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.
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Grant Thornton

The Audit Findings for Folkestone & Hythe District Council

Year ended 31 March 2021

Folkestone & Hythe District Council

December 2021

Contents

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This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Audit and Governance Committee.

Name : Paul Dossett
For Grant Thornton UK LLP
Date : 08 December 2021

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.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Folkestone & Hythe District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on remotely during June to November. Our findings are summarised on pages 5 to 17. We have identified two adjustments with nil General Fund/Balance Sheet impact to the financial statements. Audit adjustments are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- Receipt of management representation letter; and
- Review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have completed our VFM work, which is summarised on page 23, and our detailed commentary is set out in the separate Auditor's Annual Report, which was presented to the Audit and Governance committee on the September 28, 2021. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we have finalised our consideration of issues raised by local authority electors.
Significant Matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit and Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the components and to determine the planned audit response. From this evaluation we determined that targeted audit procedures were required for asset balances of Oportunitas Ltd.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 08 December 2021. The outstanding items are detailed on page 3 of this report.

Acknowledgements

As highlighted in our audit plan presented to the Audit and Governance Committee, the impact of the pandemic has meant that our audit team faced audit challenges again this year, such as remote access working arrangements i.e. remote accessing financial systems, video calling, physical verification of assets, verifying the completeness and accuracy of information provided remotely produced by the entity have all contributed in part to a delay in our processes.

Throughout this process the Council's team have been facilitative and helpful. The draft accounts were good quality as were the accompanying working papers.

2. Financial Statements

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	1,750,000	1,700,000
Performance materiality	1,312,500	1,275,000
Trivial matters	87,500	85,000
Materiality for Officers' Remuneration	50,000	50,000

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

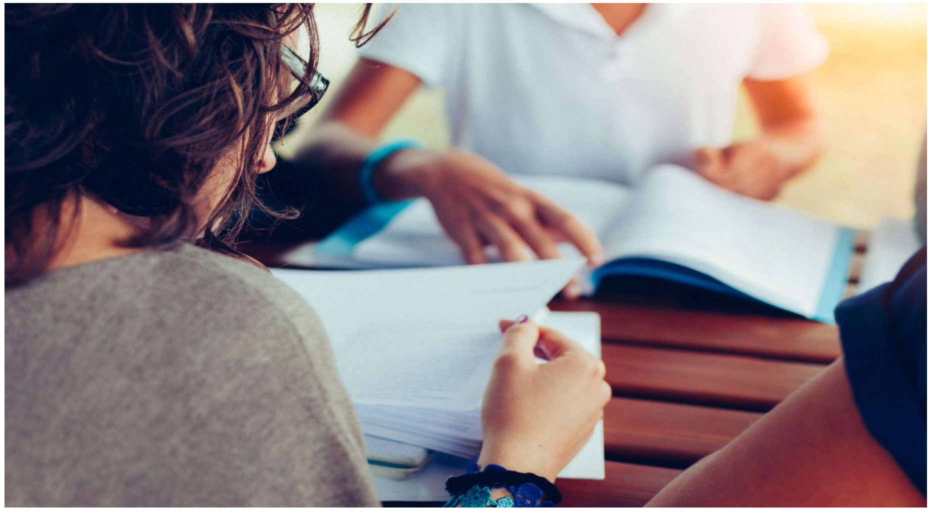
Materiality levels remain the same as reported in our audit plan.

2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any other issues in respect of management override of controls.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (rebutted)	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 There have been no changes to our assessment reported in the audit plan. Therefore, we do not consider this to be a significant risk to Folkestone & Hythe District Council
Valuation of land and buildings including Investment Properties	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation; • tested revaluations made during the year to see if they had been input correctly into your asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. Our work has not identified material issues in respect of valuation of land buildings including investment properties. Valuations of retails and specific trading related assets worth £7,573,200 are reported as being subject to 'material valuation uncertainty' by the management's expert, 'WHE'. Management have assessed the impact of the possible changes in valuation due to uncertainty using a sensitivity analysis and the impact of £+/-757,320 is to be expected if the valuations of such assets are revised upwards or downwards by 10%, respectively. We have evaluated the sensitivity analysis for consistency with valuer's report and our understanding of the entity and its environment and concluded that such expected changes are below materiality , therefore our audit report does not include an Emphasis of Matter paragraph in respect of uncertainty disclosed in the accounts.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Authority'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 £76.591m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a .1% change in these two assumptions would have approximately 3% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	We have: • updated 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; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • performed 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 • obtained 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. Our audit work has not identified any issues in respect of valuation of the pension fund liability.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Fraud in expenditure recognition	We have: • inspected transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period; • inspected 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 • investigated 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. Our audit work has not identified any issues in respect of fraud in expenditure recognition.
Level 3 financial assets and liabilities	We have: • gained an understanding of the council's process for valuing hard to value financial assets and liabilities evaluate the design of the associated controls; • reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuation provided for the assets and liabilities; • considered the competence, expertise and objectivity of any management experts used; • challenged management about the disclosure of the level 3 financial assets. Our audit work has not identified any issues in respect of level 3 financial assets and liabilities.

