The Audit Findings for Folkestone & Hythe District Council

Year ended 31 March 2021

Folkestone & Hythe District Council

March 2023

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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 : 15 March 2023

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 24. We have identified four adjustments with nil General Fund/Balance Sheet impact to the financial statements. Audit adjustments are detailed in Appendix C. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

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 final signed management representation letter; and
- Review of the final signed 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 25, 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 Audit and Governance committee in March 15 2023.
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 15 March 2023 . 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

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.

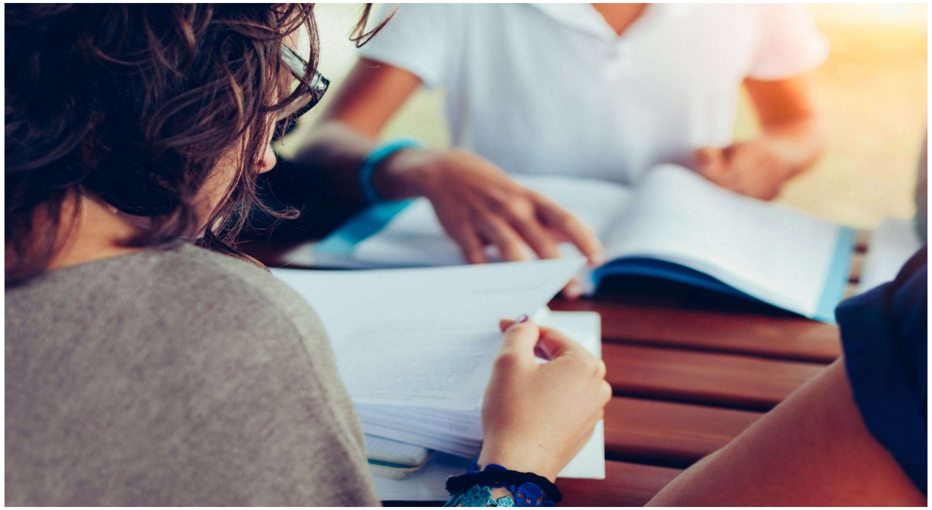
	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	1,750,000	1,700,000
Performance materiality	1,312,500	1,275,000
Trivial matters	87,500	85,000
Materiality for Officers' Remuneration	50,000	50,000

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.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
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. 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. We have identified properties within our testing which were incorrectly classified as Investment Property instead of Property, Plant and Equipment (PPE) as these does not meet the definition of Investment Property. See Appendix C for details. No other issue was identified in our response to this risk.

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 material issues in respect of level 3 financial assets and liabilities.

2. Financial Statements - Other Risks Identified

Risks identified in our Audit Plan	Commentary
Valuation of Infrastructure Assets Infrastructure assets include roads, highways, street lighting and coastal assets. As at 31 March 2021 the net book value of Infrastructure Assts was £10.346m, which is over five times the financial statements materiality. Gross book value at 31 March 2021 was £36.156m. In accordance with the LG Code, Infrastructure Assets are measured using the historical cost basis, and carried at depreciated historic cost. With respect to the financial statements there are two risks we plan to address: 1. The risk that the value of Infrastructure Assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of Infrastructure Assets. 2. The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure Assets is overstated. It will be overstated if management do not recognise components of Infrastructure when they are replaced.	To address this risk we have: • reconciled the fixed asset register to the financial statements; • used our own point estimate and considered the reasonableness of depreciation charge to Infrastructure Assets; • obtained assurance that the UELs applied to Infrastructure Assets are reasonable; and • documented our understanding of management's processes for derecognising Infrastructure Assets on replacement, and obtain assurances that the disclosure in the PPE note is not materially misstated. We have obtained sufficient appropriate audit evidence to corroborate that the net book value of infrastructure assets is not materially misstated through our substantial analytical review on depreciation, inquiries with management and sensitivity analysis of the infrastructure assets depreciation charge. Our audit work has not identified any issues in this area.

