



Agenda

Meeting: **Audit and Governance Committee**
Date: **13 March 2024**
Time: **6.00 pm**
Place: **Council Chamber - Civic Centre Folkestone**

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

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

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

This meeting will be webcast live to the council's website at <https://folkestone-hythe.public-i.tv/core/portal/webcasts>.

Please note there will be 37 seats available for members of the public, which will be reserved for those speaking or participating at the meeting. The remaining available seats will be given on a first come, first served basis.

9. **22/23 Audit Findings Report (Pages 3 - 50)**

The report summarises progress, findings and adjustments for the 2022-23 financial statements audit to date.

Report to follow.

10. **22/23 Auditor's Annual Report (Pages 51 - 88)**

The report summarises the value for money work carried out for 2022-23

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Email: committee@folkestone-hythe.gov.uk or download from our website
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over the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

Report to follow.

This Report will be made public on 5 March 2024



Report Number **AuG/23/24**

To: Audit and Governance Committee
Date: 13 March 2024
Head of Service: Lydia Morrison – Interim Director Governance and Finance Services
Cabinet Member: Councillor Tim Prater, Deputy Leader and Cabinet Member for Finance and Governance

Subject: Statement of Accounts 2022/23 – Audit Findings

Summary: In accordance with the Accounts and Audit (Amendment) Regulations, and the parliament brought forward by two months the deadlines in the Accounts and Audit Regulations for the 2022/23 accounts. The publication deadline for the unaudited accounts was 31st May 2023 and the date by which the Audit and Governance Committee has to approve the accounts is 30th September 2023. The audit of the 2022/23 Accounts has now been substantially completed. The final audit findings in relation to the audit of the 2022/23 Statements of Account are set out in Grant Thornton’s Audit Findings report attached as Appendix A.

Reasons for recommendations:

The Committee is asked to note the recommendations set out below because the Accounts and Audit (Amendment) Regulations require the Council to consider and approve its 2022/23 Statement of Accounts by no later than 30 September, to enable publication to be made by that date.

Recommendations:

1. To note Grant Thornton’s final 2022/23 Audit Findings report (ISA 260) on the 2022/23 Statement of Accounts.
2. To note 2022/23 Annual Report on Value for Money.
3. To note the formal External Auditor (GT) Letter of Representation that will be signed by the Chairman of the Audit & Governance Committee and the Interim Director Governance and Finance Services (S151 Officer) as required by the external auditor at the conclusion of the audit.

1. INTRODUCTION AND BACKGROUND

- 1.1 For 2022/23 the statutory deadlines for publishing the final audited accounts was 30th September with unaudited accounts needing to be published by 31st May. It was identified during audit planning that external audit would be unable to work to the 30th September deadline due to delays in available audit resources whilst the audit sector work through the backlog of public sector audits highlighted and acknowledged by the Public Sector Audit Appointments.
- 1.2 The 2022/23 Statement of Accounts has been prepared in accordance with the relevant Code of Practice on Local Authority Accounting in the United Kingdom and the Service Reporting Code of Practice, supported by International Financial Reporting Standards (IFRS).
- 1.3 The Department for Levelling-Up, Housing and Communities (DLUHC) published the Accounts and Audit Regulations on 28 June 2022. The Accounts and Audit (Amendment) Regulations amended the date for the publication of draft accounts to 31 May and the publication of the final audited accounts from to 30 September to help stabilise the market and address long-term supply auditor issues.
- 1.4 It has not been possible to meet the deadlines due to a number of factors beyond the Council's control. The completion of the audit was delayed, primarily due to a number of elements including limited resources to carry out the Council's accounts final audit given Grant Thornton's existing commitments to other ongoing audits.

2. 2022/23 AUDIT OF THE ACCOUNTS

- 2.1 Under its terms of reference, it is the role of this Committee to review/approve the annual statement of accounts and the external auditor's report to those charged with governance, having considered whether appropriate accounting policies have been followed, and any issues raised by Grant Thornton from the audit of the accounts.
- 2.2 The Council's external auditors, Grant Thornton, have audited the accounts between the periods October 2023 to February 2024. The audit of the accounts is substantially complete, and the Auditor has indicated that an unqualified audit opinion will be issued on the accounts, subject to the successful completion of the outstanding matters. A number of accounting and presentational adjustments arising from normal audit work have been noted, discussed, and resolved as stated in the report.
- 2.3 Grant Thornton has also completed the review of the arrangements made by the Council to secure economy, efficiency, and effectiveness in the use of resources (Value for Money - VFM) and did not identify any significant VFM risks in 2022/23. Grant Thornton is satisfied that the Council has made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources for the year ending 31 March 2023, and did not feel it necessary to report on any particular points on value for money issues.

- 2.4 It is important to note that the Audit Opinion in respect of the 2022/23 Accounts will be an Unqualified Opinion and that any agreed adjustments arising from the audit will not result in any significant change in the financial position of the Council or impacted upon the Council's Reserves and Balances.

3. Letter of Representation 2022/23

- 3.1 Each year, on completion of the audit of the Council's Financial Statements, the Interim Director Governance and Finance Services (S151) is required to submit a Letter of Representation to the Council's external auditor. The letter formally and publicly confirms the accuracy and completeness of the presented Statement of Accounts.
- 3.2 A copy of the draft Letter of Representation for 2022/23 is attached at Appendix B, and on receipt of the signed Letter of Representation, the Council's external auditor will formally issue an opinion on the Financial Statements.

4. CONCLUSION

- 4.1 The audited 2022/23 Statement of Accounts are unsigned at this stage. The Committee is asked to note the Grant Thornton's final 2022/23 Audit Findings report (ISA 260) on the 2022/23 Statement of Accounts and the 2022/23 Annual Report on Value for Money.

5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

- 5.1 **Legal Officer's Comments (AK)**
There are no legal implications arising directly out of this report that are not already referred to in the report.
- 5.2 **Finance Officer's Comments (OO)**
This report has been prepared by Financial Services and all financial matters contained within the body of the report.
- 5.3 **Diversity and Equalities Implications ()**
There are none arising directly from this report.

6. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Ola Owolabi, Chief Financial Services Officer
Telephone: 07731 347103
Email: ola.owolabi@folkestone-hythe.gov.uk

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

7. Appendices:

- Appendix 1- The final 2022/23 Audit Findings report, including the Audit Opinion from Grant Thornton in accordance with the International Standard of Auditing (ISA 260).
- Appendix 2- The 2022/23 Letter of Representation.

The Audit Findings Report for Folkestone and Hythe District Council

Year ended 31 March 2023

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 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 & Governance Committee.

Sophia Brown

For Grant Thornton UK LLP

March 2024

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Folkestone and Hythe District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2023 for the attention of 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 remotely during December 2023 to February 2024. Our findings are summarised on pages 7 to 20. Identified audit adjustments are detailed in Appendix D.

Our audit fieldwork is substantially complete, subject to review, and there are no matters of which we are aware, at this stage, that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters:

With the Council

- Audit is working with the finance team to select samples of council tax and business rate debtors and creditors, now that a breakdown of the balances is available.
- Third party confirmations pending for investments, money market funds and borrowings.
- We await receipt of the updated Movement In Reserves checker tool.
- We await receipt of samples for the following areas: creditors (2 samples), grant income (2 samples), bank receipts (1 samples), land & building revaluations (4 samples)

With the audit team

- The audit team is finalising audit procedures for heritage assets, group consolidation, other disclosures.
- The audit team is processing testing in the following areas: fees & charges income (9 samples), Collection Fund creditors (1 sample), and debtor testing (3 samples).
- PPE & investment property valuation procedures are in progress.
- Pensions experience item review is in progress.
- Clearance of technical queries raised in the GT 'hot review' of the original draft financial statements.
- Quality review of audit fieldwork is in progress.

Closing procedures

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

We have raised recommendations for management as a result of our audit work in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

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

Subject to the completion of the outstanding work, as outlined above, 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 Value for Money work, which is summarised on pages 21-22, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. 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 expect to certify the completion of the audit upon the completion of our Whole of Government Accounts work once submission arrangements have been issued by the National Audit Office.

Significant matters

The Council originally published draft 2022-23 financial statements in September 2023. The Statement of Accounts did not balance internally, and management provided a revised set of draft 2022-23 financial statements in January 2024.

During the course of the audit, we experienced significant difficulties in mapping the trial balance to the financial statements, and also challenges obtaining year end listings to support income and expenditure, and debtor and creditor balances. This caused delays to our audit fieldwork and put the audit timeframe 3 weeks behind schedule.

Please refer to 'Timeline for 2022-23 audit' on page 6 for further details.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021-22 accounts by the extended deadline of 30 November 2022. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as possible as soon as possible, and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/about-time/).

We would like to thank everyone at the Council for their support in working with us.

National context – level of borrowing

All councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on council budgets, there are concerns as councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

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 & 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.

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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 component and to determine the planned audit response; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

Our audit fieldwork is substantially complete, subject to review (refer to detail on page 3), and we anticipate issuing an unqualified audit opinion following the Audit & Governance Committee meeting on 13 March 2024.

Acknowledgements

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

Timeline for the 2022-23 audit

In May 2023 we agreed with management, that due to audit resource restrictions, the 2022-23 audit would commence in October 2023. The Council published its draft 2022-23 financial statements in September 2023. The Statement of Accounts did not balance internally and as part of the audit risk assessment framework we then carried out a detailed review (or 'hot review') for the draft financial statements. We confirmed to management that issues identified in the hot review would need to be resolved before we could commence our audit fieldwork. Hot review findings were shared management in November 2023 and management provided a revised set of draft 2022-23 financial statements on 12 January 2024. Our audit fieldwork has been carried out on this revised 2022-23 Statement of Accounts

During the course of the audit, we experienced significant difficulties in mapping the trial balance to the financial statements, and also challenges in obtaining year end listings to support income and expenditure, and debtor and creditor balances. This caused delays to our audit fieldwork and put the audit timeframe 3 weeks behind schedule. For example, we were not able to issue a complete journals sample until 20 February 2024. We note that issues with debtor and creditor balances were communicated in our 2021-22 Audit Findings Report and relate to the prior year recommendation on page 27 of this report.

The audit team has worked closely with your finance team on the above issues. Control finding recommendations relating to these issues are included in Appendix B and audit adjustments identified are included in Appendix D.

2. Financial statements



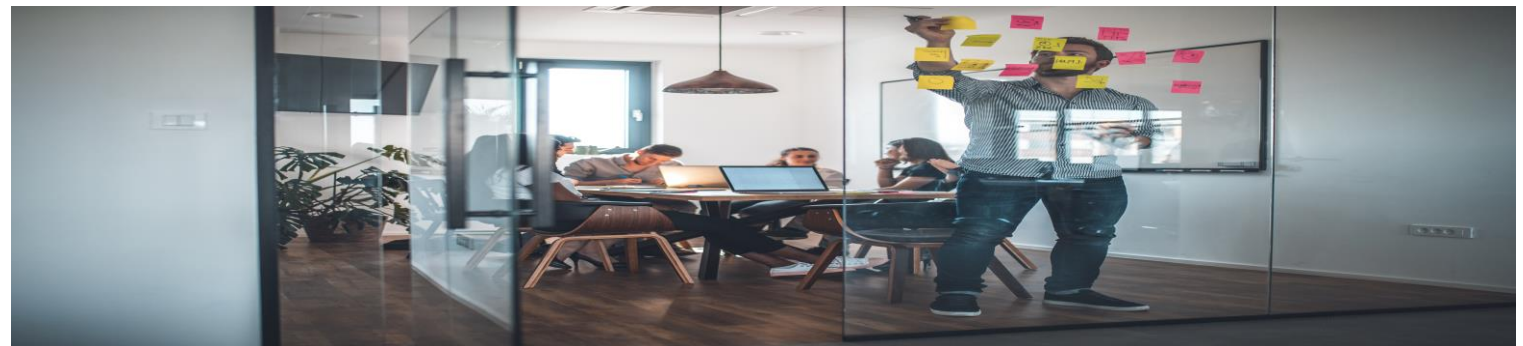
Our approach to materiality

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.

We set out in this table our determination of materiality for Folkestone and Hythe District Council and group.

	Group amount (£)	Council amount (£)	Qualitative factors considered
Materiality for the financial statements	2,194,300	2,187,800	We have determined financial statement materiality for the group and Council based on a proportion of the gross expenditure of the group and Council for the year ended 31 March 2023. Materiality of our audit equates to 2% of your gross expenditure for the period for group and Council.
Trivial matters	109,700	109,400	We are obliged to report uncorrected and corrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at 5% of materiality.
Materiality for specific transactions, balances or disclosures senior officer remuneration	50,000	50,000	We have identified senior officer remuneration and termination benefits as disclosures where we will apply a lower materiality level, as they are considered sensitive disclosures. Materiality of £50,000 has been set in this area.



