This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

The Audit Findings for Folkestone & Hythe District Council

Year ended 31 March 2022

Folkestone & Hythe District Council

December 2022

Contents

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

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

Name: Paul Dossett
For Grant Thornton UK LLP
Date: 7 December 2022

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Folkestone & Hythe District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

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

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

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

Our audit work was completed during June-November. Our findings are summarised on pages 5 to 19. We have identified one adjustment to the financial statements that has resulted in a £712k adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix A.

Except for the resolution of the national issue on accounting for Infrastructure Assets, our work is fairly progressed and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters:

- completion of our outstanding testing in the following areas:
  - Property, Plant and Equipment revaluation
  - Investment Properties revaluation
  - Debtors
  - Creditors
  - Grant income
- Key audit partner review of completed work.
- Receipt of management's letter of representation.
- Review of the final set of financial statements.

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

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance.

We have not yet completed all of our VFM work and so are not in a position to issue our 2021-22 Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix D. We expect to issue our Auditor's Annual Report in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our planning assessment, 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. At the planning stage we did not identify any significant risks and based on our current understanding this remains the case.

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 work on the Council's VFM arrangements, which will be reported in our 2021-22 Auditor's Annual Report.

Significant matters

We did encounter staffing challenges within the finance team of the Council, acknowledging that recruitment and retention is highly challenging across the local government finance profession, which has resulted in outstanding audit matters as stated on page 3 of this report.

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 will be discussed with management and the Audit and Governance Committee.

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

Audit approach

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

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

2020-21 Financial Statements Audit

We commenced our audit work in July 2021 and expected to conclude in December 2021. The further delay is due to an additional technical focus on Infrastructure Assets as stated on page 10 of this report.

Conclusion

We have fairly progressed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion by the end of January 2023, once the statutory override for infrastructure assets is in place and the opinion on the 2020-21 financial statements has been issued. The outstanding items in relation to the 2021-22 financial statements audit are detailed on page 3 of this report.

Acknowledgement

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

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.

We have revised the materiality amount from that communicated in the Audit Plan to reflect the decrease in gross expenditure for the financial year 2021-22. For planning purposes, we used the gross expenditure for financial year 2020-21 as the figures for financial year 2021-22 had not yet been made available.

We have also revised the performance materiality percentage from 75% to 70% of materiality to reflect the number of misstatements identified in the 2020-21 financial statements and the national issues around Infrastructure Assets.

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	1,834,000	1,815,000
Performance materiality	1,283,800	1,270,500
Trivial matters	91,700	90,800
Materiality for officers' remuneration	50,000	50,000

2. Financial statements – Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

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

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of controls, 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.	To address this risk we: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. We have not identified any issues in relation to the significant risk of management override of controls.

2. Financial statements – Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings including Investment Properties The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for investment properties) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings including Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	To address this risk we: • 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 your asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. Our audit work is still in progress but has not identified any issues in this area to date.
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£72.548m in the Council's 2021-22 balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	To address this risk we: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • performed procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. We have not identified any issues in relation to the significant risk in relation to the valuation of the pension fund net liability.

2. Financial statements – Significant risks

Risks identified in our Audit Plan	Commentary
Fraud in expenditure recognition of operating expenditure As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Council may manipulate expenditure to meet externally set targets and we had regard to this when planning and performing our audit procedures. Management could defer recognition of non-pay expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.	To address this risk we: • 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; compared size and nature of accruals at year to the prior year to help ensure completeness; and • investigated manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure. Our audit work is still in progress but has not identified any issues in this area to date.
Level 3 financial assets and liabilities The Council has reviewed the fair value of the finance assets as part of the IFRS 9 assessment in preparing the draft accounts and concluded that the soft loans for private sector housing improvement purposes and the equity investment in Oportunitas Limited are Level 3 assets. By their nature Level 3 assets and liabilities valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 financial assets and liabilities by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We therefore identified valuation of Level 3 financial assets and liabilities as a significant risk, which was one of the most significant assessed risks of material misstatement.	To address this risk we: • 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. Our audit work is still in progress but has not identified any issues in this area to date.

