



Annual Audit Letter

Year ending 31 March 2018

Folkestone and Hythe District Council

24 August 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Folkestone and Hythe District Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee, as those charged with governance, in our Audit Findings Report on 30 July 2018.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the group's financial statements to be £1,784,000, which is 2% of the Council's prior year audited gross expenditure.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 31 July 2018.
Whole of Government Accounts (WGA)	We completed limited work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	<p>We did not identify any matters which required us to exercise our additional statutory powers.</p> <p>We have completed the majority of work under the Code. To the opinion date we received two enquiries and one objection from electors in relation to the 2017/18 financial statements. We were unable to certify the completion 2017/18 audit when we gave our audit opinion, due to the outstanding elector objection which is still being considered.</p>

Executive Summary

Value for Money arrangements

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 July 2018.

Certification of Grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.

Certificate

We are unable to certify that we have completed the audit of the accounts of Folkestone and Hythe District Council until we resolve the outstanding elector objection which is still being considered.

Working with the Council

During the 2017/18 financial year we have:

- Worked closely with the new officers in the Council's Finance Team to complete and efficient audit for the earlier 31 July 2018 submission deadline
- Sharing our insight – we provided regular committee updates covering best practice. We also shared our thought leadership reports
- Carried out detailed work in responding to the elector enquiries and objection

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group accounts to be £1,784,000, which is 2% of the Council's prior year audited gross expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We set a lower threshold of £89,000, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts, the Narrative Report and the Annual Governance Statement to check they are consistent with our understanding of the group and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Folkestone and Hythe District Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we did not consider this to be a significant risk for the Council.</p>	<p>Our audit work did not identify any issues in respect of improper revenue recognition.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. .</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>Our audit work included but not restricted to:</p> <ul style="list-style-type: none"> • gaining an understanding of accounting estimates, judgements and decisions made by management and considered their reasonableness • obtaining a full list of journal entries, identifying and testing unusual journal entries for appropriateness and • evaluating the rationale for any changes in accounting policies or significant unusual transactions 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment The Council revalues its property, plant and equipment 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. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>Our audit work included but was not restricted to:</p> <ul style="list-style-type: none"> • review of the Council's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • considering the competence, expertise and objectivity of any management experts used • corresponding with the Council's valuer on the basis on which the valuation is carried out and challenge of the key assumptions • reviewing and challenging the information used by the Council's valuer to ensure it is robust and consistent with our understanding • testing revaluations made during the year to ensure they are input correctly into the Council's asset register • evaluating the assumptions made by you for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value 	<p>We found one issue regarding the b/f asset register. There was a historic mismatch between the fixed asset register and the general ledger which did not affect the balance sheet net book value of assets but caused a discrepancy in the cost, accumulated depreciation and other movements figures in Note 14. All amounts did ultimately reconcile to the same net book value that was reflected in the balance sheet in the draft accounts but this adjustment ensured the disclosure more accurately reflects the Council's full fixed asset register. We reported the full details of the changes to the accounts in Appendix B to our Audit Findings Report.</p> <p>Our audit work did not otherwise identify any issues in respect of the valuation of property, plant and equipment.</p>
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>Our audit work included but was not restricted to:</p> <ul style="list-style-type: none"> • identifying the controls put in place by you to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement • evaluating the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. We have gained an understanding of the basis on which the valuation was carried out • undertaking procedures to confirm the reasonableness of the actuarial assumptions made • checking the consistency of the pension fund asset and liability and disclosures in the notes to the financial statements with the actuarial report from the Council's actuary 	<p>Our audit work did not identify any issues in respect of the pension fund net liability.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the group's financial statements on 31 July 2018, complying with the national deadline.

Preparation of the accounts

The group presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit and Governance Committee on 30 July 2018.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