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	Relates to	Commentary
The revenue cycle includes fraudulent transactions (rebutted)	Council	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA (UK) 240 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:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate revenue recognition; • Opportunities to manipulate revenue recognition are very limited; and • The culture and ethical frameworks of local authorities, including that of Folkestone & Hythe District Council, mean that all forms of fraud are seen as unacceptable. <p>There have been no changes to our assessment as reported in the Audit Plan. To gain assurance over revenue, we:</p> <ul style="list-style-type: none"> • Documented our understanding of the revenue business process; • Tested a sample of revenue to gain assurance over the accuracy and occurrence of revenue recorded during the financial year; and • Performed testing over post year-end receipts to assess completeness of revenue and receivables recognition. <p>Our audit work to date has not identified any issues in respect of this risk that require reporting.</p>
Management override of controls	Council and group	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>To address this risk, we:</p> <ul style="list-style-type: none"> • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determined the criteria for selecting high risk unusual journals. • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our audit work to date has not identified any issues in respect of this risk that require reporting.</p>

2. Financial statements – significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of the pension fund net liability	Council	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability, noting that the impact of the Local Government Pension Scheme 2022 triennial valuation will impact the Council's 2022-23 pension fund net liability.</p> <p>We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation we will reconsider this if it becomes apparent at the year-end that there are significant special events relating to the source data (such as bulk transfers, redundancies or other significant movements of staff) which would need to be given special consideration during the audit. Despite not being considered a significant risk we still carry out testing and consideration of the source data to obtain sufficient and appropriate audit evidence that there is no material misstatement.</p> <hr/> <p>To address this risk we:</p> <ul style="list-style-type: none"> • 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. • Undertook 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. • 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. <p>Our audit work to date has not identified any issues in respect of this risk that require reporting.</p>

2. Financial statements – significant risks

Risks identified in our Audit Plan

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of land and buildings (including council dwellings and investment properties)	Council	<p>The Council has the following types of properties that are valued:</p> <p><u>Other land & buildings</u>: The Council re-values its land and buildings on a rolling five-yearly basis.</p> <p><u>Council dwellings</u>: The Council measures its dwellings at fair value, determined using the basis of existing use value for social housing and is re-valued on a cyclical approach using the Beacon methodology.</p> <p><u>Investment Properties</u>: The council re-values its investment properties on an annual basis at fair value.</p> <p>The valuations of land and buildings and council dwellings and investment properties represents a significant estimate by management in the financial statements due to the size of the numbers involved, and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for investment properties included with other land and buildings) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which is one of the most significant assessed risks of material misstatement.</p> <hr/> <p>To address this risk we :</p> <ul style="list-style-type: none"> • 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. • Wrote 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 the asset register. • Assessed the value of a sample of assets in relation to market rates for comparable properties. • Tested a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group. • 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. <p>Our audit work to date has not identified any issues in respect of this risk that require reporting.</p>

2. Financial statements – significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Level 3 financial assets and liabilities	Council	<p>The Council has reviewed the fair value of the finance assets as part of the IFRS 9 assessment in preparing the draft accounts and concluded that the soft loans for private sector housing improvement purposes and the equity investment in Oportunitas Limited are Level 3 assets.</p> <p>By their nature Level 3 assets and liabilities valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 financial assets and liabilities by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We therefore identified valuation of Level 3 financial assets and liabilities as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <hr/> <p>To address this risk, we:</p> <ul style="list-style-type: none"> • 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; and • Challenged management about the disclosure of the Level 3 financial assets. <p>Our audit work to date has not identified any other issues in respect of this risk that require reporting.</p>

2. Other risks identified

Risks identified in our Audit Plan	Relates to	Commentary
Fraud in expenditure recognition	Council	<p>As most public bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition.</p> <p>There is a risk that the Council may manipulate expenditure to that budgeted by under-accruing non-pay expense incurred during the period or not record expenses accurately to improve financial results.</p> <p>In line with the Public Audit Forum Practice Note 10, having considered the risk in relation to fraud in expenditure recognition and the nature of the Council's expenditure streams we determine that the risk of fraud arising from expenditure can be rebutted because:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate expenditure recognition; • Opportunities to manipulate expenditure recognition are very limited; and • The culture and ethical framework of local authorities, including Folkestone and Hythe District Council, mean that all forms of fraud are seen as unacceptable. <p>However, we have identified that due to the level of estimation involved in manual accruals of expenditure, and the potential volume of large accruals at year end, there is an increased risk of error in the completeness of expenditure recognition.</p> <hr/> <p>To address this risk we:</p> <ul style="list-style-type: none"> • 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. We compared listings of accruals(creditors) to the previous year to ensure completeness of accrued items. • Investigated manual journals posted as part of the year end accounts preparation that reduce expenditure, to assess whether there is appropriate supporting evidence for the transaction. <p>On our audit work completed up to date, we have not identified any issues in relation to this risk.</p>

2. Financial statements – key findings arising from the group audit

Component	Findings	Group audit impact
Folkestone & Hythe District Council	We plan to issue an unmodified audit opinion for Folkestone & Hythe District Council. No material issues were identified which will have an impact on the group.	None
Opportunitas Limited	Our work is in progress. No material issues identified to date which will have an impact on the group.	None
Otterpool Park LLP	Our work is in progress. No material issues identified to date which will have an impact on the group.	None
Otterpool Park Development Company Ltd	Our work is in progress. No material issues identified to date which will have an impact on the group.	None

2. Financial statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Valuations of land and buildings, including investment properties and council dwellings	<p>The Council carries out a rolling programme of revaluations that ensures that all property, infrastructure assets, plant and equipment required to be measured at current value is re-valued at least every five years. Investment properties, surplus properties and assets held for sale are re-valued every year.</p> <p>Other land and buildings includes specialised assets which are required to be valued at depreciated replacement cost (DRC), reflecting the cost of a modern equivalent asset delivering the same service provision. Non-specialised assets are required to be valued at existing use in value (EUV). The Council engaged Wilks Head & Eve to complete the valuation of other land and buildings as at 31 March 2023, on a five yearly cyclical basis. The total year end valuation of land and buildings was £27.673m, a net increase of £0.589m from 2021-22 (£27.084m).</p> <p>Council dwellings were valued on existing use value, determined using the basis of existing use value for social housing (EUV-SH).</p> <p>The council re-values its investment properties on an annual basis at fair value.</p> <p>Management has considered the year end value of non-valued properties, based on market review provided by the valuer as at 31 March 2023, to determine whether there has been a material change in the total value of the properties. Management's assessment of assets not revalued has not identified a material change to the properties' value.</p> <p>Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.</p>	Our work is still in progress.	TBC

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

Valuations of net pension liability – LGPS

The Council recognises and discloses the retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.

At 31 March 2023 the Council has a net pension liability of £13.1m (2021-22 £72.5m) relating to the Local Government Pension Scheme, as administered by Kent Pension Fund.

Folkestone and Hythe District Council uses an external actuary Barnett Waddingham to provide an actuarial valuation estimate of the Council's assets and liabilities deriving from these schemes. A full valuation is required every three years.

The latest full actuarial valuation was completed in 2022-23 for the LGPS. A roll forward approach is used in intervening periods. The valuations are based on key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability small changes in assumptions can result in significant valuation movements.

- We assessed management's actuarial expert and concluded they are clearly competent, capable and objective in producing the estimate.
- We carried out analytical procedures to conclude on whether the Council's share of LGPS pension assets and liabilities was reasonable. We concluded the Council's share of assets and liabilities was analytically in line with our expectations.
- We engaged an auditor's actuary expert to challenge the reasonableness of the estimation method used and the approach taken by the actuary to verify the completeness and accuracy of information used. We were satisfied that the actuary was provided with complete and accurate information about the workforce, and that the method applied was reasonable.
- The auditors' expert provided us with indicative ranges for assumptions by which we have assessed the assumptions made by management's expert. As set out below all assumptions were within the expected range and were therefore considered:

Assumption	Actuary Value	PWC range	Assessment
Discount rate	4.80%	4.8- 4.85%	Within expected ranges
Pension increase rate	2.95%	2.65 – 2.95%	
Salary growth	3.95%	3.95%	
Life expectancy – Males currently, aged 45	21.6	19.5 – 22.1	
Future pensioners	22.3	20.9 – 23.4	
Life expectancy – Females currently aged 45	23.5	22.9 - 24.5	
Future pensioners	25.0	24.3 – 25.9	

●
Light purple

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 - £3.263m (2021-22 £1.211mm)	<p>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.</p> <p>The year end MRP charge was £3.263m a net increase of £1.211m from 2021-22.</p>	<p>We considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none"> Whether the MRP has been calculated in line with the statutory guidance; Whether the Council's policy on MRP complies with statutory guidance; Assessed whether any changes to the Council's policy on MRP has been approved by Full Council; and Reasonableness of the change in MRP charge. <p>We note that the 2022-23 MRP now includes provision of £1.4m in respect of the Otterpool Scheme to ensure that it is compliant with Regulations. No further issues to report, estimate is reasonable.</p>	<p>●</p> <p>Light purple</p>





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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 – information technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
E-Financials	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	Management override of controls

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Assessment

-  **Red** – Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  **Yellow** – Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  **Green** – IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  **Grey** – Not in scope for testing

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 & 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	Per work to date we have not identified any related parties which have not been disclosed. Per Appendix D we identified that group intercompany income/expense is material and should be disclosed within the Related Parties note as related party transactions.
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.
Confirmation requests from third parties	We requested from management permission to send a confirmation requests to relevant Investments held with third parties. This permission was granted, and the requests were sent out with all requests having been received.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review to date has not found any material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	During the audit we encountered some difficulties in obtaining timely responses from the Council, due to impact from issues described on page 7, which delayed audit progress. As a result, we allocated additional audit resource to this audit engagement. Overall, the audit and finance teams are working constructively together to resolve outstanding audit queries to achieve the completion of the audit.

2. Financial statements – other communication requirements



Our responsibility

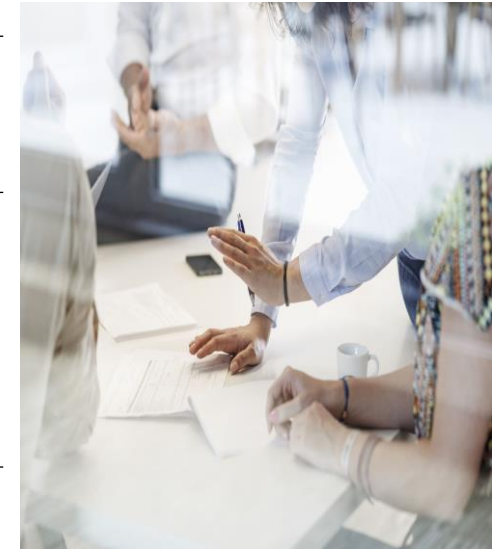
As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability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

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Issue	Commentary
Going concern	<p>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.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> • 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. <p>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:</p> <ul style="list-style-type: none"> • the nature of the Council and the environment in which it operates; • the Council's financial reporting framework; • the Council's system of internal control for identifying events or conditions relevant to going concern; and • management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> • 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	<p>We are required to give an opinion on whether the other information published together with the audited financial statements, including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Our work to date has not identified any inconsistencies to report.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • 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; or • Where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that detailed work is not required as the Council does not exceed the threshold specified by the NAO.</p>
Certification of the closure of the audit	<p>We expect to certify the completion of the audit upon the completion of our Whole of Government Accounts work once submission arrangements have been issued by the National Audit Office.</p>



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022-23

The National Audit Office issued its guidance for auditors in April 2020. The Code requires 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 is presented alongside this report.

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 and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies. Details of fees charged are detailed in Appendix E.

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 [Grant Thornton International Transparency report 2023](#).

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:

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits Assurance Process	43,000	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 lower in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Capital Receipts return	TBC	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 lower in comparison to the total fee for the audit 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.

