

The Audit Findings for Thanet District Council

Year ended 31 March 2014

24 September 2014

Andy Mack

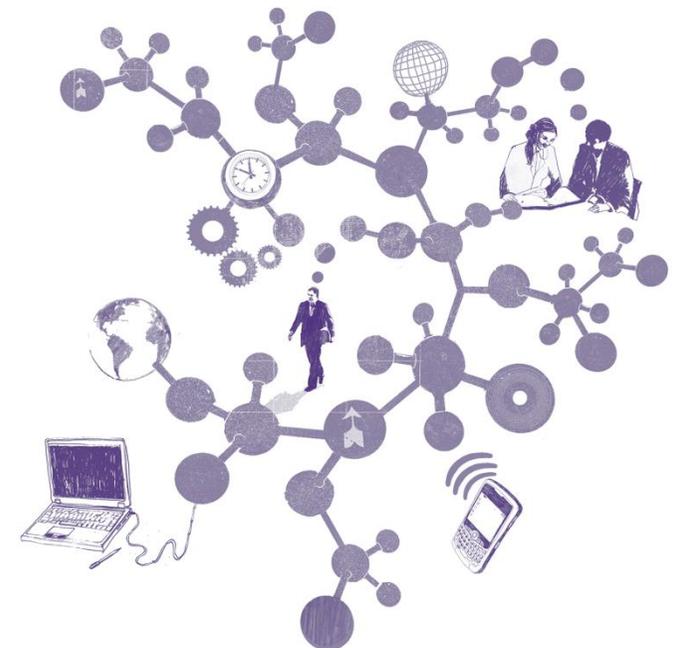
Director
T 020 7728 3299
E andy.l.mack@uk.gt.com

Terry Blackman

Audit Manager
T 0207 728 3194
E terry.blackman@uk.gt.com

Matthew Dean

Executive
T 020 7728 3181
E matthew.dean@uk.gt.com



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section	Page
1. Executive summary	4
2. Audit findings	7
3. Value for Money	19
4. Fees, non audit services and independence	23
5. Communication of audit matters	25

Appendices

- A Action plan
- B Audit opinion

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Thanet District Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 20 March 2014.

Our audit is substantially complete although we are finalising our work in the following areas:

- completion of testing of Housing Benefits, Council Tax Support, Debtors and Employee Remuneration
- review of the final version of the financial statements

- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have not identified any adjustments affecting the Council's reported financial position, although a number of balances in individual supporting Notes have been amended (details are recorded in section 2 of this report). We have also identified a number of adjustments to improve the presentation of the financial statements.

The finance team have continued to prepare the accounts to a good overall standard supported by comprehensive working papers.

Further details are set out in section 2 of this report.

Value for Money conclusion

Our review of the Council's arrangements to secure economy, efficiency and effectiveness found that the Council has continued to maintain sound financial management arrangements. It has managed its budget well, delivered planned efficiencies for 2013/14 and increased its usable reserves by £1.8m which will provide resilience for the future. The updated Medium Term Financial Plan projects a balanced financial position through to 2017/18, albeit this will require year on year budget reductions in excess of £1m per annum for the next four years.

Whilst the Council has done well in managing its finances, during 2013/14 the behaviour of some Members fell below what we would regard as an acceptable standard. This was highlighted by the Corporate Peer Challenge report to the Council of April 2014. We conclude that, during 2013/14, the Council had inadequate arrangements for promoting and demonstrating the principles and values of good governance.

The Council has responded pro-actively since the report was issued, including the establishment of an Improvement Board. It is vital that it builds on this progress throughout 2014/15 so that it can visibly demonstrate that the principles of good governance have been re-established.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

We identified two minor control issues in relation IT access controls. Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Interim Director of Corporate Services.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Interim Director of Corporate Services and the finance team.

