The Audit Findings for Folkestone & Hythe District Council

Year ended 31 March 2022

Folkestone & Hythe District Council

March 2023

Contents

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

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

Name: Sophia Y Brown
For Grant Thornton UK LLP
Date: 15 March 2023

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Folkestone & Hythe District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 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 on remotely during June 2022 to February 2023. Our findings are summarised on pages 7 to 20 and onwards. We have identified one adjustment with nil General Fund/Balance Sheet impact to the financial statements. Audit adjustment is detailed in Appendix C. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A.

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

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

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

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance.	We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in the area of procurement. Our findings are set out in the value for money arrangements section of this report.
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. Certification of the completion of the will be delayed as the process for concluding local authority elector questions and objections is ongoing.
Significant matters	We did encounter staffing challenges within the finance team of Council which has resulted in audit outstanding 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.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 15 March 2023. The outstanding items are detailed on page 3 of this report.

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 complete, and we have not identified any issues in relation to this risk.
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 complete, and we have not identified any issues in relation to this risk.
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. We noted that Otterpool loan was held at cost for £1.25m however the Otterpool Park LLP net asset position as at 31/03/2022 was £0.537m. This means 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. See Appendix C for details Our audit work is complete, and we have not identified any other issues in relation to this risk.

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.	To address this risk we have: • reconciled the fixed asset register to the financial statements; • used our own point estimate and considered the reasonableness of depreciation charge to Infrastructure Assets; • obtained assurance that the UELs applied to Infrastructure Assets are reasonable; and • documented our understanding of management's processes for derecognising Infrastructure Assets on replacement, and obtain assurances that the disclosure in the PPE note is not materially misstated. We have obtained sufficient appropriate audit evidence to corroborate that the net book value of infrastructure assets is not materially misstated through our substantial analytical review of depreciation, inquiries with management and sensitivity analysis of the infrastructure asset depreciation charge. Our audit work is complete and we have not identified any issues in this area.

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 - £81.22m	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.	We have assessed management's estimate, considering: • an assessment of management's expert; • the completeness and accuracy of the underlying information used to determine the estimate; • the reasonableness of the assumptions behind the valuations; and • the reasonableness of the increase in the estimate. We consider management's estimate to be reasonable.	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
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. We consider management's estimate to be reasonable.	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
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. We consider management's estimate to be reasonable.	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
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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 - £29.35m	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; and • reviewed the underlying information used to determine the estimate is complete and accurate We consider management's estimate to be reasonable.	Light purple
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; and • Assessed there are no changes to the authority's policy on MRP in comparison with 2020-2021. We consider management's estimate to be reasonable.	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
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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; and • Review of adequacy of disclosure of management's policy around recognition of grant income in the financial statements. We consider management's estimate to be reasonable.	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 – 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 have requested 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.

2. Financial statements – Other communication requirements

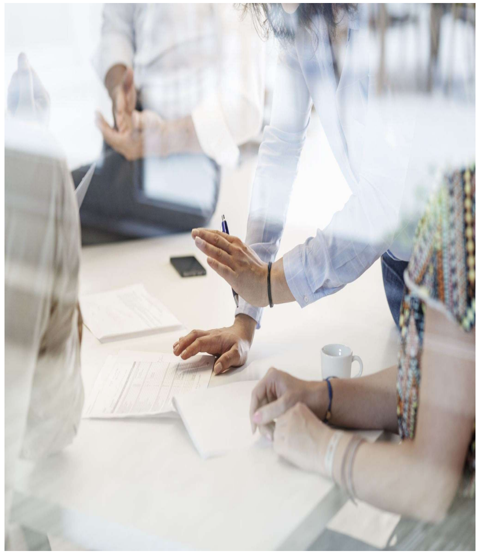
Our responsibility

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	This is outstanding whilst we consider issues raised by local electors.



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.

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. The risk we identified is detailed in the table below, along with the further procedures we performed and our conclusions. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its procurement activities. Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Breach in Council's Contract Standing Orders During 2021-22 a significant procurement breach was identified by the Council through standard checks of controls.	The Council commissioned an internal audit which has uncovered a number of instances whereby officers were failing to comply with CSOs, and therefore, by definition, are failing to achieve the standards required by the Council in terms of procurement.	Our review of the work conducted by Internal Audit shows both significant and systemic deficiencies in the area of procurement and contract management, and is indicative that the behaviour and culture in this area is deficient. It is our 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.	There is no significant or material impact to the Council's 2021-22 financial statements. However, non-adherence to the Council's Contract Standing Orders calls into question if the Council has achieved value for money in the purchase of supplies and services using taxpayers' money, and if contracts have been fairly let in a proper competitive process. We will revisit this area of significant weakness in our work for 2022-23.

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 D.

Transparency

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

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. Action plan – Audit of Financial Statements

We have identified 2 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021-22 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
High	Debtor and Creditor opening balances 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.	The Council should ensure that brought forward Debtor and Creditor balances only include valid transactions, relevant to the financial year. Management response
Medium	Cleansing of the fixed asset register 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. 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-lifed if they are still operational.	The Council should co-ordinate a review of all assets held at nil net book value and write out those assets which are no longer in use. Any assets that remain in use should be reviewed to establish the appropriate value and useful economic life. Management response

Internal Controls and Financial Statement issues

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

B. Follow up of prior year recommendations

We identified one issue in the audit of Folkestone and Hythe District Council's 2020-21 financial statements, which resulted in one recommendation being reported in our 2020-21 Audit Findings report. We have followed up on the implementation of our recommendation and is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	HRA – Componentisation As part of our HRA valuation work, we noted that management has written out £4.3m of capital expenditure works (i.e Kitchen and bathroom replacements) as impairment instead of componentising each part of the assets with the cost that should be depreciated separately. That is to say, management will need to write out the old components from the Gross book value and the accumulated depreciation before adding on the new component for year end valuations.	The issue of asset componentisation continues as management is not looking to componentise any asset parts below £5,000. The accounting policy in relation to asset componentisation should be reviewed to ensure that the Council is compliant with its own policy.

Assessment

✓ Action completed

X Not yet addressed

C. Audit adjustments

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

Impact of adjusted misstatements

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 noted 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

C. Audit adjustments

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

Misclassification and disclosure changes

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.	✓

C. 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.	✓

C. 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	

D. 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

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