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council or investments in the Council held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control-related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council, senior management or staff that would exceed the threshold set in the Ethical Standard.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Appendices

- A. Communication of audit matters to those charged with governance
- B. Action plan – audit of financial statements
- C. Prior year audit recommendations – follow up
- D. Audit adjustments
- E. Fees and non-audit services
- F. Draft audit opinion
- G. Auditing developments

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action plan – audit of financial statements

We have identified three recommendations for the Council as a result of issues identified during the course of our audit. We have agreed recommendations with management and will report on progress with these recommendations during the course of the 2022-23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	<p>Trial balance mapping</p> <p>As part of our testing procedures, we are required to obtain a mapped trial balance that aligns with the Council's financial statements (FS). The current mapping structure proved challenging to trace back to the FS which significantly delayed the audit.</p> <p>Linked to this, the use of fees and charges income and operating expenditure as balancing figures in the Expenditure and income analysed by nature disclosure resulted in material adjustments to the presentation of the disclosure note.</p>	<p>Management should implement a trial balance mapping structure that aligns with both the opening trial balance, transaction listings for the year, and closing trial balance to ensure the financial statements tie through for completeness and presentation purposes.</p> <p>Management response</p> <p>The Council is in the process of replacing its financial management system that will aid / support in the automated mapping of accounts to the financial statements. In the interim, we have agreed a mapping with the auditors that correlates to the presentation in the financial statements.</p>
Medium	<p>Journal authorisation</p> <p>Based on our review of manual journals, we have identified that it is possible for journals preparers to self-authorise journals. This has occurred because the intended approver was unavailable, but the journal posting was necessary for the timely closure of accounts. This raises concerns about the system's susceptibility to manipulation by any preparer or authoriser, indicating a control deficiency.</p>	<p>Management should ensure that the control around segregation of duties is working effectively to avoid self-authorisation of journals.</p> <p>Management response</p> <p>The Council will review the implementation of the control with the technology team and ensure that the control around segregation of duties is operating effectively.</p>

Controls

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

C. Prior year audit recommendations – follow up

We identified the following issues in our 2021-22 and 2020-21 audits of the group and Council's financial statements, which resulted in three recommendations being reported in our 2021-22 Audit Findings Report (AFR). Our planned audit includes a review of these recommendations, and we have reported in our Audit Findings Report whether management has implemented our recommendations, or they are still ongoing.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
High	<p>2021-22 Debtor and Creditor opening balances</p> <p>As part of our Debtor and Creditor work, we noted that there were several opening balances that were not valid for the period under audit.</p> <p>Audit update 2022-23: This area remains an issue for 2022-23 and has contributed to significant delays in our debtor and creditor work this year.</p>	<p>This issue relates to the reporting available from the current finance system. The Council is in the process of upgrading and/or replacing this system that will aid/support in reporting on the debtors and creditors balances to facilitate easier extractions of relevant populations. In the interim, Finance are investigating with the technology team what is possible from the existing system to mitigate the challenges currently faced.</p>
Medium	<p>2021-22 Cleansing of the fixed asset register</p> <p>As part of our review of the fixed asset register, we identified vehicle, plant and equipment assets with a nil net book value (NBV) that had a total historic cost of £7.7m, with an offsetting balance of £7.7m of accumulated depreciation. The balance sheet records the net book value and is correct.</p> <p>The Council's depreciation policy would indicate that the assets held at nil NBV are no longer in use. Good practice would require these assets to be written out of the fixed assets register or re-lifted if they are still operational.</p>	<p>The Council is reviewing its accounting and depreciation policies. Upon completion of this, we will consider whether any assets need to be written out of the fixed asset register or re-lifted.</p>
Medium	<p>2020-21 HRA componentisation</p> <p>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.</p>	<p>The Council is reviewing its accounting policy and considering what level of componentisation is required.</p>

Controls

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

D. Audit adjustments – adjusted misstatements

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 2023.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on total net expenditure £'000	Impact on General Fund £000	Management comment
Overall impact	£0	£0	£0	£0	

D. Audit adjustments – unadjusted misstatements

Impact of unadjusted misstatements

The table below provides details of audit adjustments identified during the 2022-23 audit which have not been made within the final set of financial statements. The Audit & Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Overall impact	£0	£0	£0	£0	£0

D. Audit adjustments – presentation and disclosure

Presentation and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Auditor recommendations	Adjusted?
<p>Capital expenditure and capital financing – Note 32</p> <p>Note 32 in the draft financial statements has the amount for additions recorded as £16.309m. However, in the PPE note and workings provided additions are £15.487m, difference of £0.822m.</p> <p>In the prior year amounts we noted a casting error. The total increase/(decrease) in Capital Financing Requirement was shown as £6.407m but should be £6.233m.</p>	<p>Amounts in Note 32 to be corrected.</p> <p>Management response</p> <p>Agreed to amend</p>	<p>To be checked in final revised 2022-23 SoA</p>
<p>Expenditure and income analysed by nature (note to support the CIES)</p> <p>Collection Fund income of £22.808m and expenditure of £6.204m was incorrectly included in fees & charges income/operating expenditure, respectively. It should be separately disclosed in the Expenditure and income by nature note.</p> <p>Depreciation was overstated by £2.128m in the mapped listing. This was offset against operating expenditure, which was adopted as a balancing figure in producing the Expenditure and income by nature note.</p> <p>Grant income was overstated by £0.851m in the mapped listing. This was offset against fees and charges income, which was adopted as a balancing figure in producing Expenditure and income by nature note.</p>	<p>Expenditure and income by nature should be corrected.</p> <p>Management response</p> <p>Agreed to amend</p>	<p>To be checked in final revised 2022-23 SoA</p>
<p>Movement in Reserves Statement (MIRS)</p> <p>The movement in reserves shown on balance sheet is £47.968m with net expenditure in the CIES is £48.596m. There is difference of £0.628m which must be corrected for the accounts to internally balance.</p> <p>The adjustments between accounting and funding basis figures in the MIRS should net to zero but in the draft financial statements it net to £6.6m.</p>	<p>MIRS to be corrected.</p> <p>Management response</p> <p>Agreed to amend</p>	<p>To be checked in final revised 2022-23 SoA</p>
<p>Group Movement in Reserves Statement (MIRS)</p> <p>In the draft financial statements the single entity CIES did not agree with the Group CIES. Also, the opening and closing General Fund and HRA (and other reserves) did not agree with the single entity MIRS – the General Fund and HRA reserve positions were corrected in the revised draft financial statements but there is still inconsistency in other reserves, such as the Major Repairs Reserve.</p>	<p>Group MIRS to be corrected.</p> <p>Management response</p> <p>Agreed to amend</p>	<p>To be checked in final revised 2022-23 SoA</p>

E. Fees and non-audit services

We confirm below our final fees charged for the audit. Fee for non audit fee will be confirmed when we commence the work.

Description	Proposed 2022-23 fee £
Revised 2022-23 scale fee published by PSAA	54,054
Additional work on Value for Money under the new NAO Code	9,000
Increased audit requirements of revised ISA 540	2,100
Increased journal testing procedures	3,000
Base audit fee 2021-22	68,154
New issues for 2022-23	
Introduction of ISA 315	3,000
Payroll change of circumstances procedures	500
• Collection Fund – reliefs testing	750
Total proposed audit fee 2022-23 (excluding VAT)	72,404
Fee proposed to account for additional work due to complexity/delays in trial balance mapping, Journals, Debtors and Creditors (subject to PSAA approval)	TBC
Total proposed fee	TBC

F. Draft audit opinion

DRAFT Independent auditor's report to the Members of Folkestone and Hythe District Council

Report on the audit of the financial statements.

Opinion on financial statements

We have audited the financial statements of Folkestone and Hythe District Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2023, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the notes to the financial statements including a summary of significant accounting policies, the Housing Revenue Account Income and Expenditure Statement, the Collection Fund Statement, the notes to the Collection Fund accounts, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement, and notes to the group accounts including a summary of significant group 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 2022/23.

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 2023 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 2022/23; 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 group and the Authority'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.

F. Draft audit opinion

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 2022/23 that the Authority's 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 2022) 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.

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.

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 and 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.

Our responsibilities and the responsibilities of the Director of Corporate Services with respect to going concern are described in the relevant sections of this report.

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Other information

The other information comprises the information included in the Annual Governance Statement and the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Director of Corporate Services is responsible for the other information. 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.

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 themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office 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.

F. Draft audit opinion

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, 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.

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Responsibilities of the Authority and the Director of Corporate Services

As explained more fully 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 2022/23, 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 they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

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.

F. Draft audit opinion

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. Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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 the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.

We enquired of management and the Audit & 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 management and the Audit & 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 management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and fraud in income and expenditure recognition. We determined that the principal risks were in relation to manual journals that altered the Authority's financial performance for the year, post year-end and closing journal entries. We considered whether there was any potential management bias in accounting estimates or any significant transactions with related parties which could give rise to an indication of management override. Our audit procedures included:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on significant journals at the end of the financial year which had an impact on the Authority's financial performance,
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of valuation of land and buildings including council dwellings, and the valuation of net pensions liability; and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as 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.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our 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:

F. Draft audit opinion

- 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 in which the group and Authority operates; and
- understanding of the legal and regulatory requirements specific to the Authority and group including:
 - the provisions of the applicable legislation
 - 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.

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

Report on other legal and regulatory requirements – 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 2023.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

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.

F. Draft audit opinion

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 undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. 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.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

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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 Folkestone and Hythe District Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2023. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2023

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 44 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]

Sophia Brown, Key Audit Partner

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

London

[Date]

G. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

This impacts audits of financial statement for periods commencing on or after 15 December 2021.

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

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Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures the identification and extent of work effort needed for indirect and direct controls in the system of internal control the controls for which design and implementation needs to be assess and how that impacts sampling the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> increased emphasis on the exercise of professional judgement and professional scepticism an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence increased guidance on management and auditor bias additional focus on the authenticity of information used as audit evidence a focus on response to inquiries that appear implausible.
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. <ul style="list-style-type: none"> Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> clarification of the requirements relating to understanding fraud risk factors additional communications with management or those charged with governance.
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.



13 March 2024

Dear Grant Thornton UK LLP

Folkestone & Hythe District Council
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of Folkestone & Hythe District Council and its subsidiary undertakings, Oportunitas Ltd, Otterpool Park LLP and Otterpool Development Company Ltd, for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the group and Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include valuation of land and buildings and the valuation of net pensions liability. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate.

achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the group and Council financial statements:
 - a. there are no unrecorded liabilities, actual or contingent;
 - b. none of the assets of the group and Council has been assigned, pledged or mortgaged; and
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:
 - a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements;
 - b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
 - c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements.

- xv. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.
- xvi. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

Information Provided

- xvii. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.
- xviii. We have communicated to you all deficiencies in internal control of which management is aware.
- xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.
- xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit & Governance Committee at its meeting on 13 March 2024.

Yours faithfully

Name: Lydia Morrison
Position: Interim Director Governance and Finance Services & S151 Officer
Date: 13th March 2024

Name: Councillor Liz McShane
Position: Chairman of the Audit and Governance Committee
Date: 13th March 2024.

Signed on behalf of the Council

This Report will be made public on 5 March 2024



Report Number **AuG/23/29**

To: Audit and Governance Committee
Date: 13 March 2024
Head of Service: Lydia Morrison – Interim Director Governance and Finance Services
Cabinet Member: Councillor Tim Prater, Deputy Leader and Cabinet Member for Finance and Governance

Subject: External Auditors Annual Audit Report 2022/23

Summary: This report presents Grant Thornton's Annual Auditor's Report for 2022/23. The report summarises the value for money work carried out for 2022-23 over the Council's arrangements to secure economy, efficiency, and effectiveness in its use of resources. The Auditor's Report is attached as Appendix A.

Reasons for recommendation:

This report presents Grant Thornton's Annual Auditor's Report for 2022/23 audit. The report gives the outcome of the audit of the Council's value for money arrangements, and issuing the Annual Audit Report is to communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from auditors' work, which auditors consider should be brought to the attention of the audited body.

Recommendation:

1. To note and receive the Annual Auditor's Report Aug/23/29 presented by Grant Thornton and the recommendations for improvements.

1. INTRODUCTION AND BACKGROUND

- 1.1 A requirement of the Code of Audit Practice is that an Auditor's Annual Report, containing a commentary on the Council's arrangements for securing value for money alongside the audit opinion on the Council's accounts.
- 1.2 The Auditor's Annual Report for 2022/23, is attached at Appendix A and the document summarises all of the work completed as part of the 2022/23 annual audit and review of value for money arrangements.
- 1.3 The Auditors Annual Report contains several improvement recommendations to which the Council's management response is included as part of the report.
- 1.4 The auditors (GT) will attend the meeting to present the report.

2 LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

2.1 Legal Officer's Comments (AK)

There are no legal implications arising directly out of this report that are not already referred to in the report.

2.2 Finance Officer's Comments (OO)

There are no material financial implications for the Council as a result of the issues raised in this report.

2.3 Diversity and Equalities Implications ()

There are none arising directly from this report.

3 CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Ola Owolabi, Chief Financial Services Officer
Telephone: 07731 347103
Email: ola.owolabi@folkestone-hythe.gov.uk

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

4 Appendix:

- Appendix A - The 2022-23 Auditor's Annual Report

Auditor's Annual Report on Folkestone & Hythe District Council

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2022-23

February 2024



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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting, on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary



Value for money arrangements and key recommendation

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether Folkestone & Hythe District Council (the Council) has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2022-23 is the third year that we have reported our findings in this way. 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. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below.

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Criteria	2022-23 Risk assessment	2021-22 Auditor judgement on arrangements	2022-23 Auditor judgement on arrangements	Direction of travel
Financial sustainability	No risks of significant weakness identified	A No significant weaknesses in arrangements identified, but four improvement recommendations made.	A No significant weaknesses in arrangements identified, but three improvement recommendations made.	➔
Governance	No risks of significant weakness identified	A No significant weaknesses in arrangements identified, but three improvement recommendations made.	A No significant weaknesses in arrangements identified, but one improvement recommendation made.	➔
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	R One key recommendation identified, and two improvement recommendations made.	A No significant weaknesses in arrangements identified, but three improvement recommendations made.	⬆

- G** No significant weaknesses in arrangements identified or improvement recommendation made
- A** No significant weaknesses in arrangements identified, but improvement recommendations made
- R** Significant weaknesses in arrangements identified and key recommendations made

Executive summary



Financial sustainability

Our work on financial sustainability has not identified evidence of significant weaknesses within the arrangements on how the Council plans and manages its resources to ensure it can continue to deliver its services. However, we have raised three improvement recommendations. The first in relation to savings target reporting and identification. Our second improvement recommendation relates to delivery of the Capital Programme and strengthening the link to Council Plan outcomes. Thirdly, we recommend formal reporting to Cabinet Members on the sensitivity analysis and the scenario planning undertaken on key assumptions and estimates as part of the development of the annual budget and Medium-Term Financial Strategy. See pages 14 to 16 for more detail.