Acknowledgment

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

Grant Thornton UK LLP
September 2014

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Governance and Audit Committee on 24 September 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 20 March 2014.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • Review and testing of revenue recognition policies • Testing of material revenue streams 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • Review of accounting estimates, judgements and decisions made by management • Testing of journal entries • Review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	<p>We have:</p> <ul style="list-style-type: none"> performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding reviewed large and unusual items and test a sample of these tested a sample of items of expenditure to gain assurance that expenditure has been correctly classified and for occurrence and allocation performed tests of journals on a sample basis to gain assurance that there are adequate controls in place over inputting and processing and that these have operated effectively through the financial year. 	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated	<p>We have:</p> <ul style="list-style-type: none"> performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding tested a sample of payroll payments made during the year to gain assurance that employees have been remunerated at the correct rates during 2013/14 performed cut-off testing to ensure that transactions have been recorded in the correct accounting period in addition to a review of the work of the pension fund actuary, we have performed substantive tests on the cost of pensions. 	<p>We identified a number of changes required on pension disclosures, which are set out on pages 16-17. These have no impact on the Council's financial position.</p> <p>Our audit work has not identified any other significant issues in relation to the risk identified.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare expenditure	Welfare benefit expenditure improperly computed	<p>We have:</p> <ul style="list-style-type: none"> performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding completed modules set by the DWP which include performance of an analytical review and BEN01 certification. This will involve the selection of samples of welfare benefit expenses from across the year, for which the benefit payable will be recalculated to determine whether the amount paid was in accordance with DWP guidelines and welfare legislation. 	<p>Our sample testing has identified a number of misclassification and claim period errors . In our assessment these do not have a significant impact on the welfare expenditure balance in the accounts, or the Council's financial position.</p> <p>We will carry out further testing of the areas where we have found errors as part of the certification work for the 2013/14 Housing Benefit Subsidy return.</p>
Housing Rent Revenue Account	Revenue transactions not recorded	<p>We have:</p> <ul style="list-style-type: none"> performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding tested a sample of items of revenue to gain assurance that expenditure has been correctly classified and for occurrence and allocation. reviewed large and unusual items and test a sample of these. 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	PPE activity not valid	<p>We have:</p> <ul style="list-style-type: none"> performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding reviewed in-year additions and disposals to gain assurance that they have been correctly accounted for in the financial statements. performed existence testing on a sample of assets to verify their existence and completeness of the Council's fixed asset register. 	Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	Revaluation measurement not correct	<p>We have:</p> <ul style="list-style-type: none"> performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding reviewed the work performed by internal and external valuation specialists - including ensuring that all valuations undertaken have been completed in accordance with the requirements of the appropriate accounting and professional standards. reviewed the Council's fixed asset register to ensure that revised valuations have been correctly accounted for in the financial statements. 	<p>We identified the following issues:</p> <ul style="list-style-type: none"> In Note 11, the disposal value of council dwellings of £2,075k is at vacant possession value, and not the carrying value of £664k, an overstatement of £1,411k. The items should have been transferred to Current Assets Held For Sale at the latter amount before accounting for the disposal. Revaluations and Restatements are similarly overstated by £1,411k. The net effect of these overstatements is nil. We comment on the Council's compliance with CIPFA Code requirements on valuations in the next section.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue recognition policies are set out at Note 1 to the accounts 	<ul style="list-style-type: none"> Revenue recognition policies are adequately disclosed in the financial statements. In our audit we did not identify any areas of non compliance with the revenue recognition policy, nor did we identify any areas of significant judgement in the application of the policy. 	Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include <ul style="list-style-type: none"> useful life of capital equipment pension fund valuations revaluations impairments provisions 	<ul style="list-style-type: none"> The Council sets out its policies on judgements and estimates in Note 1 to the accounts. We reviewed these policies and concluded they were reasonable. Like most local authorities the Council adopts a cyclical approach to revaluing its assets. Assets in the class "Land and Buildings" are therefore not all revalued in the same financial year, and in this respect the Council does not comply with IAS16. This is fully disclosed in the Council's accounting policies. With this exception the Council's accounting policies are consistent with the CIPFA Code of Practice on Local Authority Accounting. We did not identify any instances of non compliance with those policies. The 2013/14 Code of Practice on Local Authority Accounting has clarified the requirements for valuing Property, Plant and Equipment (PPE), confirming that revaluations must be "sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period." We considered the Council's process for estimating the carrying value of those assets not subject to external revaluation in 2013/14. We concluded that the carrying value of those assets was not materially misstated. Under the new accounting framework for business rates introduced in 2013/14 billing authorities are required to estimate a provision for business rate appeals. The value of this provision in the accounts at 31 March 2014 was £508k. The Council has not provided for potential future appeals, as it considers that a reliable estimate cannot be made and therefore has not calculated an amount. For this element, the Council has disclosed a contingent liability. We have concluded that the Council's provision is not materially misstated. 	Green