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £76.591m	The Council's net pension liability at 31 March 2021 is £76.591m (PY £62.935m) comprising the Kent County Council Local Government. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. Net actuarial gain/loss amounted to nil during 2020/21.	• We have assessed the Council's actuary, Barnett Waddingham, to be competent, capable and objective. • We have performed additional tests in relation to the accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2020/21 roll forward calculation carried out by the actuary and have no issues identified. • We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:	

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.00%	1.95% to 2.05%	●
Pension increase rate	2.80%	2.85% to 2.80%	●
Salary growth	3.80%	3.85% to 3.80%	●
Life expectancy – Males currently aged 45 / 65	Current Pensioners – 21.6 y/o Future Pensioners – 23.6 y/o	Current Pensioners – 20.5 to 23.1 y/o Future Pensioners – 21.9 to 24.4 y/o	●
Life expectancy – Females currently aged 45 / 65	Current Pensioners – 23.6 y/o Future Pensioners – 25.1 y/o	Current Pensioners – 23.3 to 25.0 y/o Future Pensioners – 24.8 to 26.4 y/o	●

Assessment

- ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £76.591m - Continued	.	• We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimates. • We have confirmed that there were no significant changes in 2020/21 to the valuation method • We conducted an analytical review to confirm reasonableness of the Council's share of LGPS pension assets • Our work confirms that net pension liability disclosed in the financial statement are reasonable.	

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – Other - £26.4m	Other land and buildings comprise specialised assets such as swimming pools and other leisure facilities, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings assets that are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head & Eve LLP (WHE), a new valuer, to complete the valuation of properties as at 31 March 2021 on a five yearly cyclical basis. 17% of total assets were revalued during 2020/21. The valuation other land and buildings by the valuer has resulted in a net decrease in value of £0.76m. Management have considered the year end value of non-valued properties, based on the market review provided by the valuer as at 31 March 2021, to determine whether there has been a material change in the total value of the properties. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of land and buildings was £26.4m, a net decrease of £0.3m from 2019/20 (£26.7m).	Through the substantive audit work performed we have arrived at the conclusion that the Council's estate as at 31 March 2021 is not material misstated based on the following outcomes: • We reviewed the land and buildings valuation estimate in line with the revised ISA540 requirements and have no issues to raise; • We assessed management's valuation expert and found them to be competent, capable and independent; • We concluded that the underlying information used to determine the estimate is complete and accurate; • We assessed valuer assumptions to be reasonable; and • Revised ISA540 requires enhanced disclosure of accounting estimates in the financial statements and the Council could do more to improve the quality of its disclosures around estimation uncertainty of land and buildings valuations, along with consideration of alternative estimates that are available.	

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Investment Property - £86.3m	The Council has made significant investment property acquisitions (£7.9m) in 2020/21, first and foremost relating the development of the Otterpool assets. The Council acquired Former Debenhams Building for £2.3m. Investment property is required to be valued at fair value at year-end. The Council has engaged 'WHE' to complete the valuation of investment properties as at 31 March 2021. 100% of the assets were revalued during 2020/21, and the fair value adjustment on valuation resulted in an increase of £3.2m across the portfolio.	We have tested the existence and accuracy of material capital additions to investment property assets, including the purchase of Former Debenhams Building. We have also assessed management's estimate, considering: •an assessment of management's expert; •the completeness and accuracy of the underlying information used to determine the estimate; •the reasonableness of the assumptions behind the valuations.	
Land and Buildings – Surplus assets - £12.5m	Surplus assets are not specialised in nature and have been valued at fair value under IFRS13, estimated at highest and best use from a market participant's perspective. The Council has engaged 'WHE' to complete the valuation of assets as at 31 March 2021. This class contains land at Princes Parade and Recreation Ground. The year end valuation of surplus assets was £12.5m, a net increase of £0.2m from 2019/20 (£12.3m).	We have assessed management's estimate, considering: •An assessment of management's expert; •The completeness and accuracy of the underlying information used to determine the estimate; •The reasonableness of the assumptions behind the valuations; and •The reasonableness of the increase in the estimate We consider management's process is appropriate.	