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Governance

Our work on governance has not identified evidence of significant weaknesses within the arrangements in place for how the Council makes informed decisions and properly manages its risks. We have made an improvement recommendation, that the Council should ensure the delivery of agreed follow up actions for the Internal Audit review of Housing Planned Maintenance Contracts. See page 22 for more detail.



Improving economy, efficiency and effectiveness

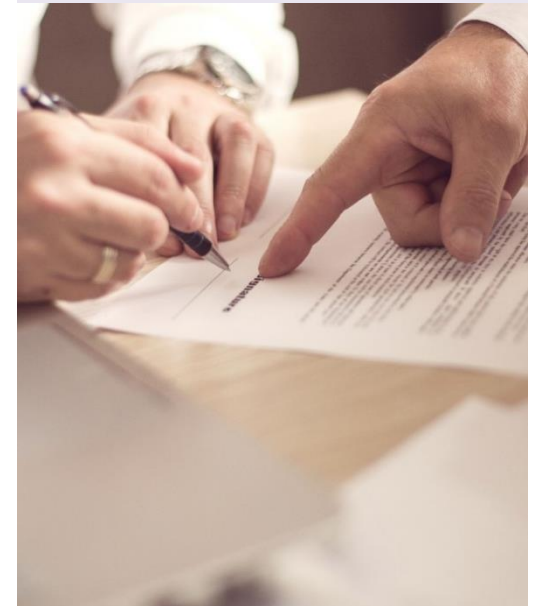
In our 2021-22 Auditor's Annual Report we highlighted a key recommendation that the Council must fully action the recommendations set out by Internal Audit in both the Contract Management and Housing Planned Maintenance reviews. The Council has created a governance action plan which incorporates all relevant Internal Audit recommendations and agreed actions, which is regularly monitored by the Council leadership team. The 2022-23 Annual Governance Statement highlighted the Housing Service has embedded an internal governance process focused on continuous service improvement. As part of this, and an Internal Audit recommendation, in 2022 the Council provided detailed training on Financial Procedure Rules and Contract Standing Orders to all staff working in the Council Asset Management section and other departments where staff are responsible for procuring and supervising contracts. Whilst we are satisfied that there is no longer a significant weakness in this area, we have made an improvement recommendation, that the Council should fully action recommendations set out by Internal Audit in its Contract Management follow up review, and that the action plan should have implementation timescales, and appropriate resources in place to manage these processes.

Our work on improving economy, efficiency and effectiveness has not identified evidence of significant weaknesses within the arrangements for improving economy, efficiency and effectiveness. We have identified a further two improvement recommendations. The Council should consider how it might reduce delays to comply with agreed recommendations resulting from complaints upheld by the Local Government and Social Care Ombudsman (LGSCO). Also, the Council should ensure that it reviews lessons learnt from the recent Ofsted inspection on levy-funded apprenticeships, to ensure effective management of changes and improvements. See pages 26, 27 and 28 for more detail.



Financial statements opinion

We have nearly completed our audit of your 2022-23 financial statements and plan to issue an unqualified audit opinion following the Audit & Governance Committee meeting on 13 March 2024. Our findings are set out in further detail on pages 31 to 32.



Use of auditor's powers

We bring the following matters to your attention:

2022-23

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly.

We did not make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.

Public interest report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a public interest report.

Application to the court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not make an application to the Court.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue any advisory notices.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not make an application for judicial review.

Securing economy, efficiency and effectiveness in the Council's use of resources

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement. Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

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Financial sustainability

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



Improving economy, efficiency and effectiveness

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

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit & Governance Committee
- Considering the work of Internal Audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 8 to 27.

The current LG landscape



National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the Covid-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The local government finance settlement for 2023-24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023-24 and by £900m in 2024-25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have issued a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies
- a failure to address and resolve relationship difficulties between senior officers and members
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Short- and medium-term financial planning

The original 2022-23 budget (agreed by Cabinet in February 2022) set the general fund net operating expenditure at £15.424m. The budget was prepared on the basis that the Council's element of council tax (including the special expenses for Folkestone Parks and Pleasure Grounds) increased by 1.96%. The Council tax for 2022-23 is not excessive in accordance with Schedule 5 of the Localism Act 2011 and therefore does not trigger the requirement for a referendum.

The 2022-23 budget also included the proposed continuation of the un-ringfenced Lower Tier Services Grant for 2022-23 for local authorities with responsibility for lower tier services such as homelessness, planning, recycling and refuse services. The Council's allocation is £0.167m (2021-22 £0.159m).

Net transfers from earmarked reserves were forecast at £5.507m, with the main uses of reserves being £1.39m to fund capital expenditure on the Biggins Wood development project, use of the Climate Change reserve to fund the LED lights project, and the business grants scheme. The budget included proposals to use the Business Rates reserve, General reserve and New Homes Bonus reserve to mitigate fluctuations in business rates income and provide adequate funding to services for the year 2022-23.

The Medium-Term Financial Strategy (MTFS) for the period 2023-24 to 2026-27 included a sensitivity analysis and set out a forecast cumulative funding gap of £5.75m over the lifetime of this MTFS, shown in table below:

Financial forecast	2022-23 (£000)	2023-24 (£000)	2024-25 (£000)	2025-26 (£000)
Overspend/(Underspend)	1,596	2,559	933	664
Cumulative overspend	1,595	4,155	5,088	5,752

Much of this pressure is faced year-on-year and therefore if addressed through the base budget in the early part of the MTFS would significantly reduce this cumulative picture. The MTFS also shows gains from Otterpool at the latter part of the plan, which has a mitigating impact on the cost pressures anticipated. The Council have adequate current reserves (£22.27m) to help mitigate the impact of the deficits in the MTFS, it should also be noted that the Council has a Reserves Policy which sets out the required level of general reserves balance at £1.5m. Future income from initiatives such as Otterpool Park and efficiency savings will be required to help bridge the MTFS funding gap.

The 2022-23 budget and MTFS highlighted that climate change implications of projects are assessed as part of the development and implementation project phases through the appropriate decision-making processes. The Council formally recognised in 2019 that there is a climate and ecological emergency and has agreed to commit to several activities which will reduce its carbon footprint, and which will move towards a carbon neutral district. A working group has been established to consider the options and implications and an action plan for the Council's own estate has been adopted and a district-wide strategy was created during 2022. The Council has allocated funds to an earmarked reserve to manage the financial implications of the actions required and facilitate progress on the agenda. The Council has a Climate Change reserve, and this was £4.656m at 31 March 2023.

The MTFS incorporates income from Otterpool Park, which is represented as interest on the loans the Council will make to the Otterpool Limited Liability Partnership (LLP) to facilitate infrastructure and land acquisition. There is appropriate detail within the MTFS risks of this volatile area with many dependencies affecting the financial position and the impact upon the MTFS is monitored closely.

Financial sustainability

2022-23 financial performance

The 2022-23 outturn reported to Cabinet in July 2023 highlighted a net position for the year of £5.204m overspend against the latest approved budgeted overspend of £6.196m. In overall terms this represents a variance of £0.993m compared to the forecast overspend approved for the 2022-23 budget, with the overspend funded through use of reserves.

The non-earmarked general reserves are used for residual overspend at the end of the financial year. Due to the variance on the planned use of reserves during 2022-23, the Council increased its general fund reserves to £5.215m, or approximately 22.7% of the general fund net revenue expenditure budget.

The 2022-23 Capital Outturn Report to Cabinet in July 2023 highlighted a capital spend for the year totalling £17.629m, a reduction of £3.256m compared to the planned spend of £20.88m. This is primarily due to the decrease in new build/acquisition expenditure, predominantly for the Highview scheme which is no longer progressing forward due to the need to extensively fund other capital projects such as the decarbonisation programme. We have made an improvement recommendation on page 15 for the Council to continue to closely monitor delivery of the Capital Programme to highlight any slippage and provide an update for management actions to address any under-delivery.

The reserves balances are above the 'required minimum reserves balance' set by the Council's Reserves Policy (£1.5m for general fund). Use of reserves to fund the annual budget financial gap is not a significant immediate risk for the Council. However, it is noted that the Council has relied on use of reserves for the two prior financial years. In future years, given expected financial challenges, it will be important to change the Council's dependency on using reserves to balance its budget and the Council should consider its plans for managing the MTFs funding gap that reduces reliance on the use of reserves, including plans for identifying and delivering further savings and efficiencies. We have made an improvement recommendation on page 14.

The impact of inflation on the actual expenditure compared to budget is appropriately highlighted in the 2022-23 outturn report which provides detailed budget performance analysis. £2.916m of net reserves were utilised in 2022-23. Drawdowns on reserves were approved as part of the original budget setting process for 2022-23, examples being the use of New Homes Bonus reserve (£1.589m) and Business Rates reserve (£904k). There were also drawdowns made on reserves in the year to cover the costs of Covid-19 recovery, climate change and for regeneration purposes.

Table 1 highlights the Council's performance on key financial performance metrics. The Council has delivered overall budget underspends in 2021-22 and 2022-23.

Table 1 – Key financial performance	2022-23	2021-22
Planned General Fund net revenue expenditure	£22.604m	£26.632m
Actual General Fund net revenue expenditure	£21.397m	£18.253m
Planned capital spend	£20.885m	£28.806m
Actual capital spend	£17.629m	£14.729m
Planned savings targets	£0.807m	£1.048m

Financial sustainability

Identifying savings

The Budget and Council Tax Report 2022-23 noted that £0.807m of agreed budget savings and cost reductions were required to be delivered which included savings in temporary accommodation of £50k, increase in garden waste income of £40k and a reduction in planning temporary staff costs of £75k.

Quarterly budget monitoring reports are submitted to Cabinet and Full Council which provide adequate tracking of the budget and reserve balances. However, the reports do not clearly identify savings performance. We have included an improvement recommendation on page 16 which would enable officers and Councillors to track progress with savings plans and hold department heads/budget holders to account if savings are not tracking as planned.

In recent years the Council has not significantly relied on non-recurrent savings to bridge its funding gaps. This remains the case for 2022-23, with less than 1% of the proposed growth and savings balance relating to non-recurrent savings. To mitigate underperformance of savings schemes the Council identified further potential savings in addition to those included in the final programme, which could be implemented in future years.

Financial planning and strategic priorities

The Council's financial planning approach sets out the cost of delivering core statutory services as distinct from discretionary areas of spend. Financial planning reports which support the budget and MTFS highlight that all spend is prioritised towards the delivery of core services and achievement of the Council Plan (Creating Tomorrow Together 2021-30) priorities. In addition, the MTFS links budgets to the Council Plan. Responsible budget management underpins the Council's strategic objective of consistently making the best use of all available resources as well as providing focus for its change programmes.

The MTFS is the framework for how the Council plans to use its financial resources to deliver activity on Council Plan outcomes. The Council considered the MTFS in conjunction with the Council Plan and its People Strategy. The MTFS is the foundation to deliver the Council Plan vision and priorities within it and the People strategy is the framework to develop the Council's workforce to achieve Council priorities.

The priority outcomes for the Council are set out in the Council Plan. These outcomes drive the work of the Council and its strategic planning priorities:

1. Positive community leadership
2. A thriving environment
3. A vibrant economy

4. Quality homes and infrastructure

2022-23 Treasury management performance was reported to Cabinet in October 2023 and highlighted the Council held net investments of £24.3m arising from its revenue and capital income and expenditure, a decrease on 2021-22 of £6.9m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

The net increase in the Council's CFR of £142.8m was reported to Cabinet July 2023 in the General Fund Capital Programme Outturn 2022-23 report. We consider the borrowing requirement to be appropriate for the Council to continue with its strategy of using internal borrowing from available cash balances rather than taking out new loans, demonstrated by the reduction in investment balances.

2022-23 capital expenditure included the Otterpool Park Garden Town development (£7.9m), funding to support Oportunitas Limited for its property investment programme (£1.5m) and the Princes Parade Leisure and Housing scheme (£1.9m) was fully met from prudential borrowing.