Assessment

Red Marginal accounting policy which could potentially attract attention from regulators

Amber Accounting policy appropriate but scope for improved disclosure

Green Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review has not highlighted any issues which we need to bring to your attention. 	Green

Assessment

Red Marginal accounting policy which could potentially attract attention from regulators

Amber Accounting policy appropriate but scope for improved disclosure

Green Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000
1 Financing and Investment Income and Expenditure: Actual Return on Pension Scheme assets of (£4,433k) removed from 'Pensions Interest cost and expected return on pensions assets' in Note 9 to ensure internal consistency with Note 39.*	4,433	
2 Actuarial (gains) / losses on pensions assets / liabilities Above figure included in this line for same reason as above.*	(4,433)	
3 Note 11, Property, Plant and Equipment – restate disposal of council dwellings at carrying value		2,075
4 Note 11, Property, Plant and Equipment – restate revaluation and restatements of council dwellings		(1,411)
5 Note 11, Property, Plant and Equipment – transfer carrying value of council dwelling disposals to Current Assets Held for Sale		(664)
6 Note 20, Current Assets Held for Sale – transfer of carrying value of council dwellings disposals		664
7 Note 20, Current Assets Held for Sale – revaluation of council dwellings on disposal		1411
8 Note 20, Current Assets Held for Sale – council dwelling disposals		(2,075)
Overall impact	-	-

* Equivalent changes have been made to 2012/13 comparator amounts.

Misclassifications & 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	6,027	Current Liabilities – Grant Receipts in Advance: correction of items misclassified as Long Term Liabilities.	No financial impact. Long Term Grant Receipts in Advance correspondingly reduced.
2 Misclassification	1,547	Long Term Liabilities – Grant Receipts in Advance: correction of items misclassified as Current Liabilities.	As above.
3 Disclosure	7,619	Note 39: Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement*	Presentational changes made to comply with changes to the CIPFA Code. No financial impact.
4 Disclosure	(7,712)	Note 39: Reversal of net charges made to the Surplus or Deficit on the Provision of Services*	
5 Disclosure	4,662	Note 39: Actual amount charged against the General Fund balance for pensions in the year*	
6 Disclosure	N/a	Note 41: Contingent liabilities – disclosure re unlogged business rates appeals.*	No financial impact.

* Equivalent changes have been made to 2012/13 comparator amounts.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. 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.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	Amber	<p>Lack of user access rights review – Network</p> <ul style="list-style-type: none"> A review of user management processes identified that user accounts and associated permissions within network and network folders were not being routinely reviewed for appropriateness. In the absence of formalised users access rights reviews, access to information resources and system functionality may not be restricted on the basis of legitimate business need. Users access rights may become disproportionate to their responsibilities. 	<ul style="list-style-type: none"> We recommend that formal reviews be undertaken of user access permissions (including the network folders) and when changes are made to user accounts to help identify anomalies and ensure that access is granted on the basis of a user's level of responsibility. This will ensure that access rights are proportionate to users responsibilities and protect systems and information from unauthorised access.
2.	Amber	<p>Weak Password Access Settings</p> <ul style="list-style-type: none"> The password expiry is set to 90 days for Network, Efinancials and Civica, and minimum required password length is set 6 characters for Civica. As the password parameters are not configured as per the recommended best practice, there is an increased risk of unauthorised access to network, Efinancials & Civica which could affect the integrity of financial data. 	<p>Management should consider implementing stronger logical access settings for systems and applications. Generally accepted good practice would be:</p> <ul style="list-style-type: none"> password rotation (between 30-60 days) password complexity or strong passwords minimum password length of 8 characters account lockout after 3 failed attempts no password re-use.