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR appeals - £2.277m	The Council are responsible for repaying a proportion of successful rateable value appeals. Management's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Due to a reduction in outstanding appeals, the provision has decreased by £74m in 2020/21.	• The method used by the Council to calculate the estimate is agreed by all Kent Authorities. • The disclosure of Provisions in the financial statements is adequate. • Our review of the Provision calculation confirms that appropriate information has been used to determine the estimates and we deem the estimate to be reasonable.	
Land and Buildings – Council Housing - £185.6m	The Council owns 3,390 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged 'WHE', a new valuer, to complete the valuation of these properties. The year end valuation of Council Housing was £185.6m, a net increase of £20.4m from 2019/20 (£165.2m).	The Council's valuer Sibley Pares (Taylor Riley) Ltd last valued the entire housing stock in April 2015 using the Beacon methodology. For 2020/21 the valuer, 'WHE' has valued the entire stock as at 31 March 2021 to correctly state the value of the HRA stock held by the Council. • We have assessed the Council's valuer, WHE, to be competent, capable and objective. • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate and have no issues to report. • We have agreed the HRA valuation report to the Statement of Accounts.	

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £40.3m	Management's policy states that grants are immediately recognised where the Council has reasonable assurance it will comply with the conditions attached to the grant, and the grants or contributions will be received. Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is recognised as income as soon as the Council has reasonable assurance it will comply with the conditions attached to the grant, and the grants or contributions will be received. For this purpose, the Council acts as the principal and credited such grants, contributions and donations to the Comprehensive Income and Expenditure Statement. These mainly comprise of: Local Authority Discretionary Grant Fund (LADGF) COVID-19 Emergency Funding COVID-19 LA Support Grant COVID Winter Grant Scheme Additional Restrictions Grant However, for some grants. The Council is also acting as an agent and does not recognise grant income. The Council has recognised the following grants as agency transactions: Small Business Grant Fund (SBGF) and Retail, Hospitality and Leisure Grant Fund (RHLGF) Business Grants Fund Local Restrictions Support Grant (including Addendum) Work performed on grants confirm that the judgements exercised by the Council management in determining whether they are acting as principal or agent have been reviewed in detail and no material issues were noted.	• Work performed during our audit covered the following: • Review of management's judgement of whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all • Completeness and accuracy of the underlying information used to determine whether there are conditions outstanding that would determine come whether the grant be recognised as a receipt in advance or income. • Impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant)-which impacts on where the grant is presented in the CIES • Reviewed adequacy of disclosure of management's policy around recognition of grant income in the financial statements.	

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £775k	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £775k, a net increase of £417k from 2019/20.	We have carried out the following work: • Assessed that the MRP has been calculated in line with the statutory guidance. • Confirmed that the Council's policy on MRP complies with statutory guidance. • Assessed there are no changes to the authority's policy on MRP in comparison with 2019/2020. • Concluded that the change in MRP is reasonable.	

Assessment

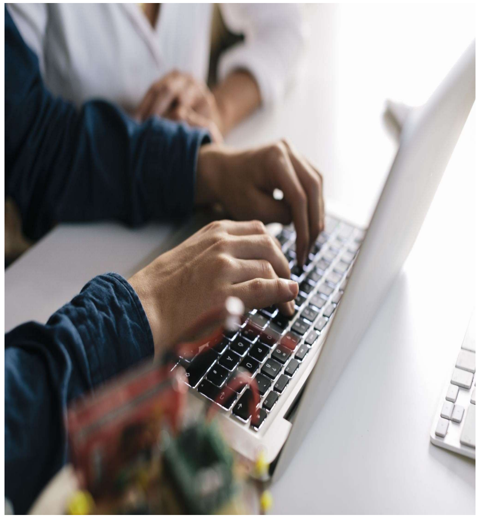
- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit and Governance Committee papers.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to Councils banking, investment and borrowing institutions. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided in a prompt manner. No significant difficulties have been experienced.