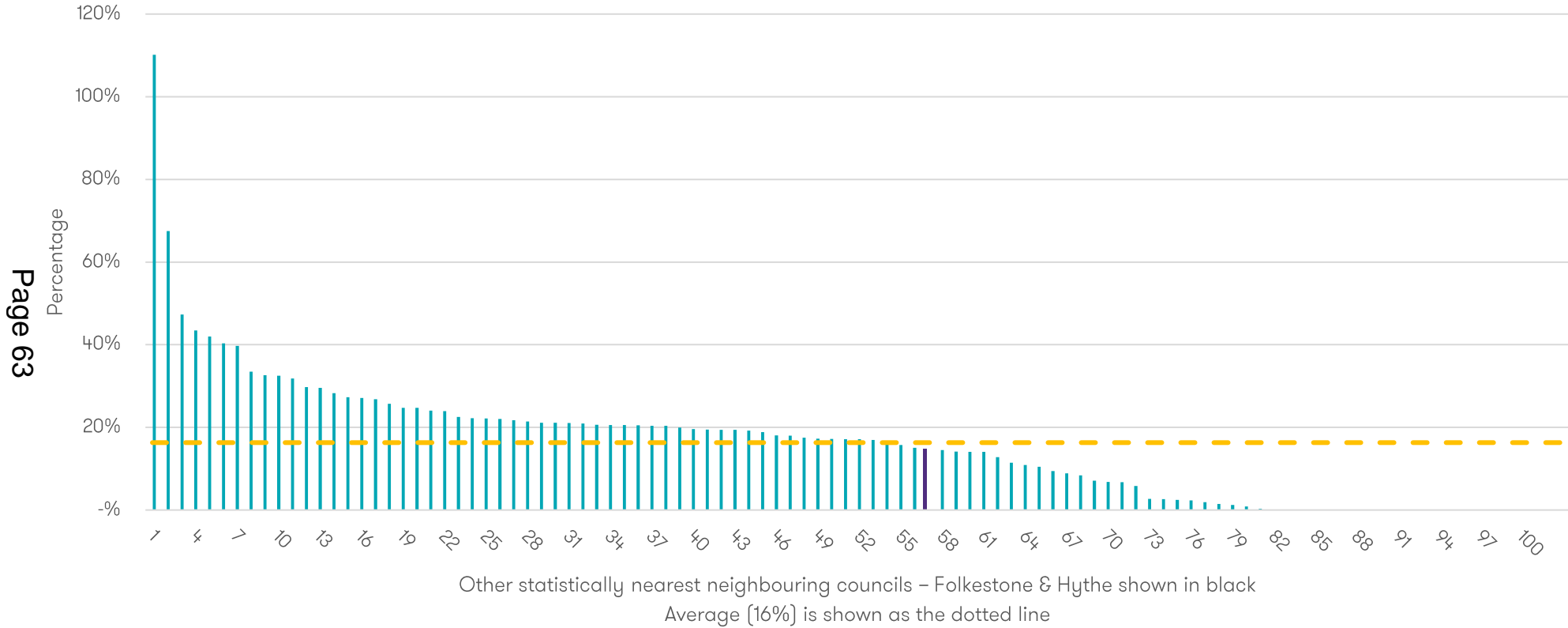
The Council's current strategy is to maintain borrowing and investments below previous levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. At 31 March 2023, the Council held £107.1m of loans, an increase of £9.4m on the previous year, as part of its strategy for funding previous and current years' Capital Programme.

The Capital Programme supports the delivery of strategic priorities, there is an opportunity to strengthen the link between strategic priorities and the Capital Programme. The Capital Programme could be categorised by relevant outcomes in the Council Plan. This would demonstrate clearly how the Council is delivering Council Plan outcomes through the Capital Programme, we have made an improvement recommendation relating to this on page 15.

Chart 1 on page 11 highlights the Council's borrowing as a proportion of long-term assets – the average percentage (of statistically nearest neighbours) is 16% and the Council figure of 15% is therefore below the average.

Financial sustainability

Chart 1 - Long-term borrowing as a proportion of long-term assets (%)



The 2022-23 Capital Strategy (presented to Cabinet in February 2022) set out the capital strategy and new capital investment requirements through to 2024-25. The main General Fund capital projects with expenditure planned for 2022-23 included the Princes Parade Leisure and Housing development (£14.7m), coast protection works (£1.1m), private sector housing improvement initiatives (£1.4m), funding for the East Cliff Landfill Protection scheme on land owned by the Folkestone Parks & Pleasure Grounds Charity (£1.2m) and the Coast Drive Seafront Development at New Romney (£0.9m). The main capital investment projects include further expenditure on the Otterpool Park Garden Town Development (£9.4m), funding of Oportunitas Ltd (£2.2m) to support its housing and regeneration activities and the redevelopment of land at Biggins Wood, Folkestone for employment purposes (£2.6m).

Financial sustainability

Managing risks to financial resilience

The MTFS highlights key risks to delivery and the actions to mitigate of each risk are identified. The MTFS was presented and discussed by Cabinet in February 2022 allowing for scrutiny and questioning before presentation to Full Council. The MTFS highlights that the Council's reserves form an important role in managing uncertainty. Inflation poses a greater risk to the Council and spikes in energy prices and supply chain pressures have been a feature of the economic recovery from the Covid-19 pandemic.

The potential impact of changes to various estimates and assumptions is discussed with Cabinet as part of the briefing process in the development of the budget. However, the impact of changes in various estimates and assumptions is not formally reported to members. We have raised a recommendation on page 16 that the Council introduces formal reporting to Cabinet Members on sensitivity analysis and scenario planning undertaken on key assumptions and estimates, as part of the development of the annual budget and MTFS. This will provide transparency on the sector-wide uncertainties the Council is subject to, and the potential impact of these on its financial sustainability. The impact of inflation on actual expenditure compared to budget is appropriately highlighted in the 2022-23 outturn report which provides detailed budget performance analysis. The MTFS forecasts a cumulative funding gap of £5.75m over the lifetime of this MTFS. Much of this pressure is faced year-on-year and if addressed through the base budget in the early part of the MTFS would significantly reduce this cumulative position, however the MTFS also now shows income from Otterpool after 2022-23, which has a mitigating impact on the cost pressures anticipated.

The following risks are highlighted in detail in the MTFS:

- Economic conditions: the impact of the economic cycle will need to be considered particularly in relation to business growth, inflationary pressures and interest rate movements. The impact of changes and any impact on public finances will need to be fully evaluated on the financial model.
- Levelling up: the Government is seeking to level up across the whole of the United Kingdom to ensure that no community is left behind, particularly as we recover from Covid-19. Three new investment programmes have been launched – UK Community Renewal fund, Levelling Up fund and Community Ownership fund. The Council intends to pursue applications for such funding to support its key priorities and particularly the achievement of the objectives in the Folkestone Place Plan.

- Otterpool Park: given the scale of the Garden Town project it has a significant bearing on the Council's MTFS. There are several factors which present risk and sensitivity to the MTFS. The Otterpool Park Limited Liability Partnership (the LLP) is fully funded by the Council. It is anticipated that the Council will be the lender of the LLP and will need to fund the initial infrastructure (through debt and equity in the LLP). There is adequate consideration of the factors which have a financial impact on this in this regard include interest rates available to the Council, the interest rate charged to the LLP, spilt of debt to equity, the timescale for the delivery of the infrastructure, the sequencing of that work, and indeed when the LLP will be able to sell serviced plots to housebuilders, and market rates of both constructions and plot prices. The LLP will submit an updated business plan to the Council in the new year, but the current MTFS assumptions have been drafted with input from the LLP.

Annual budget setting

The Council has an established process for developing its annual budget and MTFS. The development of the budget commences with the rolling forward of the budget from the prior year. The budget is updated to reflect any known permanent changes to funding, including new grants, latest council tax base data and business rates. Prior year assumptions are reviewed, including inflation rates and council tax base. Updates are then made to reflect new savings proposals, existing savings delivery, service pressures, changes to sources of funding announced within the spending review, changes to service fees and charges and the council tax base. The budget is frozen to prepare the February Cabinet Report. The Council's MTFS covers a rolling four-year period (2022-2026). A report was brought to Cabinet in November 2021 which outlined the approach to updating the 2022-23 MTFS, this report contained the financial planning assumptions for the period of the new four-year MTFS set within this Council Plan. It updated the 2022-2026 position and proposed the approach taken to deliver the savings required to achieve a balanced budget over the MTFS. The report is clear on the challenges facing the Council, which include the ongoing impact of the pandemic, pressure on services and uncertainty about central government funding.

The 2022-23 Budget and MTFS 2022- 2026 was agreed by Council in February 2022. This demonstrates good level of engagement from budget holders, divisional leadership and executive leadership in the annual budget setting process.

Financial governance

Annual budget setting

The Council has arrangements in place to recognise, assess, and re-evaluate the impact of changes in expenditure drivers, including pay inflation. The MTFS sets out the range of key assumptions that the Council has made in developing its financial plans. These include inflation, pay increases, savings delivery and changes to sources of income. There is a section of the MTFS highlighting key risks to delivery of the MTFS and the actions to mitigate each risk identified.

The potential impact of changes of various estimates and assumptions is discussed with Cabinet as part of the briefing process in the development of the budget, however, this is not formally reported to members, and an improvement recommendation is detailed on page 16.

There is evidence of appropriate ownership and involvement of senior officers and Cabinet members in the development of the Council's financial plans. The Council consulted stakeholders on their draft budget for 2022-23.

Table 2 on this page highlights key 2023-24 budget targets agreed in February 2023.

The Council has a Consultation Policy that sets out set out the Council's commitment to effective and efficient public consultation and sets the expectation that this commitment will be consistently applied, particularly in relation to the Council's key decisions. The Council consult with residents, businesses, partner bodies and other stakeholders and use the results of the consultation to inform its decision-making processes, to develop and refine its policies, and to drive improvement in the services for which it is responsible

Table 2 - 2023-24 key financial performance measures	2023-24
Planned savings	£0.599m
Planned savings as a % of income	3.2%

Budgetary control

The Council has adequate systems in place for oversight of the budget. The Finance Department engages at least monthly with budget holders. There is monitoring at a service, directorate and corporate level. The Council has detailed in year oversight of the budget at a high level, with bi-monthly budget monitoring reports taken to Executive. These reports include outturn against budget and explanations for underspend/overspends against budget at a directorate level. Any proposed revisions to the budget are also communicated through this report. There is clear reporting on the forecast outturn and the impact on useable reserves. A quarterly update is also provided to Cabinet for the Capital Programme, with revisions also communicated. We are satisfied that timely and accurate financial monitoring information is provided to budget holders.

Conclusion

The Council has a track record of appropriate financial management arrangements. The Council understands the financial risks which it faces and manages these risks by maintaining an appropriate level of reserves in accordance with its stated reserves objectives in the MTFS. Overall, we are satisfied that the Council has appropriate arrangements in place to manage the risks it faces to financial resilience. We have not identified any risks of significant weakness but have identified three opportunities for improvement, detailed on pages 14-16.

Improvement recommendations



Improvement recommendation 1

The Council should consider its plans for managing the MTFs funding gap that reduces reliance on the use of reserves, which should include plans for identifying and delivering further savings and efficiencies. There should be regular detailed ongoing monitoring of savings plans to highlight likelihood of delivering challenging savings targets. We recommend that quarterly budget monitoring reports contain detailed savings delivery updates.

Improvement opportunity identified

Officers and Councillors will be able to track progress with savings plans and hold department heads / budget holders to account if savings are not tracking as planned. Sufficient and appropriate arrangements to monitor, manage and address slippages will improve savings delivery and reduce pressure on the Council's useable reserves.

Summary findings

Use of reserves to fund the annual budget financial gap is not a significant immediate risk for the Council, however it is noted that the Council has relied on use of reserves for the two prior financial years. In future years, given expected financial challenges, it is unlikely there will be significant excess reserves available.

Criteria impacted

Financial sustainability

Auditor judgement

As the Council moves away from using reserves to stabilise its budget focussed monitoring of identified savings and efficiencies will be key.

Management comments

Agreed – As part of the ongoing improvement by the Council to strengthen financial reporting and transparency it will continue to provide regular quarterly updates to Cabinet and CLT. Starting in April 2024 the Council is introducing monthly management reporting for CLT which will include full revenue and capital budget monitoring with details on performance on the achievement of savings targets built into the revenue budget. As part of this financial reporting improvement the Council has for the setting of the 2024-25 budget moved away from incremental budget setting to Priority Based Budgeting (PBB) with the aim of ensuring that the scarce resources are allocated to service areas with the highest priority. PBB has also helped to identify and drive baseline budget savings primarily through the planned transformation programme which will restructure the organisation to align with those set key priorities. The budget process has been managed through a series of Star Chamber workshops attending by all Cabinet Members, CLT and Chief Officers.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit & Governance Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations



Improvement recommendation 2

The Capital Programme supports the delivery of strategic priorities. To strengthen the link between strategic priorities and the Capital Programme, the Capital Programme could be categorised by outcomes identified within particular Council Plan outcomes. This would demonstrate clearly how the Council is delivering Council Plan outcomes through the Capital Programme. The Council should continue to closely monitor delivery of the capital Programme to highlight any slippage and provide an update for management actions to address under-delivery.

Improvement opportunity identified Clear demonstration of how the Council is delivering Council Plan outcomes through its Capital Programme.

Summary findings The Capital Programme supports the delivery of the Council's strategic priorities. Our work highlighted the opportunity to strengthen the link between strategic priorities and the Capital Programme, categorising capital outcomes identified within particular Council Plan outcomes.

Criteria impacted Financial sustainability

Auditor judgement Clear detailed links highlighting how planned capital projects link to the Council Plan would enable members make informed decisions and challenge capital strategy assumptions to ensure forecasts remain accurate.

Management comments Agreed – A new Corporate Plan will be developed during the summer of 2024 setting the key strategic priorities for the Council. This new plan will provide the framework for the allocation of resources including the Capital Programme. The Council has already identified capital and project financial reporting as a key area of weakness and has successfully appointed a dedicated project accountant as a new full-time post within the finance team who will be responsible for the monitoring and management of project and capital reporting.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit & Governance Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations



Improvement recommendation 3

Formal reporting to Cabinet Members on sensitivity analysis and scenario planning, undertaken on key assumptions and estimates as part of the development of the annual budget and MTFS, would provide greater understanding and transparency to Members. Also, the Council should refine existing arrangements for identifying and monitoring MTFS saving plans to ensure planned savings are fully delivered or where circumstances change to affect delivery these are clearly reported, especially for those in relation to early intervention and demand management

Improvement opportunity identified

Regular review of MTFS assumptions will help to ensure ongoing accurate financial forecasting and allow for appropriate timely action. Reporting a mid-year review of MTFS assumptions, sensitivity analysis and scenario planning to members will provide the opportunity for challenge, scrutiny, oversight and improved the accuracy of forecasting.