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. Closing balance is £28.3m as a result of reclassification from Investment properties to Surplus assets. See Appendix B for details.	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. We have identified properties within our testing which were incorrectly classified as Investment Property instead of Property, Plant and Equipment (Surplus assets) as these does not meet the definition of Investment Property. See Appendix C for details.	
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). Closing balance is £70.4m as a result of reclassification from Investment properties to Surplus assets. See Appendix B for details.	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 have identified properties within our testing which were incorrectly classified as Investment Property instead of Property, Plant and Equipment (Surplus assets) as these does not meet the definition of Investment Property. See Appendix C for details.	

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
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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

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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. From our review of the MRP calculation, we noted that no MRP was charged against £36.7m of the Capital financing requirement that relates to cost incurred for the land and the delivery of the Otterpool park project. We have calculated the required MRP as £1.46m however we are satisfied our finding does not constitute a cumulative material misstatement of the financial statements. As a result, we consider this to be 'optimistic' but is unlikely to be materially misstated.	

Assessment

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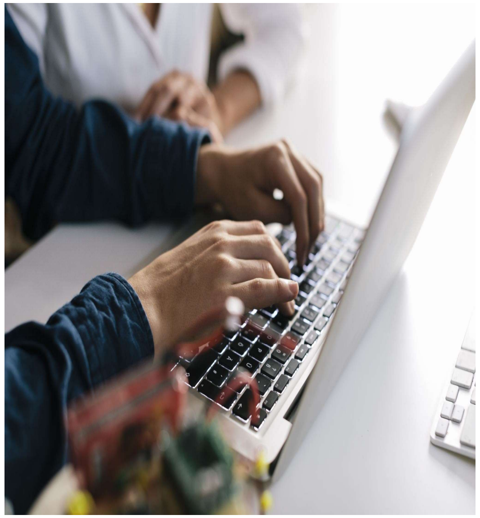
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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

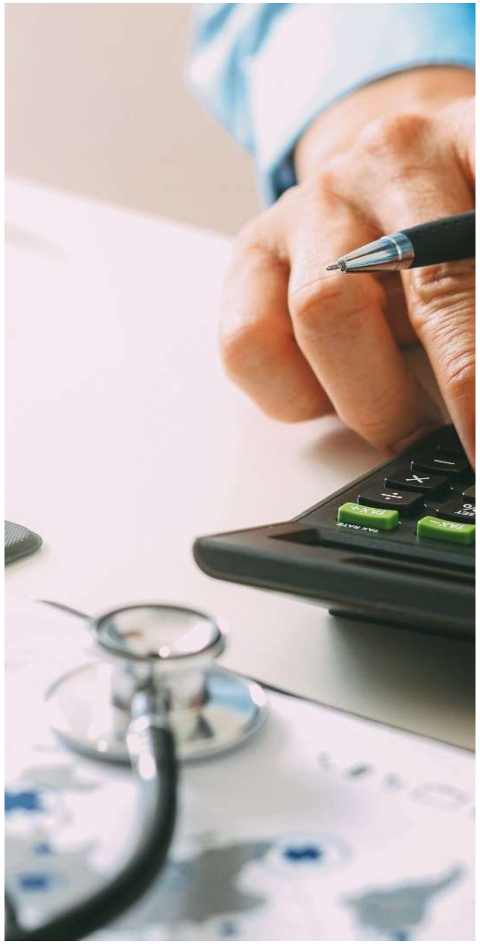
Our responsibility

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 Audit and Governance committee in March 15 2023.