2. Financial statements – Other risks identified

Issue	Commentary
Valuation of Infrastructure Assets Infrastructure assets include roads, highways, street lighting and coastal assets. As at 31 March 2021 the net book value of Infrastructure Assts was £10.346m, which is over five times the financial statements materiality. Gross book value at 31 March 2021 was £36.156m. In accordance with the LG Code, Infrastructure Assets are measured using the historical cost basis, and carried at depreciated historic cost. With respect to the financial statements there are two risks we plan to address: 1. The risk that the value of Infrastructure Assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of Infrastructure Assets. 2. The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure Assets is overstated. It will be overstated if management do not recognise components of Infrastructure when they are replaced. For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response. We also await the outcome of the current CIPFA Infrastructure Assets consultation addressing some of the risks above and the extent to which local authorities are complying with the Code.	To address this risk we have: • reconciled the fixed asset register to the financial statements; • used our own point estimate and considered the reasonableness of depreciation charge to Infrastructure Assets; • obtained assurance that the UELs applied to Infrastructure Assets are reasonable; and • documented our understanding of management's processes for derecognising Infrastructure Assets on replacement, and obtain assurances that the disclosure in the PPE note is not materially misstated. We have gained an understanding of how the Council determines the appropriate UELs for Infrastructure Assets and how these have been kept under review and applied. The UELs are reviewed annually. We also understand that Infrastructure Assets are replaced largely at the end of their UELs. We will continue to review procedures and provide an update to the Audit and Governance Committee once the CIPFA consultation is complete. As at November 2022, our understanding is that the Department for Levelling Up, Housing and Communities are laying a statutory instrument before Parliament shortly which should address the issues, as laid out to the left, and should enable us to sign off the 2020-21 accounts in January 2023 and the 2021-22 accounts shortly thereafter.

2. Financial statements – Key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit comments</th><th>Assessment</th></tr>
<tr>
<td>Net pension liability – £72.548m</td>
<td>The Council's net pension liability at 31 March 2022 is £72.548m (PY £76.591m) comprising the Kent County Council Local Government Pension Scheme. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 31 March 2019. A roll-forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</td>
<td>We considered the following areas:

assessed the Council's actuary, Barnett Waddingham, to be competent, capable and objective.
assessed the actuary's approach taken, detail work undertaken to confirm reasonableness of approach.
used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:

<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>2.60%</td><td>2.55% - 2.60%</td><td></td></tr>
<tr><td>Pension increase rate</td><td>3.20%</td><td>3.05% - 3.45%</td><td></td></tr>
<tr><td>Salary growth</td><td>4.20%</td><td>0.5% - 2.5% above CPI inflation (3.10% - 5.1%)</td><td></td></tr>
<tr><td>Life expectancy – Males currently aged 45 / 65</td><td>21.6 yrs</td><td>20.5 – 23.1</td><td></td></tr>
<tr><td>Life expectancy – Females currently aged 45 / 65</td><td>23.7 yrs</td><td>23.4 – 25.0</td><td></td></tr>
</table>

confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimates.
conducted an analytical review to confirm reasonableness of the Council's share of LGPS pension assets.
confirmed adequacy of disclosure of the estimate in the financial statements.

</td>
<td>Light Purple</td>
</tr>
</table>

Assessment

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

2. Financial statements – Key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Provisions for NNDR appeals - £2.011m	The Council are responsible for repaying a proportion of successful rateable value appeals. Management's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Due to a reduction in outstanding appeals, the provision has decreased by £266k in 2021-22.	In the course of our work we have: • Assessed the method used by the Council to calculate the estimate is that agreed by all Kent Authorities. • Assessed if the disclosure of provisions in the financial statements is adequate. Our review of the provision calculation confirms that appropriate information has been used to determine the estimates and we deem the estimate to be reasonable.	Light Purple
Surplus Assets - £20.54m	Surplus Assets are not specialised in nature and have been valued at fair value under IFRS13, estimated at highest and best use from a market participant's perspective. The Council has engaged WHE to complete the valuation of Surplus Assets as at 31 March 2022. This class of assets contains land at Princes Parade and Recreation Ground. The year end valuation of surplus assets was £20.54m, a net increase of £5.8m from 2020-21 (£14.736m).	We have assessed management's estimate, considering: • an assessment of management's expert; • the completeness and accuracy of the underlying information used to determine the estimate; • the reasonableness of the assumptions behind the valuations; and • the reasonableness of the increase in the estimate. Our audit work is still in progress in this area to date.	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
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2. Financial statements – Key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Land and Building valuations – Other - £26.4m	Other land and buildings comprise specialised assets such as swimming pools and other leisure facilities, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings assets that are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head & Eve LLP (WHE),to complete the valuation of properties as at 31 March 2022, on a five yearly cyclical basis. 65% of total assets were revalued during 2021-22. The total year end valuation of land and buildings was £27.084m, a net increase of £0.661m from 2020-21 (£26.423m). Management have considered the year end value of non-valued properties, based on the market review provided by the valuer as at 31 March 2022, to determine whether there has been a material change in the total value of the properties. Management's assessment of assets not revalued has identified no material change to the properties' value.	We identified a significant audit risk in respect of the valuation of land and buildings. In the course of our work we have: • checked the completeness and accuracy of the underlying information used to determine the valuation of land buildings; • reviewed the consistency of estimate against the valuation trends for the period; • checked the reasonableness of the net increase in the valuation of land and buildings; and • checked the adequacy of disclosure relating to the valuation of land and buildings in the financial statements. Our audit work is still in progress in this area to date.	TBC