Summary findings

Sensitivity analysis and scenario planning is undertaken as part of the development of the budget; however, this analysis is not formally presented to Members.

Criteria impacted

Financial sustainability

Auditor judgement

Greater agility on financial management is required given current financial uncertainties, regular review and challenge of MTFS assumptions help ensure financial forecasts remain accurate.

Management comments

Agreed - The Council thought its programme of Star Chamber Workshops and adoption of Priority Based Budget for 2024-25 has reduced core spending and the cumulative funding gap during the lifetime of the MTFS to £2.78M. The MTFS and Revenue budget also underwent significant scrutiny with a number of indices being stressed to create scenarios to assess risk and impact during the budget setting process. The Council will continue to refine and incorporate variance and sensitivity analysis in both its budget setting and monitoring.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit & Governance Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

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Risk management and internal controls

The Corporate Risk Register clearly sets out the risk owner, concise description of the risk, and key controls to manage the risk. The Council has a Risk Management Policy, Process Guide and Toolkit to ensure consistent scoring of risks across all directorates. The Council provides appropriate training on risk management. The Council's risk appetite was unchanged throughout 2022-23. There is scope to increase the Council's risk maturity and duality of risk by formally considering opportunities to exploit as well as a focus on downside risks, in risk registers.

Council-wide and directorate performance scorecards capture, in one document, the key performance and risk information. Corporate directors present their scorecards to the Council Leadership Group monthly, ensuring that there is peer scrutiny on discussions around performance and risk. The September 2023 Corporate Strategic Risk Register (reviewed by the Council Leadership Group and presented to the Audit & Governance Committee (AGC)) provided assurance that the Council's current risk management arrangements are appropriate, responsive and effective. It is important that these risk management opportunities are captured, so change can be embedded and monitored going forward. There are 16 risks on the 2022/23 Q4 Corporate Risk Register, categorised as 1 moderate, 6 high and 8 extreme level risks, aligned to Council Plan priorities – this is an overall improvement compared to the February 2023 matrix which indicated 6 high and 9 extreme level risks.

In line with the Council Plan 2022-2025, the Corporate Risk Register has been refreshed to detail risks by Priority and supporting strategies. As a result of new risk areas, the causes of risk have been reviewed and refreshed. The Council has continued its work on improving risk management at a directorate level, the pattern of reducing assessed risk has broadly continued. This also reflects the increasing grasp on the key risks that need to be managed at a strategic level. The establishment of a Risk Management Group (RMG) that held its inaugural meeting in February 2023 is made up of Chief Officers and Assistant Directors who meet on a quarterly basis to discuss emerging corporate risks and updates to risks already recorded on the Corporate Risk Register. The proposed amendments and additions will then be sent to the Corporate Leadership Team for their review.

The Executive is responsible for considering overall performance management and receives comprehensive reports on a regular basis. It also receives reports relating to risk management and monitors the Corporate Risk Register, as well as being responsible for key decisions and for initiating corrective action in relation to risk, performance and internal control issues. The Risk Management Strategy and the Corporate Risk Register is regularly updated in consultation with Leadership Team and presented to AGC with the latest risk update report to AGC presented in September 2023.

The Council has appropriate Internal Audit arrangements in place. Internal Audit services are provided by East Kent Audit Partnership (EKAP), who provide internal audit services to the Council along with Canterbury City Council, Dover District Council and Thanet District Council. The 2022-23 Head of Internal Audit's Annual report is presented to AGC. The overall opinion regarding the Council's governance, risk management and internal control arrangements was satisfactory, resulting in a moderate risk assessment. Corporate directors and heads of service completed assurance statements to confirm that key elements of the control framework were in place during the year in their areas of responsibility. Details of the audit coverage during 2022-23 highlighted one audit completed during 2022-23 with a "No assurance" audit opinion, this related to an audit of Housing Planned Maintenance Contracts. Follow up of this audit was planned to be undertaken in 2023-24 quarter 1 – our review of the Internal Audit 2023-24 plan delivery for quarters 1 and 2 highlighted the follow up review had not been undertaken. An improvement recommendation on page 21 highlights the importance of delivery of audit follow up a previous "No assurance" opinion. Performance against the Internal Audit annual audit plan is regularly reported to AGC.

Governance

EKAP delivered 99.35% of the agreed 2022-23 audit plan days to the Council with 25 audits completed. Performance figures for the EKAP for the year show good performance against its targets. It is the opinion of the Head of Internal Audit that sufficient work has been undertaken to be able to support an opinion for 2022-23. The annual report also refers to Internal Audit's Quality Assurance and Improvement Programme, which ensures work is compliant with Public Sector Internal Audit Standards (PSIAS).

In developing its 2022-23 Annual Governance Statement (AGS), the Council formally reviewed its corporate governance arrangements against the Local Code of Corporate Governance. There is appropriate evidence highlighted the effectiveness of the Council's governance framework including its system of internal control, this included review of minutes of AGC, Cabinet and Full Council to ensure that periodic monitoring and reviews are being reported appropriately and governance issues are addressed; assessment of the AGC arrangements against the 2018 CIPFA Guidance for Audit Committees in Local Authorities and the Police; review of the Council's arrangements against the CIPFA Statements on the Role of the Chief Financial Officer and the Role of the Head of Internal Audit. This provides good assurance that there were no significant weaknesses in internal controls or governance arrangements during the 2022-23 year.

We have seen evidence that the Council endeavours to promote and engenders an organisational culture that embraces the high standards of conduct and accountability. Anti-fraud and corruption polices are kept under review. The Council has a Whistleblowing Policy and a Speak Up Statement, which complements the Whistleblowing Policy and encourages individuals to raise issues of concern in a safe environment. Discussions with senior council officers and a review of committee papers highlighted the Council has not been subject to any material frauds in year. The Anti-Fraud and Anti-Corruption Framework is formed of five documents, including the Anti-Fraud and Anti-Corruption Strategy, the Fraud Response Plan, the Whistle Blowing Protocol, the Anti-Money Laundering Policy and the Anti Bribery Policy. This framework has now been reviewed and updated by the S151 Officer and Monitoring Officer in 2022-23. Furthermore, the comprehensive training on Anti-Fraud and Corruption was provided to all staff on 24 January 2023.

The Council established a Corporate Fraud team who investigate allegations of external fraud against the Council. Internal Audit investigate any employee fraud. The Council's counter fraud and anti-corruption arrangements are in accordance with the CIPFA Code

of Practice on Managing the Risk of Fraud and Corruption 2014. EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. Whilst some responsive assurance work was carried out during the year at the request of management, there were no fraud investigations conducted by the EKAP on behalf of the Council in 2022-23.

Informed decision making including the Audit & Governance Committee

The Council operates a Leader and Cabinet form of executive. In addition, there are various scrutiny committees which hold the Cabinet to account. The work of the Council's committees is governed by the constitution. The constitution is regularly reviewed and updated, most recently in May 2023. The constitution is shared with all staff members on joining and is openly available on the Council's website. The Constitution sets out how the Council operates, how decisions are made and the policies and are followed to ensure that these are efficient, transparent and accountable to local people.

Our review of Cabinet, Full Council, AGC and other committee minutes indicates that key strategic decisions are subject to healthy challenge and are supported by detailed papers. Senior officers are open to conversations during committee meetings. Senior officers attend to present their own area items and to field any questions. We have not seen evidence of discussions not being open. The AGC provides appropriate challenge of financial and non-financial items, and AGC Members have a good mix of experience and expertise. AGC is well attended with minimal absences.

Council business is conducted in public unless legislation deems it appropriate for it to be considered in private. Key decisions of officers are published on the Council's website.

The Council carries out a wide range of public consultation including consulting stakeholders on the draft budget for 2022-23. The Communication & Engagement Plan included a dedicated webpage and media release; communication to Members and staff; communication with Trade Unions; engagement with Area Management Teams; posts on the internet; intranet and use of social media.

Governance

The 2022-23 budget and MTFS report climate change implications of the current Council activity will be assessed as part of the development and implementation phases of Council activity through the appropriate decision-making processes. The Council formally recognised, in 2019, that there is a climate and ecological emergency and has agreed to commit to a number of activities which will reduce its carbon footprint, and which will move towards a carbon neutral district. A working group has been established to consider the options and implications and an Action Plan for the Council's own estate has been adopted and a district-wide strategy has been created during 2022. The Council has allocated funds to an earmarked reserve to manage the financial implications of the actions required and facilitate progress on the agenda. The Council has a Climate Change reserve and this reserve on 31 March 2023 was £4.656m.

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The MTFS included climate-related implications within the revenue budget although these are integrated into the business-as-usual ways in which services are being considered and delivered, rather than be seen as a separate component of the budget itself.

The Council's performance against a selection of key governance metrics is set out in Table 3 below. This highlights appropriate arrangements are in place for internal control. The 2022-23 Ofsted inspection is discussed later in this report.



Table 3	2022-23	2021-22
Annual Governance Statement (control deficiencies)	Adequate	Adequate
Head of Internal Audit opinion	Satisfactory	Satisfactory
Ofsted inspection rating	Good	N/A

Governance

Standards and behaviours

The Annual Governance Statement sets out that the Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the International Framework: Good Governance in the Public Sector. The statement is included in the annual review of the Constitution undertaken each year by the Assistant Director of Legal and Governance who is also the Council Monitoring Officer. To ensure all statutory requirements have been met the statement has been produced in accordance with the CIPFA Delivering Good Governance Framework 2016.

Page 72 We consider the Council has an appropriate governance framework including its system of internal control evidenced by review of minutes of the AGC, Cabinet and Council to ensure that periodic monitoring and reviews are being reported appropriately and governance issues are addressed. We also reviewed the overall Head of Internal Audit opinion for 2022-23, the assessment of the AGC arrangements against the 2018 CIPFA Guidance for Audit Committees in Local Authorities and the Police, the Council's arrangements against the CIPFA Statements on the Role of the Chief Financial Officer, and the Role of the Head of Internal Audit. We consider this provided good assurance that there were no significant weaknesses in internal controls or governance arrangements during the 2022-23 year.

Conclusion

Overall, we found no evidence of significant weaknesses in the Council's governance arrangements for ensuring that it made informed decisions and properly managed its risks. We identified one improvement recommendation which is summarised on page 21.



Improvement recommendations



Improvement recommendation 4

The Council should ensure the delivery of agreed follow up actions for the Internal Audit review of Housing Planned Maintenance Contracts.

Improvement opportunity identified

Our work highlighted that the Council has more to do to get the service to where they want it to be, but there is a clear focus from management to get there.

Summary findings

Internal Audit review of Housing Planned Maintenance Contracts issued a "No assurance" audit opinion. Follow up of this audit was planned to be undertaken in 2023-24 quarter 1 – our review of the Internal Audit 2023-24 plan delivery for quarters 1 and 2 highlighted the follow up review had not been undertaken.

Criteria impacted

Governance

Auditor judgement

It is important that follow up of the Housing Planned Maintenance Contracts review is carried out on timely basis to ensure agreed management actions are implemented.

Management comments

The Council will ensure delivery of the agreed follow-up actions regarding the Internal Audit review of Housing Planned Maintenance Contracts.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit & Governance Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

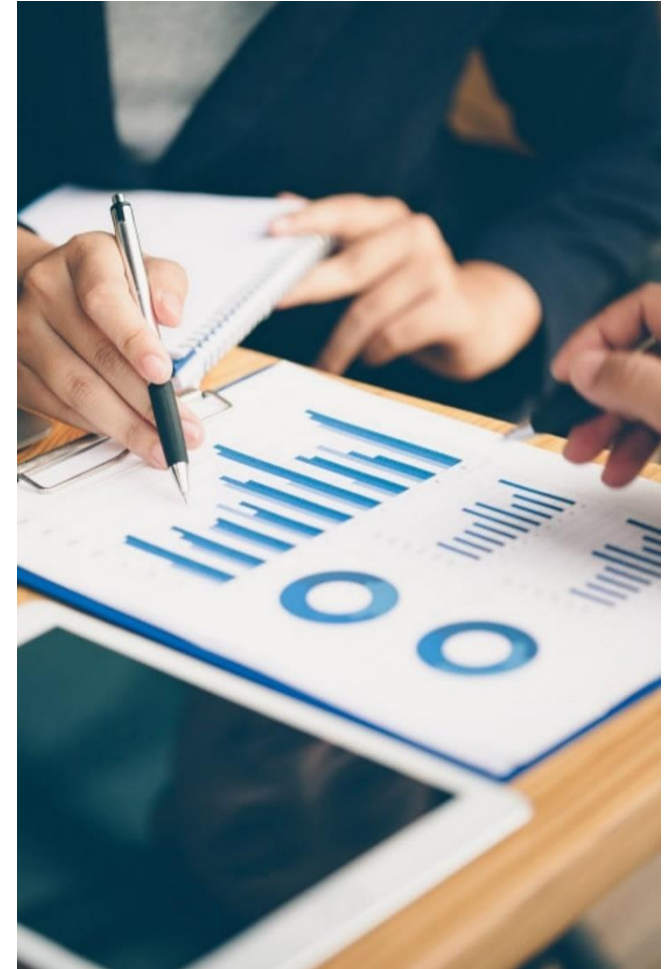
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Assessing performance and identifying improvement

The Council's performance against the Council Plan Delivery Plan is reported on a bi-annual basis to the Finance and Performance Scrutiny Sub-Committee and then to Cabinet. The Council Plan 2021-2030 comprises six corporate priorities. Performance against these priorities is managed via a progress update showing performance made against quarterly deliverables and the outcomes of key performance indicators. The quarterly performance report also includes a separate section which shows an overview of each pledge and the rating for deliverables and outcomes. It also brings together wider information, key facts and intelligence to explain how the Council is working and performing, including timelines and case studies to demonstrate the impact on residents and communities. This report provides summarised and integrated performance, finance and risk reporting and builds on existing arrangements which include meetings between respective finance, performance and risk management teams to discuss their reporting to Cabinet. With regards financial monitoring we are satisfied sufficient detail is included to understand budget variances.