2. Financial Statements - other communication requirements

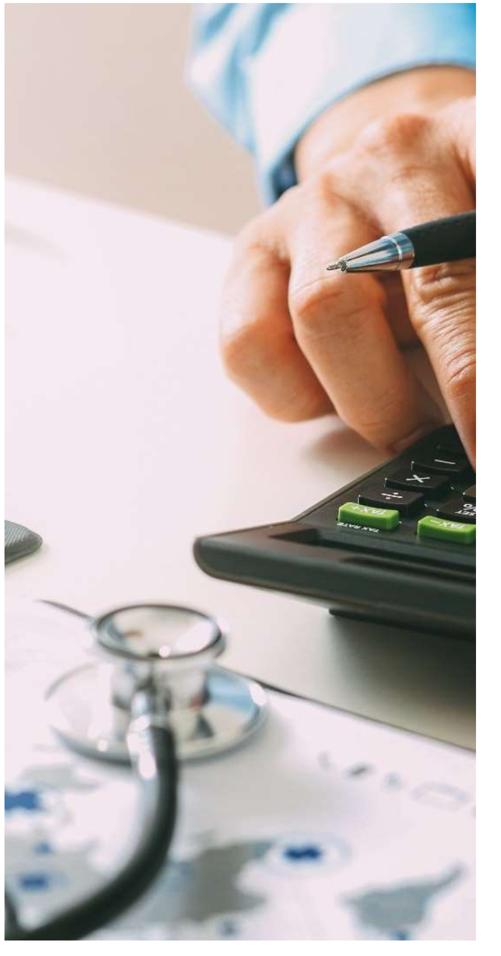
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities; and • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework; and • the Council's system of internal control for identifying events or conditions relevant to going concern. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified; and • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. The work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	This is outstanding whilst we consider issues raised by local electors.

3. 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.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at 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 the three specified reporting criteria.

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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are 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

3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which was presented to the Audit and Governance committee on the September 28, 2021.   We will present a final version of this report to Full Council in the New Year.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

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

5. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
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 £84,705 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit 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 £84,705 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

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

Appendices

A. Follow up of prior year recommendations

We identified the following issues in the audit of Folkestone & Hythe Council's 2019/20 financial statements, which resulted in 1 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 other land and buildings was carried out as at 01 April 2019. The valuer provided the update 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 have calculated that a potential uncertainty of circa £802k exists 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.	Management 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.

Assessment

✓ Action completed

X Not yet addressed

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
The reclassification of the land option in respect of Otterpool recognised within investment property. The Authority does not have the rights and obligation to the land, therefore does not meet criteria recognition to be classified as Investment Property.			
Debtors		905,165	
Investment Property		(905,165)	
The reclassification of the Small Business grant fund payment made on 31 March from creditors to bank. As to reflect the bank reconciling items between the Authority's ledger and the bank account.			
Creditor		2,508,000	
Bank		(2,508,000)	
Overall impact	NIL	NIL	NIL

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Disclosure omission	Auditor recommendations	Adjusted?
Related Parties The Code 3.9.4.1 requires the disclosure note include the following: 1) Information in respect of transactions with related parties, not disclosed elsewhere, including: a) the description of the nature of the related party relationships b) the amount of transactions that have occurred, and c) the amount of outstanding balances. In respect of Central Government, the disclosure should cross reference both debtors and creditors for the amount of outstanding balances.	The note was updated in response to our query. Management response This was an agreed amendment to the accounts.	✓
Heritage assets The narrative included within disclosure note required amending to reflect the actual basis of the carrying amount of the assets. The asset is held at cost, which the Authority valuation expert, deemed to be it's "current" carrying amount as at 31 March 2021.	The note was updated in response to our query. Management response This was an agreed amendment to the accounts.	✓

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Disclosure omission	Auditor recommendations	Adjusted?
Financial Instrument Soft loan amounting to £2,019 and £2,275 at 2020-21 and 2019-20 respectively was not included under financial assets.	The note was updated in response to our query. Management response This was an agreed amendment to the accounts.	✓
Investment Property The disclose note in missing the 2019/20 comparative for the "Recurring fair value measurements" table. Which is not in line with the code 3,4,2,31 "Except when the Code permits or requires otherwise, a local authority shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements".	The note was updated in response to our query. Management response This was an agreed amendment to the accounts.	✓