Assessment

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2. Financial statements – Key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Land and Buildings – Council Housing - £220.2m	The Council owns 3,396 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged WHE to complete the valuation of these properties which was completed on a desktop basis this year using industry indices. The year end valuation of Council Housing was £220.2m, a net increase of £34.6m from 2020-21 (£185.6m).	In the course of our work we have: • assessed the Council's valuer, WHE, to be competent, capable and objective; • carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate; • checked the consistency of estimate against valuation trends for the period; • checked the reasonableness of the net increase in the valuation of council dwellings; and • checked the adequacy of disclosure of estimate in the financial statements. Our audit work is still in progress in this area to date.	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
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2. Financial statements – Key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Investment Property - £90.14m	The Council has made significant Investment Property acquisitions in 2021-22 (£2.9m), first and foremost relating to the development of the Otterpool assets. Investment Property is required to be valued at fair value at year-end. The Council has engaged its valuer WHE to complete the valuation of Investment Properties as at 31 March 2022. 100% of Investment Property assets were revalued during 2021-22, and the fair value adjustment on valuation resulted in an increase of £3.086m across the portfolio.	We identified a significant audit risk in respect of the valuation Investment properties. In the course of our work we have: • reviewed the Investment Property valuation estimate in line with the revised ISA540 requirements. • assessed management's valuation expert, competent, capable and independent • reviewed the valuations against the relevant market indices such as Grant Thornton Real Estate Market update for August 2022, Gerald Eve Market Valuations and Knight Frank yields guide as benchmark tools • reviewed the underlying information used to determine the estimate is complete and accurate; and Our audit work is still in progress in this area to date.	TBC
Minimum revenue provision - £1.211m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £1.211km a net increase of £0.436m from 2020-21 (£0.775m).	We have carried out the following work: • Assessed that the MRP has been calculated in line with the statutory guidance • Confirmed that the Council's policy on MRP complies with statutory guidance. • Assessed there are no changes to the authority's policy on MRP in comparison with 2020/2021. Our audit work is still in progress in this area to date.	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
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2. Financial statements – Key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Grant income recognition and presentation - £47.8m	Management's policy states that grants are immediately recognised where the Council has reasonable assurance it will comply with the conditions attached to the grant, and the grants or contributions will be received. Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is recognised as income as soon as the Council has reasonable assurance it will comply with the conditions attached to the grant, and the grants or contributions will be received. For this purpose, the Council acts as the principal and credited such grants, contributions and donations to the Comprehensive Income and Expenditure Statement. These mainly comprise of: - Local Authority Discretionary Grant Fund (LADGF) - Additional Restrictions Grant However, for some grants the Council is also acting as an agent and does not recognise grant income. The Council has recognised the following grants as agency transactions: - Small Business Grant Fund (SBGF) and Retail, Hospitality and Leisure Grant Fund (RHLGF) - Business Grants Fund - Local Restrictions Support Grant (including Addendum)	Work performed during our audit covered the following: • Review of management's judgement of whether the Council is acting as the principal or agent, which determines whether the Council recognises the grant at all. • Check of completeness and accuracy of the underlying information used to determine whether there are conditions outstanding that determines whether the grant be recognised as a receipt in advance or in-year income. • The assessment for grants received, whether the grant is specific or non-specific grant, also whether it is a capital grant, as this impacts on where the grant income is presented within the CIES. • Review of adequacy of disclosure of management's policy around recognition of grant income in the financial statements. Our audit work is still in progress in this area to date.	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
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2. Financial statements – Other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Written representations	We will request management's representations in advance of issuing the 2021-22 opinion on the financial statements.
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.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking, investment and borrowing institutions. This permission was granted and the requests were sent and returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Subject to completing our work we have not found any material omissions in the financial statements to date.
Audit evidence and explanations/ significant difficulties	We did encounter staffing challenges within the finance team of the Council, acknowledging that recruitment and retention is highly challenging across the local government finance profession, which has resulted in outstanding audit matters as stated on page 3 of this report.