Some slippage against performance measures is to be expected given the impacts of the Covid-19 pandemic throughout the 2021-22 financial year, it is important that performance continues to be monitored closely to ensure performance continue to focus on delivery of Council Plan priorities.

The 2022-23 Annual Letter from the Local Government and Social Care Ombudsman (LGSCO) in September 2023 provided a breakdown of investigations that they have upheld to show the number of cases where the Ombudsman's recommendations have led to the Council resolving the issue. The LGSCO included feedback that recommendations in some cases were not completed within the timescales agreed. Recommendations were made in ten cases during 2022-23 (eight in 2021-22). However, in two of those cases recommendations were not completed within the agreed timescales. The Council must pay close attention to this final and crucial, step in the complaints process. By doing what the Council has agreed to do, on time, the Council can help to rebuild complainants' trust and confidence after things have gone wrong. We have made an improvement recommendation on page 25 highlighting the Council should review how it might reduce delays in complying with agreed recommendations resulting from complaints upheld by the LGSCO.



Improving economy, efficiency and effectiveness

An Ofsted inspection reported in August 2022 on the levy-funded apprenticeships for Council staff in local government and partner organisations in the East Kent area since 2018. The Overall effectiveness of this service was rated as Good - "Apprentices benefit from a welcoming and positive environment that is highly conducive to their learning. They value the high-quality online learning sessions that they participate in. Tutors record all sessions, which enables apprentices to consolidate their learning after the session or to catch up if they were absent. Apprentices participate well in online learning lessons and group discussions, readily contributing their views and sharing experiences, which greatly enrich the learning of other apprentices." Actions agreed by the Council included: Leaders must quickly ensure that they arrange oversight of the functional skills provision to ensure that apprentices receive high-quality training that leads to success. Leaders should ensure that they and staff support apprentices to make quicker progress and achieve their apprenticeships in a timely manner. We have made an improvement recommendation on page 26 highlighting the Council should ensure that they undertake a review to learn lessons from the recent Ofsted inspection to ensure that changes and improvements are managed effectively. The action plan should have implementation timescales, and appropriate resources in place to manage these processes.

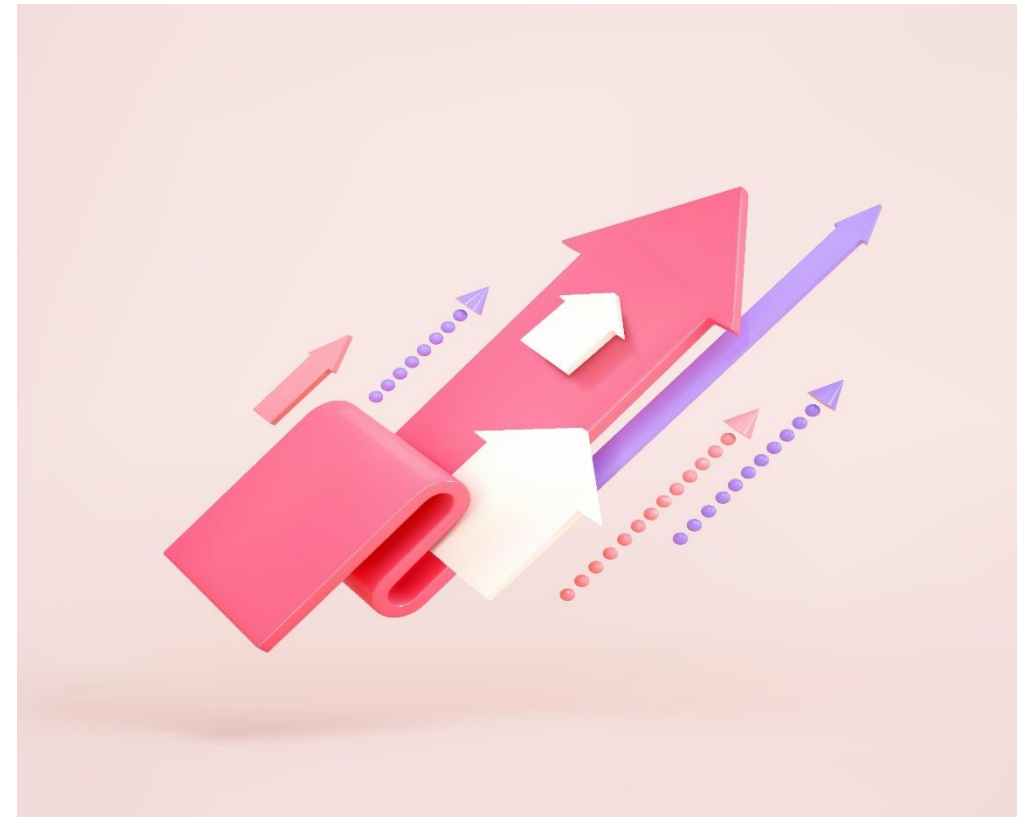
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Benchmarking

The Council uses various datasets as benchmarking tools to aid decision making. Examples are:

- Housemark benchmarking - Performance benchmarking is presented to Cabinet annually and the Council participates in a monthly benchmarking exercise on key indicators. The 2023 benchmarking shows the in-house service operational performance was above that of its peers.
- CIPFA financial resilience index, which shows that the Council is not an outlier, providing some comfort the Council is operating/performing as it should.
- Arlingclose - The Council's treasury management advisor's pools and ranks its clients' investment exposure position and share the league table with the Council allows the benchmarking against other similar councils.
- Portfolio holders across services meet monthly and, on an ad-hoc basis, externally with other councils to compare performance.

As part of our audit work, we have benchmarked the Council's total net expenditure by service on a unit cost basis with its statistical nearest neighbours. This identified the Council benchmarks high for Housing Services unit cost. The Council has advised that this is reflective of the overall challenges the Council is managing by bringing the Housing Service in-house.



Improving economy, efficiency and effectiveness

Partnership working

The Council's Constitution sets out how it engages with stakeholders and partners through joint working arrangements, partnership boards and annual appointments to external organisations. The Council's budget includes the Council wholly owned company Otterpool Park Development Company Ltd, which is in partnership with Otterpool Park LLP - the master developer responsible for delivering the project. "The project is for a garden town new settlement that plans to offer high quality homes, jobs and community facilities and services in an attractive landscape-led setting on behalf of the site landowner, the Council".

The Council has a waste collection and street cleansing contract (with Veolia) in a joint contract with Dover District Council. It commenced in January 2021 for an eight-year period with an estimated total value of around £44m. For 2022-23 the Council paid Veolia £5.215m, of which around £1.5 million related to street cleansing, the remainder relating to waste collection

Procurement and contract management

The Council's procurement guidance sets out compliance requirements. Contract management procedures are in place, the Council has dedicated procurement and contract management teams. Discussions with senior Council officers highlighted there have been no significant compliance issues in year with service providers or sub-contractors.

Concession agreements (where the concessionaire obtains revenue instead of or in addition to payment by the Council) are subject to the Concession Contracts Regulations 2016. No significant compliance issues have arisen in 2022-23 in relation to the contracts register being out of date. The Council follows sufficient consideration including appropriate fact finding, taking legal advice and reasonable decision-making when making decisions for procurements which are consistent with strategic medium-term goals and duties for best value.

An Internal Audit report (December 2022) highlighted weaknesses in contract management that were first reported by internal audit in 2021-22 had not been fully resolved. The follow up Internal Audit findings included several instances whereby officers were failing to comply with contract standing orders (CSOs) and therefore were failing to achieve the procurement standards required by the Council. It should be noted that none of the CSOs tested by internal audit had an impact on the transactions in the Financial Statements. Improvement actions included officers responsible for the procurement and management of contracts requiring CSO awareness training.

In our 2021-22 Auditor's Annual Report we highlighted a key recommendation that the Council must fully action the recommendations set out by Internal Audit in both the Contract Management and Housing Planned Maintenance reviews. The Council has created a governance action plan which incorporates all relevant Internal Audit recommendations and agreed actions, which is regularly monitored by the Council leadership team. The 2022-23 Annual Governance Statement highlighted the Housing Service has embedded an internal governance process focused on continuous service improvement. As part of this, and an Internal Audit recommendation, in 2022 the Council provided detailed training on Financial Procedure Rules and Contract Standing Orders to all staff working in the Council Asset Management section and other departments where staff are responsible for procuring and supervising contracts. Whilst we are satisfied that there is no longer a significant weakness in this area, we have made an improvement recommendation, that the Council should fully action recommendations set out by Internal Audit in its Contract Management follow up review, and that the action plan should have implementation timescales, and appropriate resources in place to manage these processes, refer to page 27.

Conclusion

We have not identified any significant weakness in the Council's arrangements for improving economy, efficiency and effectiveness. We have made three improvement recommendations which are set out on pages 25 to 27.

Improvement recommendations



Improvement recommendation 5

The Council should consider how it might reduce delays to comply with agreed recommendations resulting from complaints upheld by the Local Government and Social Care Ombudsman (LGSCO).

Improvement opportunity identified

The Council must pay close attention to this final and crucial, step in the complaints process.

Summary findings

The LGSCO looks at complaints about councils where the complainant considers that the Council has not sufficiently addressed their concerns. The annual letter from the LGSCO 2023 (September 2023) provided a breakdown of investigations that they have upheld to show the number of cases where the Ombudsman's recommendations have led to the Council resolving the issue. The LGSCO included feedback that recommendations were not completed within the timescales agreed. Recommendations were made in ten cases during 2022-23 (eight in 2021-22). However, in two of those cases recommendations were not completed within the agreed timescales.

Criteria impacted

Improving economy, efficiency and effectiveness

Auditor judgement

By doing what the Council has agreed to do, on time, the Council can help to rebuild complainants' trust and confidence after things have gone wrong.

Management comments

Management accepts the Auditor's findings and recommendations. The Assistant Director – Governance and Law will raise this issue with the relevant officers and will work closely with the complaints team. In addition, this issue will also be discussed at the Corporate Governance Board in order to raise the awareness and importance of the issues identified.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations



Improvement recommendation 6

The Council should ensure that it reviews lessons learnt from the recent Ofsted inspection on levy-funded apprenticeships, to ensure effective management of changes and improvements.

Improvement opportunity identified

Actions agreed by the Council included: Leaders must quickly ensure that they arrange oversight of the functional skills provision to ensure that apprentices receive high-quality training that leads to success. Leaders should ensure that they and staff support apprentices to make quicker progress and achieve their apprenticeships in a timely manner.

Summary findings

An Ofsted inspection reported in August 2022 on the levy-funded apprenticeships for Council staff in local government and partner organisations in the East Kent area since 2018. The Overall effectiveness of this service was rated as Good.

Criteria impacted

Improving economy, efficiency and effectiveness

Auditor judgement

The action plan should have implementation timescales, and appropriate resources in place to manage these processes.

Management comments

Whilst our learners have been progressing through the qualification, due to their various work pressures across the local authorities we have been unable to reach the completion rates required by Ofsted in order to retain a Good rating at our next inspection. As a result of this, and the more recent lack of financial viability of the scheme, we will be closing it in September 2024, after enabling as many current learners as possible to complete their course of study.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations



Improvement recommendation 7

The Council should fully action recommendations set out by Internal Audit in its Contract Management follow up review, and that the action plan should have implementation timescales, and appropriate resources in place to manage these processes.

Improvement opportunity identified

The work conducted by Internal Audit shows deficiencies in procurement and contract management. The Council has identified a training and awareness weakness which it is addressing as part of an on-going action plan.

Summary findings

The Council has created a governance action plan which incorporates all relevant Internal Audit recommendations and agreed actions, which is regularly monitored by the Council leadership team. The 2022-23 Annual Governance Statement highlighted the Housing Service has embedded an internal governance process focused on continuous service improvement. As part of this, and an Internal Audit recommendation, in 2022 the Council provided detailed training on Financial Procedure Rules and Contract Standing Orders to all staff working in the Council Asset Management section and other departments where staff are responsible for procuring and supervising contracts. Whilst we are satisfied that there is no longer a significant weakness in this area, we have made an improvement recommendation.