Assessment

Red Significant deficiency – risk of significant misstatement

Amber Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Governance and Audit 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]
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council. In particular, representations will be requested from management in respect of the development agreement for the Pleasurama site.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

3. Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

The Council continues to demonstrate good arrangements for managing its finances. It has achieved the savings required in its 2013/14 budget whilst at the same time achieving an increase of £1.8m in usable reserves. The updated Medium Term Financial Plan projects a balanced financial position through to 2017/18., albeit this is dependent upon budget reductions of over £1m per annum.

During 2013/14 the behaviour of some Members, as documented in the April 2014 Corporate Peer Challenge, fell below acceptable standards. As a consequence we are unable to conclude that, during 2013/14, the Council had adequate arrangements for promoting and demonstrating the principles and values of good governance.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

We have reviewed whether the Council has prioritised its resources to take account of the financial constraints it continues to operate within. Although significant savings have been achieved, the behaviours reported above, if not addressed, have the potential to undermine the Council leadership's efforts to prioritise scarce resources and realise further efficiency gains.

Overall VFM conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, with the exception of the matter reported above, we are satisfied that in all significant respects Thanet District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Value for Money (cont.)

Proper arrangements for securing economy, efficiency and effectiveness in the use of resources.

As set out in the Audit Commission Code of Audit Practice, it is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control.

The arrangements specified by the Audit Commission include promoting and demonstrating the principles and values of good governance.

In line with good practice, during 2013/14 the Council invited the Local Government Association (LGA) to carry out a Corporate Peer Challenge (CPC), which reported in April 2014. The CPC's report included the following findings:

- '...the continuing behaviours of politicians have only reinforced the negative impressions which people have of the council.'
- '... you have not addressed some behaviours which we described as 'toxic'. We found examples of antagonism, hostility, homophobia and discourtesy in the way that some councillors behave.'
- 'There is an unwillingness to respect the confidentiality of some aspects of council business which are appropriately confidential.'
- 'In our view your staff should not have to work in the environment some current member behaviour is putting them in. These issues are having a serious destabilising effect of the working of the council.'
- 'An improved reputation built on new standards of behaviour is the most important challenge you face.'

These independent findings raise serious issues that impact on our assessment of the effectiveness of the Council's governance, as a key element of its arrangements for value for money in the use of resources.

The Council has taken a number of measures since the CPC report was issued to address the issues raised, including:

- The establishment of an Improvement Board, which has LGA support, an Independent Chair and includes other external members as well as senior Members from across the Council.
- An equalities training programme for councillors has been agreed with the LGA and is under way.
- An Independent Chair and Vice-Chair of the Standards Committee have been appointed and trained.

This represents good progress, and we commend the actions of the Acting Chief Executive, Interim Director of Corporate Services and the Interim Monitoring Officer in the proactive and positive approach taken to date in responding to the CPC Report. We also note the improved level of respect and collaboration in the conduct of Council business now being adopted by senior Members from across the Council.

Recommendation: Whilst the Council has made a good start in responding to the Corporate Peer Challenge, it is vital that it continues to respond proactively to the issues raised in the April 2014 report, so that it can clearly evidence that the principles of good governance have been re-established across the Council.