2. Financial statements – Other communication requirements

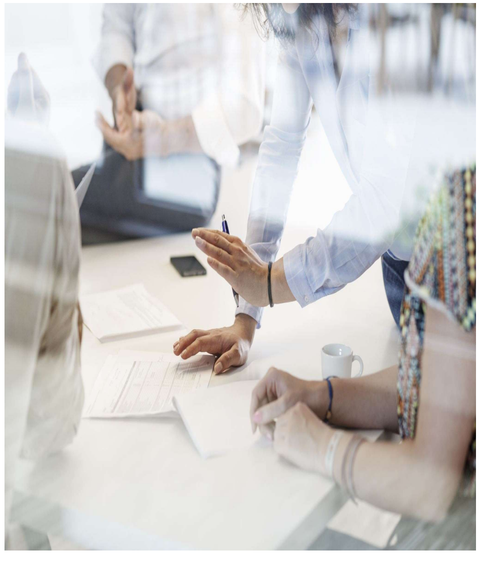
Our responsibility

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

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

2. Financial statements – Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit; • if we have applied any of our statutory powers or duties; or • where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. We have nothing to report on these matters
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that this work is not required as the Council does not exceed the reporting threshold.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021-22 audit of Folkestone & Hythe District Council in the audit report, as detailed in Appendix C, due to incomplete VFM work.



3. Value for Money arrangements

Approach to Value for Money work for 2021-22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

Our procedures and conclusions

We have not yet completed all our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix D to this report. We expect to issue our Auditor's Annual Report no later than 3 months after the date of the opinion on the 2021-22 financial statements. This is in line with the National Audit Office's revised deadline.

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. Our VFM planning work has not identified any risks of significant weakness at this stage.

4. Independence and ethics

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

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 B.

Transparency

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

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	13,800	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 £13,800 in comparison to the total fee for the audit of £73,553 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	6,000	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 £6,000 in comparison to the total fee for the audit of £73,553 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.

Appendices

A. Audit adjustments

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

Impact of adjusted misstatements

An adjusted misstatement is set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Financial Instrument - Loan to Otterpool Park LLP We identified that Otterpool loan was held at cost of £1.25m, however the Otterpool Park LLP net asset position as at 31/03/2022 was £0.537m. We challenged management that if Otterpool Park LLP was no longer a going concern the maximum recovery in respect of the loan for the Council would be £0.537m.			
DR FV Impairment (loss)	712		712
CR FV Investments		(712)	
Overall impact	£712	(£712)	£712

A. Audit adjustments

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

Misclassification and disclosure changes

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?
Group Balance Sheet We noted that the short-term debtors balance of £4.132m for 2020-21 in the Group Balance Sheet was incorrect and should be £17.442m	Group Balance Sheet should be amended to reflect the correct prior year value. Management response: Management agreed to amend.	✓
Assumptions made about the future and other major sources of estimation uncertainty – Note 4 We noted in Valuations (Property, Plant and Equipment , Investment Property & Heritage assets) that the 10% reduction or increase value disclosed was incorrect as it should be £35.8m, not £34.8m.	Note 4 should be amended to reflect the correct calculation of possible valuation movements. Management response: Management agreed to amend.	✓
Audit fees – Note 14 The payable for certification of housing benefit subsidy and housing capital receipts was incorrect as this should be £19,800, not £17,000.	Note 14 should be amended to reflect the correct values. Management response: Management agreed to amend.	✓
Impairment of Short-term Debtors – Note 21 The impairment balance disclosed in the Financial statement is incorrect as it should be £1.840m, not £1.478m.	Note 21 should be amended to include all impairments. Management response: Management agreed to amend.	✓
Interests in Companies and Other entities – Note 40 We identified some disclosure errors which were brought to management's notice. These errors were all minor and have no impact to the Balance Sheet or the Comprehensive Income and Expenditure Statement.	Note 40 should be amended to in the manner that has been communicated by the audit team. Management response: Management agreed to amend.	✓