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. Action plan – Audit of Financial Statements

We have identified one recommendation as a result of issue identified during the course of our audits. We have agreed our recommendation with management, and we will report on progress on these recommendations during the course of the 2021-22 audit. The matter reported here is limited to the deficiency that we have identified during the course of our audit and that we have concluded is of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	HRA– Componentisation As part of our HRA valuation work, we noted that management has written out £4.3m of capital expenditure works (i.e Kitchen and bathroom replacements) as impairment instead of componentising each part of the assets with the cost that should be depreciated separately. That is to say, management will need to write out the old components from the Gross book value and the accumulated depreciation before adding on the new component for year end valuations.	Management should componentise each part of the assets with the cost that should be depreciated separately.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. 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

C. 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
Investment Property			
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	
Investment Property		(905)	
Creditors			
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	
Bank		(2,508)	

C. Audit Adjustments

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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
Investment Property We have identified a property (Folca Building) within our testing which was incorrectly classified as an Investment Property instead of a Property, Plant and Equipment (PPE) as it does not meet the definition of an Investment Property. This has been agreed that is moved to PPE.			
PPE		2,182	
Investment Property		(2,182)	
Investment Property We have identified Otterpool farm and land within our testing which were incorrectly classified as Investment Property instead of a Property, Plant and Equipment (PPE) as it does not meet the definition of an Investment Property. This has been agreed that is moved to PPE.			
PPE		55,764	
Investment Property		(55,764)	
Overall impact	NIL	NIL	NIL

C. 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.

Misclassification and disclosure changes

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.	✓

C. 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.

Misclassification and disclosure changes

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.	✓
Note 5 - MIRS The breakdown for Transfer of capital grants and contributions to capital grants unapplied and Application of capital grants to finance capital expenditure was omitted.	The note was updated in response to our query. Management response This was an agreed amendment to the accounts.	✓
Investment Property The disclosure note is missing in 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.	✓
Financial Instrument Key Sensitivity analysis was omitted	The note was updated in response to our query. Management response This was an agreed amendment to the accounts.	✓

C. 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.

Misclassification and disclosure changes

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.	✓

C. 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.

Misclassification and disclosure changes

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?
Narrative statement We have identified incorrect descriptions to Otterpool park, Mountfied road industrial estate and FOLCA in respect the classification of these assets.	We have recommended an amendment to be made by management. Management response This was an agreed amendment to the accounts.	✓
Financial Instruments - Fair Values We noted under Financial assets that Long-term loans to companies was incorrectly classified and disclosed as Fair value level 3 instead of fair vale level 2.	We have recommended an amendment to be made by management. Management response This was an agreed amendment to the accounts.	✓
Mountfield Road Industrial Estate We noted an incorrect description (Joint venture) of the arrangement between East Kent Spatial Development Company and Mountfield Road Industrial Estate.	We have recommended an amendment to be made by management. Management response This was an agreed amendment to the accounts.	✓
Infrastructure Asset We noted management has omitted the required disclosure for Infrastructure assets.	We have recommended an amendment to be made by management. Management response This was an agreed amendment to the accounts.	✓

C. 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.

Misclassification and disclosure changes

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?
Group – Material notes We noted management has not disclosed all material notes i.e Long term Investment ,Long term debtors and Short term debtors.	We have recommended an amendment to be made by management. Management response This was an agreed amendment to the accounts.	✓
Group – Accounting policy on consolidation We noted management has omitted accounting policy on consolidation.	We have recommended an amendment to be made by management. Management response This was an agreed amendment to the accounts.	✓

C. 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 £'000	Balance Sheet £'000	Impact on total net expenditure £'000	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		
Impairment of Debt		(110)		
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		177		
HRA – Building		(177)		

C. 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 £‘000	Balance Sheet £’000	Impact on total net expenditure £’000	Reason for not adjusting
Cash and Cash Equivalents During our testing, we noted that management has offset a liability (bank overdraft) against Money Market fund balance.				The balance Is below materiality and no other unadjusted issues identified with this balance.
Cash and Cash Equivalent - Asset		1,300		
Cash and Cash Equivalent - Liability		(1,300)		
Overall impact	£NIL	£NIL	£NIL	

D. 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	73,553
Total audit fees (excluding VAT)	£71,053	£73,553

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.

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