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Disclosure omission	Auditor recommendations	Adjusted?
Investment Property The section on "Significant unobservable inputs - Level 3" paragraph 3 states the Authority's commercial units are categorised as level 3. This is not consistent with what has been noted within the valuer's working. The commercial units were categorised as level 2, which the auditors deemed to be appropriate. It should be noted that for 2020/21 there were not assets categorised as level 3, as per page 6 of the valuation report. Unless the Authority is able to provide alternative supporting documentation to demonstrate otherwise. The Investment Properties Categories with Level as 31 March 21 should be removed at the bottom of the disclosure.	The note was updated in response to our query. Management response This was an agreed amendment to the accounts.	✓
PPE Note The "Balance Sheet amount at 1 April 2020" in respect of 2020/21 disclosure is incorrect, this has not been updated.	The note was updated in response to our query. Management response This was an agreed amendment to the accounts.	✓

B. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £‘	Balance Sheet £’	Impact on total net expenditure £’	Reason for not adjusting
The brought forward balance in the computation of the impairment of housing rent is incorrect. Resulted to overstatement of impairment debt				These balances are being investigated and will be corrected in the 2021/22 accounts once investigated is completed.
Short term Debtors		110,281		
Impairment of Debt		(110,281)		
The error on incorrect spilt of land and building values on the FAR due to human error. Resulted to overstatement of buildings and understatement of land.				These balances are being investigated and will be corrected in the 2021/22 accounts once investigated is completed.
HRA - Land		176,550		
HRA – Building		(176,550)		
Overall impact	£NIL	£NIL	£NIL	

C. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	71,053	84,705
Total audit fees (excluding VAT)	£71,053	£84,705

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Housing Benefit Subsidy claim	12,000	12,000
Certification of Housing Capital receipts grant	5,000	5,000
Total non-audit fees (excluding VAT)	£17,000	£17,000

The variation in the final fees from the proposed fee per the audit plan are in respect to PSAA approving the following fees:

- 2018/19 objection to accounts of £5,544
- 2019/20 Covid-19 overrun of £8,108

The fees reconcile to the financial statements.

D. Audit opinion - Draft

We anticipate we will provide the Group with an unmodified audit report:

Our audit opinion is included below.

We anticipate we will provide the Group with an unmodified audit report

Independent auditor's report to the members of Folkestone & Hythe District

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Folkestone & Hythe District (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2021, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

• give a true and fair view of the financial position of the group and of the Authority as at 31 March 2021 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;

• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and

• have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Corporate Services use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Director of Corporate Services conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Corporate Services use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Director of Corporate Services with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Corporate Services and Those Charged with Governance for the financial statements' section of this report.

D. Audit opinion - Draft

Other information

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

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

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

• we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

• we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

• we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;

• we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

• we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Director of Corporate Services and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Corporate Services . The Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Director of Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

D. Audit opinion - Draft

Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, the Local Government Act 1972, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.

• We enquired of senior officers and the Audit and Governance Committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of senior officers, internal audit and the Audit and Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and assessment of the risk of fraud in expenditure recognition. We determined that the principal risks were in relation to journals:

- Using data analytics, we considered all journal entries for fraud and set specific criteria to identify the entries we considered to be high risk. Such criteria included journals posted after the year end; journals with a material impact on the deficit for the year and journals posted by users with system admins or senior finance officers.

- Our audit procedures involved:

  - evaluating the design effectiveness of managements controls over journals;

  - analysing the journals listing to determine the criteria for selecting high risk unusual journals;

  - testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;

  - gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and

  - evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

D. Audit opinion - Draft

- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, council dwelling, investment property, and defined benefit pensions liability valuations, credit loss and impairment allowances, provisions, expenditure accruals and fair value estimates.
- Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority and group including:
    - the provisions of the applicable legislation n
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

E. Audit opinion - Draft

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

We cannot formally conclude the audit and issue an audit certificate for the Folkestone & Hythe District Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by local authority electors under Section 27 of the Local Audit and Accountability Act 2014.

Use of our report

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

{Signature}

Paul Dossett, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

09 December 2021

Grant Thornton

grantthornton.co.uk