A. Audit adjustments

Misclassification and disclosure changes continued

Disclosure	Auditor recommendations	Adjusted?
Financial instruments – Note 27 Our audit work on financial instruments identified a £5m balance which had been classified and recorded as Money Market Fund however our review of this asset did not meet the classification of a Money Market Fund instead it should classified as structured loan and deposits.	Note 27 financial instruments should be correctly classified to reflect the nature of financial instruments. Management response: Management agreed to amend.	✓
Contractual Commitments – Note 16 Heating replacement programme balance of £0.48m is incorrect and should be £1.61m.	Note 16 should be amended to reflect the correct value for contractual commitments. Management response: Management agreed to amend.	✓

A. Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021-22 audit which have not been made within the final set of financial statements. The Audit and 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	Reason for not adjusting
Fees, Charges & Other Service Income				Not material
As part of our Fees, Charges & Other Service Income testing, we noted an isolated error in Receipts in Advance calculation where the cash was not received.				
DR Rent/Service charge in advance (Liability code)		254		
DR Income (I&E)	18		Nil	
CR Caxton Debtor account		(254)		
CR Rent in advance (Liability code)	(18)			
Fees, Charges & Other Service Income				Not material - extrapolated
As part of our Fees, Charges & Other Service Income testing, we identified one transaction of £0.020m which was incorrectly classified as income instead of refund of expenditure.				
We extrapolated the impact of this error across the population tested which resulted in an extrapolated overstatement of £1.133m.				
Dr Other expenditure	1,133	Nil	Nil	
Cr Fees, Charges & Other Service Income	(1,133)			
Overall impact	£Nil	£Nil	£Nil	

B. Fees

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

Audit fees	Proposed fee	Final fee
Folkestone & Hythe District Council statutory audit	£73,553	TBC
Total audit fees (excluding VAT)	£73.553	TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit-related services		
Certification of Housing Benefit Assurance Process	13,800	TBC
Certification of Housing Capital Receipts return	6,000	TBC
Total non-audit fees (excluding VAT)	£19,800	TBC

C. Audit opinion

Our audit opinion is included below. We anticipate we will provide the Council with an unmodified audit report.

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 2022, which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

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 2022 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 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Conclusions relating to going concern

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

C. 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 2021/22 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

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

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

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

Other information

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

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

C. 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 and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Corporate Services. The Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Director of Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

C. Audit opinion

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.
- We enquired of senior officers and the Audit and Governance committee, concerning the group and Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Governance committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and any other fraud risks identified for the audit. We determined that the principal risks were in relation to Valuation of land and buildings, including investment properties and council dwellings and Valuation of pension fund net liability.
- Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Director of Corporate Services has in place to prevent and detect fraud;
- journal entry testing, with a focus on unusual journals made during the year and the accounts production stage for appropriateness and corroboration.
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, council dwellings and investment property and defined benefit pensions net liability valuations; 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.

D. Audit opinion

The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to valuation of land and buildings, including investment properties and council dwellings and Valuation of pension fund net liability.

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.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector
- understanding of the legal and regulatory requirements specific to the Authority and group including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA, LASAAC and SOLACE
  - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

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

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

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

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 2022.

Responsibilities of the Authority

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

D. 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 December 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

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

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.

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 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report,
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

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

D. Audit opinion

Signature

Paul Dossett

Key Audit Partner

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

London

Date: XX January 2023

E. Audit letter in respect of delayed VFM work

Dear Councillor Mrs Ann Berry,

The original expectation under the approach to VFM arrangements works set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangement for local government by 30 September each year at the least. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work quickly as would normally be excepted. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than three months after the date of the opinion on the financial statements. This is in line with the National Audit Office's revised deadline.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delays.

Yours faithfully

Paul Dossett

Key Audit Partner