the balance sheet date (as the valuer's assessment of materiality will differ to that of the auditor).	Management have engaged Wilks Head & Eve to provide a full valuation as at 31 March 2021 of all Housing Revenue Account (HRA) property assets, investment and surplus property assets. A desktop assessment of the general price change for a sample of the top 20 non-HRA property portfolio of land and buildings at 31 March 2021.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.75m (PY £1.68m based on 2018/19) for the group and £1.7m (PY £1.65m based on 2018/19) for the Council, which equates to 2% of your 2019/20 gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £0.05m for Senior officer remuneration and related party transactions.

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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.

Matters we will report to the Audit and Governance Committee

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 Audit and Governance 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. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.085m (PY £0.0825m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.

Prior year gross operating costs

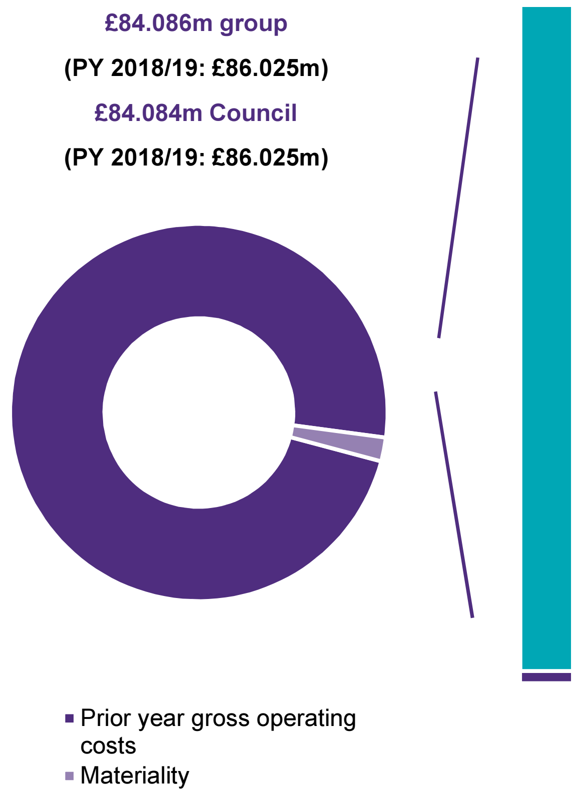
£84.086m group

(PY 2018/19: £86.025m)

£84.084m Council

(PY 2018/19: £86.025m)

Materiality



£1.75m

group financial statements materiality

(PY: £1.68m)

£1.7m

Council financial statements materiality

(PY: £1.65m)

£0.085m

Misstatements reported to the Audit and Governance Committee

(PY: £0.0825m) Council

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out on the right:

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Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. We have not identified any risks of significant weaknesses from our initial planning work, however we have set out in the first table below, areas of focus we intend to review to enable us to produce commentary on arrangements across all of the key criterial. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Key areas of focus

The Local Government operating environment has been significantly impacted by the pandemic and the future funding regime remains uncertain and this lack of certainty will impact on the Council's ability for long term planning. Our Value for Money work will primarily focus on the aspects listed below, but may increase in scope as further work is performed

- The Council's governance arrangements in terms of managing risk, responding to the COVID-19 pandemic and capitalising on the benefits from the different models of service delivery and ways of working bought about by the pandemic;
- The Council's arrangements for setting the Medium-Term Financial Strategy and achieving financial sustainability specifically how the council plans to achieve a balanced budget in the medium-term financial plan;
- The Council's arrangements for working with its key partners to deliver services more efficiently;
- The Council's governance arrangement for it's key development projects Otterpool Park and Princes Parade.

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 logistics and team

Paul Dossett, Key Audit Partner

Responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit and Governance Committee.

Emily McKeown, Manager

Emily will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Emily will attend Audit and Governance Committee, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all.

Mary Adeson, Audit In-charge

Responsible for leading the onsite team and will be the day to day contact for the audit. Monitoring the deliverables, managing the query log with your finance team and highlighting any significant issues and adjustments

Audited body 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 audits. Where the elapsed time to complete an audit exceeds that agreed due to a client 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 a client 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 agreed timetable you have agreed with us, including all notes, the Narrative 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 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 on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

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In 2017, PSAA awarded a contract of audit for Folkestone & Hythe District Council to begin with effect from 2018/19. The fee agreed in the contract was £46,553. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISAs which are relevant for the 2020/21 audit.

As referred to on page 18, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISAs issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf. As part of its response to the Redmond Review issued in December 2020, MHCLG committed an extra £15m to support the delivery of local audit in 2020/21. We understand that the Council will receive a grant to support 2020/21 audit fees.. MHCLG are currently consulting on how the £15m grant will be distributed.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Folkestone & Hythe District Council Audit	£51,753	£62,161	£71,053
Total audit fees (excluding VAT)	£51,753	£62,161	£71,053

Assumptions

In setting the above 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.

Relevant professional standards

In preparing our fee estimate, 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.

Audit fees – detailed analysis

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Scale fee published by PSAA	£46,553
Ongoing increases to scale fee first identified in 2019/20	
Previously agreed annual increases (e.g. regulatory changes, enhanced audit procedures for Property, Plant and Equipment and Pensions)	£7,500
Covid-19 increase	£8,108
Audit fee 2019/20	**£62,161**
New issues for 2020/21	
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs (see appendix 1)	£8,000
Proposed increase to 2019/20 fee	£8, 892
Total audit fees (excluding VAT)	**£71,053**

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 (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. 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 teams and component audit firms providing services to the Council.

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 Benefit Subsidy claim	12,000	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 £12,000 in comparison to the total fee for the audit of £71,053 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 Capital receipts grant	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £71,053 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.

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor's Statutory Right and Duty to Report to Regulators od Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor's Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor's Report	January 2020	✓
ISA (UK) 720 – The Auditor's Responsibilities Relating to Other Information	November 2019	✓
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✓

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