To the opinion date we received two enquiries and one objection from electors in relation to the 2017/18 financial statements. We were unable to certify the completion 2017/18 audit when we gave our audit opinion, due to the outstanding elector objection which is still being considered.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the accounts until we resolve the objection in relation to the 2017/18 accounts which is being considered. We are satisfied that the matter is not material to the financial statements.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
<p>Medium Term Financial Resilience The current Medium Term Financial Strategy was approved in September 2016 and was updated in October 2017. Changes to the Local Government financial settlement to 2019/20 resulting in decreases in the Settlement Funding Assessment and New Homes Bonus grant funding mean that the cumulative savings gap has increased by £3.5m over the 2016 assessment. The Council will need to manage its financial position and savings targets closely during the medium term period to avoid a negative impact on the long term financial stability of the Council. You have savings plans in place including:</p> <ul style="list-style-type: none"> - Service redesign and reviews around the future operating model - Savings through retendering of the waste contract - Generation of additional revenues through capital investment and Opportunities. <p>We will review the Council's Medium Term Financial Plan, including the robustness of assumptions. We will review savings plans and revenue generating schemes. We will discuss the Council's plans and outcomes with management, as well as reviewing how finances are reported to Councillors.</p>	<p>The Council's Medium Term Financial Strategy (MTRS) is the key financial planning document which sets out the financial implications of the Council's corporate strategy over 5 years for the purposes of decision making and for you to provide assurance that you have a sustainable position in place to deliver service priorities and other investments in the local area.</p> <p>The Council established its Medium Term Financial Strategy by using the current year 2017/18 year budget as a baseline along with known variances from the outturn. The 2018/19 budget work completed feeds into the extrapolation of this performance through to 2022 by the application of known and estimated increases to income and expenditure.</p> <p>We have analysed the Council's detailed breakdown of anticipated and estimated reductions/increases in income and expenditure and 2018/19 and subsequent periods. We discussed the key items with management and looked at the key assumptions in the MTRS. Through this work we concluded that they were realistically and prudently estimated.</p> <p>You identified a savings requirement of £6.525 million through to 2020/21 to achieve balanced positions and maintain the general fund at its current level. This financial position has been significantly impacted by pressures around the waste contract and the New Homes Bonus. Management have undertaken work to address the funding gap, primarily by developing plans to:</p> <ul style="list-style-type: none"> - Take advantage of commercial opportunities wherever possible - Develop alternative income streams and maximise existing ones - Develop and implement transformational plans for efficiencies, including potential implementation of a new operating model - Ensuring financial discipline based on previous budget performance - Use of reserves in a sustainable and prudent manner <p>Savings plans are monitored through budget monitoring processes and management discuss plans which were falling behind and mitigations. Based on the Council's track record of successfully achieving savings targets, and the reasonableness of the underlying planning process and assumptions, you have appropriate planning and monitoring arrangements to achieve the current savings requirement in the MTRS.</p> <p>Based on our work we have found no evidence that the Council does not have proper arrangements and therefore the risk is mitigated.</p>

Value for Money conclusion

Key Value for Money Risks (continued)

Risks identified in our audit plan	Findings and conclusions
<p>Delivering the full potential on capital plans</p> <p>The development of the Otterpool Park Garden Town, alongside smaller scale capital plans, has the potential to make a long term positive contribution to the finances of the Council as well as a long term impact on the area.</p> <p>These plans will involve significant levels of additional borrowing and involve a complex set of stakeholders, participants and potential beneficiaries (both social and financial). The Council is currently laying out potential models for delivery of the large scale scheme alongside obtaining planning permissions. In December 2017 you appointed a panel of experts to provide independent advice, review the framework masterplan and ensure the scheme delivers the full potential.</p> <p>We will review the governance arrangements and decision making processed ongoing around the capital investment plans and how the council continues to reassess and re-measure the public and financial benefits as the plans evolve.</p>	<p>The Council is progressing with this major capital investment plan although it is recognised that these are still at a relatively early stage. During the 2017-18 year you appointed a team of experts to help make sure that Otterpool Park delivers its potential as a garden town. You also have set terms of reference for an Otterpool Park Place Panel to oversee the development, put in place a Framework Masterplan and secured additional funding from Homes England for the ongoing costs of developing the plans.</p> <p>Through our discussions with management and our review of key documents we were able to take assurance that the Council has put in place proper arrangements for making decisions about the capital developments through its reporting to members, and these governance arrangements are understood by key officers.</p> <p>The Council needs to ensure that governance arrangements are maintained as the projects develop and that transparency is maintained. You intend to develop and publish a full business case process for the projects.</p> <p>Based on our work we have found no evidence that the Council does not have proper arrangements and therefore the risk is mitigated.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	7 March 2018
Audit Findings Report	30 July 2018
Annual Audit Letter	24 August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	£60,458	£60,458	£60,458
Housing Benefit Grant Certification	£11,160	TBC (work not yet complete)	£12,938
Total fees	£71,624	TBC	£71,624

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

Fees for other services

Service	Fees £
Audit related services	
- Certification of Housing capital receipts grant 2016-17	£2,000

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.



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