Criteria impacted

Improving economy, efficiency and effectiveness

Auditor judgement

In our 2021-22 Auditor's Annual Report we highlighted a key recommendation that the Council must fully action the recommendations set out by Internal Audit in both the Contract Management and Housing Planned Maintenance reviews. Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.

Management comments

Whilst significant areas of the Internal Audit follow up review regarding the Contract Management deficiencies recommendations have been implemented; the Council will ensure that the improvement recommendations are fully implemented.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
K1 The Council must fully action the recommendations set out by Internal Audit in both the Contract Management and Housing Planned Maintenance reviews.	Key	March 2023	Management accepts this proposal. Management have already created a governance action plan which incorporates all relevant Internal Audit recommendations and agreed actions, which is being regularly monitored by CLT. Management are committed to ensuring these matters are addressed in a swift and authoritative manner. 2022/23 AGS highlighted the Housing Service has embedded an internal governance process focused on continuous service improvement. As part of this, and as a recommendation from internal audits, in 2022 the Council provided detailed training on Financial Procedure Rules and Contract Standing Orders to all staff working in the Asset Management section and other departments where staff are responsible for procuring and supervising contracts.	In progress	Some progress reported as part of IA follow up – new IR made on page 27
IR1 We recommend that the Council seeks to identify ways to bridge budget gaps, such as developing a savings plan which sufficiently covers future financial shortfalls.	Improvement	March 2023	The Council has introduced a new budget setting approach called the Priority Based Budgeting - For the 2024/25 budget, the Council utilised a new budgeting approach known as Priority Based Budgeting (PBB). Having carried out a self-assessment of the Council current budget setting processes, the Council identified a new approach to budget setting that would ensure that the Council have a Priority Based Budgeting (PBB) approach, which allocates scarce budget resources to the areas of service that are of highest priorities and delivers the outcomes the Council want to achieve for local people under the new administration.	In progress	New IR raised on page 14 – 22-23 IR1
IR2 We recommend that quarterly budget monitoring reports contain detailed savings delivery updates	Improvement	March 2023	Management accepts this proposal. The 2023/24 Budget includes an in-year savings target of £200k and management will ensure that budget monitoring updates considered by CLT, Finance & Performance Sub-Committee and Cabinet include updates on this position. Latest position (@ November 2023) is that the £200k (included within the unallocated net employee costs) will be achieved.	WIP	New IR for reporting savings performance on page 16 – 22-23 IR3

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
IR3 We recommend that the Council review its capital programme to ensure viability of individual projects. Specifically, it is recommended for the Otterpool Park project that, in reviewing the financial arrangements going forward, potential significant risks to the Council in relation to the project must be clearly outlined and communicated to Members.	Improvement	March 2023	Management accepts this proposal. The Council has already undertaken viability checks on a number of capital projects during 2022/23 due to the changed market conditions, borrowing costs and inflationary pressures. The Council will evaluate all remaining projects during 2023/24. The Council has engaged financial advisors to support the review of funding and associated business plan for Otterpool Park project and will be presenting the findings of this work to Members during 2023. The Council will ensure that they outline the potential risks clearly to Members. The Otterpool commitments within the capital programme have been reprofiled. The Council's Cabinet on Wednesday, 18th October 2023 considered a paper on Otterpool Park LLP. The report presents an update on Otterpool Park and details outcomes of the governance, finance, and management reviews to ensure the successful continuation of this important significant project.	Yes	N/A
IR4 The Council should outline workforce plans in a formal document or include a dedicated workforce section within key planning documents.	Improvement	March 2023	Management accepts this proposal. The Council will ensure workforce planning is considered and appropriately considered moving forward. People Strategy 2021 – 2024 - to support the Council's corporate plan and to enable the Council to achieve and support the ethos of continuous improvement by building a workforce that is fit for the future.	Yes	N/A
IR5 We recommend that the Council updates the format of its risk register to include the following 'best practice' columns: Key controls / Sources of assurance Direction of travel	Improvement	March 2023	Management accepts this proposal. Management review their approach to Risk Management annually and will seek to incorporate this feedback.	Yes	N/A
IR6 We recommend inclusion of numerical sensitivity analysis or scenario planning to accompany the qualitative analysis seen within the key annual budgetary documents.	Improvement	March 2023	Management accepts this proposal. The Council already undertakes scenario planning through its MTFS and will seek to expand this to consider scenario planning / sensitivity analysis through the budget strategy work.	Yes	N/A

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
IR7 We recommend that declaration forms should be submitted by officers and Members on an annual basis (and not only at the point of election or re-election).	Improvement	March 2023	This has been implemented. Annually, Councillors and Senior Officers are required to complete annual Related Party Disclosure forms and Managers complete annual Managers Assurance Statements which require disclosure of related party activities. A review of the prior year's assessment is undertaken and any changes in circumstances and relationships considered. A review of Council, Cabinet and other Committee reports during the financial year is undertaken to identify any new or changes to existing related parties and group relationships.	Yes	N/A
IR8 The Council's Partnership Policy should be refreshed.	Improvement	March 2023	Policy updated April 2023	Yes	N/A
IR9 The Council should consider including the Contract Waivers list as a standing agenda item for A and G.	Improvement	March 2023	Contract waivers are included as a standing agenda item for A and G. And Cabinet. Waivers are included in the updated procurement guidance [section 13]	Yes	N/A

Opinion on the financial statements



Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2023 and of its 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 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK);
- the Code of Audit Practice (2020) published by the National Audit Office; and
- applicable law.

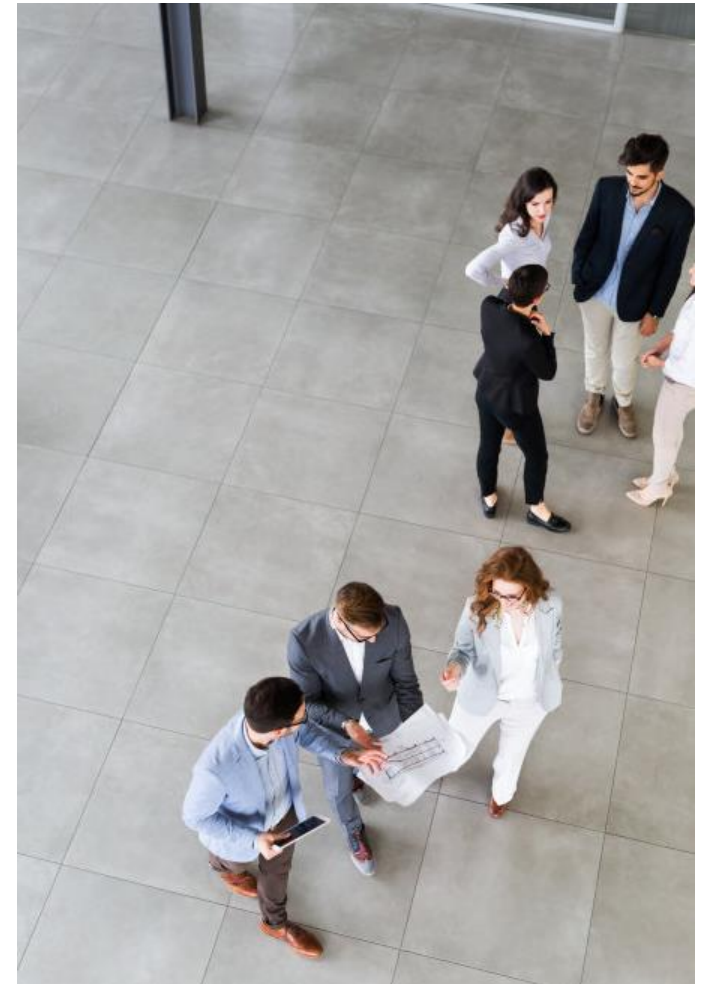
We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements

We have nearly completed our audit of your 2022-23 financial statements and plan to issue an unqualified audit opinion following the Audit & Governance Committee meeting on 13 March 2024.

The full opinion will be included in the Council's 2022-23 Audit Findings Report which can be obtained from the Council's website.

Further information on our audit of the financial statements is set out overleaf.



Opinion on the financial statements



Timescale for the audit of the financial statements

- The 2022-23 Audit Plan was issued in November 2023 and presented to Audit & Governance Committee in December 2023.
- Our risk assessment and planning visit took place in October-November 2023. Our accounts audit visit took place in January-March 2024.
- The Council provided draft 2022-23 financial statements in line with the national timetable, however a revised set of draft 2022-23 financial statements were required to be produced to resolve an internal consistency issue – these were provided to the audit team in early January 2024.
- In 2022-23 we have experienced significant reconciliation issues with the income and expenditure, and debtor and creditor listings. The Council also had significant issues in reconciling the trial balance to the statement of accounts. We have discussed with the Council that learning from these delays needs to be carried forward so that similar issues are not experienced in the following financial years.
- The opinion on the financial statements will be issued following Audit & Governance Committee meeting on 13 March 2024. Delays with the audit have, in part, been as a result of sector wide issues and impact of the LG backstop for old years of account.

Audit Findings (ISA260) Report

More detailed findings are set out in our Audit Findings Report, will be presented to the Council's Audit & Governance Committee on 13 March 2024. Requests for this Audit Findings Report should be directed to the Council.

Issues arising from the accounts

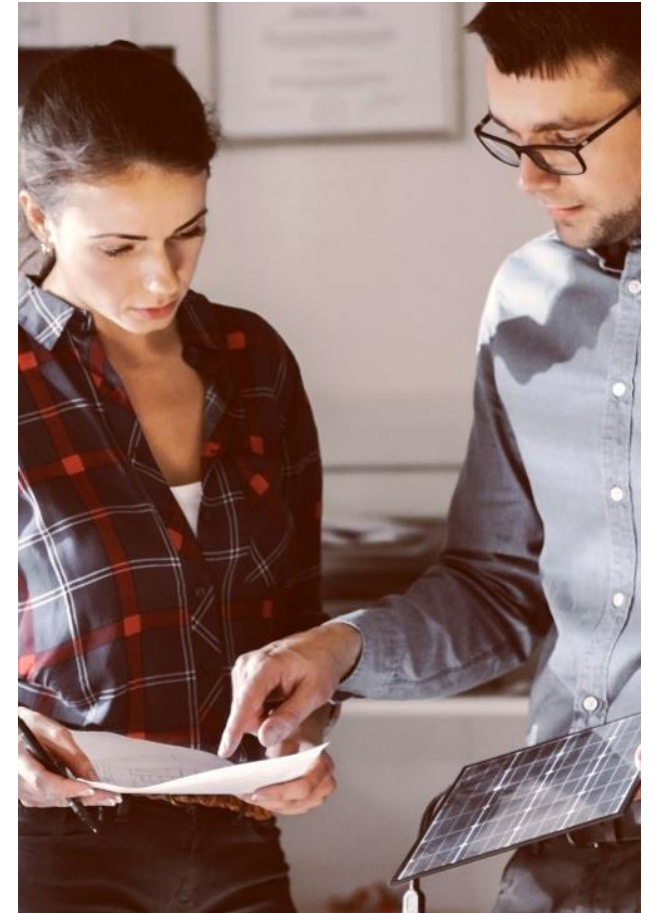
All adjusted misstatements identified for the Council's 2022-23 financial statements are disclosed in the Audit Findings Report.

Other opinion/key findings

We had no significant unadjusted findings in relation to the other information produced by the Council, including the Narrative Report or Annual Governance Statement.

Whole of Government Accounts (WGA)

To support the audit of the WGA we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office. The Council is below the required threshold set for detailed WGA procedures.



Appendices

Appendix A: Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

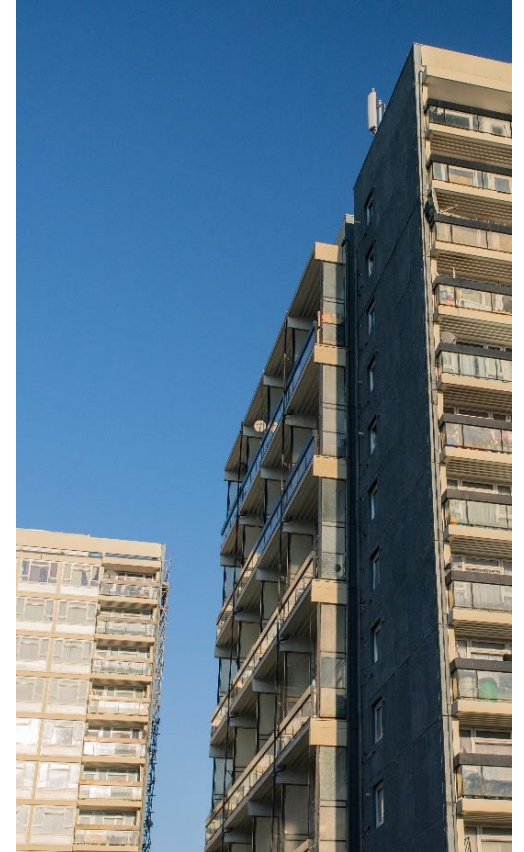
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare 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. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure 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.



Appendix B:

An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference(s)
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council's arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented, should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	14, 15, 16, 21, 25, 26, 27