Assessment against Audit Commission criteria

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
Key indicators of performance	The Council achieved a balanced position on the General Fund budget and a surplus of £2.7m on the Housing Revenue Account. Audit Commission financial resilience indicators demonstrate generally good financial health.	Green
Strategic financial planning	The Council has updated its Medium Term Financial Strategy and identified budget reductions over the next 4 years that result in a projected balanced position on the General Fund through to 2017/18. Surpluses of £6m - £9m are projected for the HRA over the same period. The Capital programme is focused on essential schemes that either meet statutory obligations, or generate savings.	Green
Financial governance	The essential elements of financial governance have been maintained, as reflected in the positive comments in the CPC: '... you have a robust medium term strategy and that you can have confidence in the way your finances are managed. Moreover, arrangements to ensure productive Member engagement have been strengthened in response to the recent CPC report. However, these need time to take full effect, and inappropriate Member behaviour still has the potential to impact significantly on effective financial governance, by damaging the reputation of the Council and diverting its focus from the key challenges it faces.'	Amber
Financial control	Budget setting and monitoring continue to be effective, as evidenced by the Council's financial performance in 2013/14.	Green
Prioritising resources	Sound arrangements for challenging economy, efficiency and effectiveness are in place and have delivered significant savings to date. However, the financial position going forward remains extremely challenging, with budget reductions averaging £1.2m a year planned up until 2017/18.	Amber
Improving efficiency & productivity		Amber

Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	87,945	88,845*
Grant certification	35,280	TBC**
Total audit fees	123,225	TBC**

* The Audit Commission has increased scale fees by £900 for District Councils to reflect the additional work required on business rates following the introduction of the local retention arrangements.

** The final fee for grant certification will be confirmed in our Annual Audit Letter following completion of the certification work.

Fees for other services

Service	Fees £
None	Nil

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we 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 Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

Red

Significant deficiency – risk of significant misstatement

Amber

Deficiency – risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Whilst the Council has made a good start in responding to the Corporate Peer Challenge, it is vital that it continues to respond proactively to the issues raised in the April 2014 report, so that it can clearly evidence that the principles of good governance have been re-established across the Council.	Red	The peer review recommendations are being taken forward urgently, working with the Improvement Board. In the area of member behaviour the Council Members intend to demonstrate respect for the views of others; professional debate and willingness to listen to contrary opinions; and respect for the advice of statutory officers.	By March 2015 Leader of the Council and Chief Executive.
2	Formal reviews should be undertaken of user access permissions (including the network folders) and when changes are made to user accounts to help identify anomalies and ensure that access is granted on the basis of a user's level of responsibility. This will ensure that access rights are proportionate to users responsibilities and protect systems and information from unauthorised access.	Amber	Access controls are in place, but there is always scope to strengthen these as required. These audit findings have been referred to Internal Audit for a thorough review of user access. The findings of that Internal Audit review will be actioned to ensure effective controls are in place.	By December 2014 Director of Corporate Resources
3	Management should consider implementing stronger logical access settings for systems and applications.	Amber		

Appendix B: Audit opinion

We anticipate we will provide the Council with a unmodified audit report on the accounts. For the reasons set out in the Value for Money section, the Value for Money conclusion is modified.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THANET DISTRICT COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Thanet District Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. 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 2013/14.

This report is made solely to the members of Thanet District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

Respective responsibilities of the Strategic Director Resources and auditor

As explained more fully in the Statement of the Strategic Director's (Chief Financial Officer's) Responsibilities, the Strategic Director (Chief Financial Officer) 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have

been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Thanet District Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Basis of qualified conclusion

In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other independent reviewers.

In April 2014 the Council requested a corporate peer challenge (CPC) which was conducted by the Local Government Association.

Matters reported by the CPC lead us to conclude that the Council's arrangements for promoting and demonstrating the principles and values of good governance are inadequate.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects Thanet District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Certificate

We certify that we have completed the audit of the financial statements of Thanet District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andy Mack
 Director
 for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
 Melton Street
 Euston Square
 London
 NW1 2EP

September 2014



© 2014 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk