

# The Audit Findings Report for Thanet District Council

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**Year ended 31 March 2016**

20<sup>th</sup> September 2016

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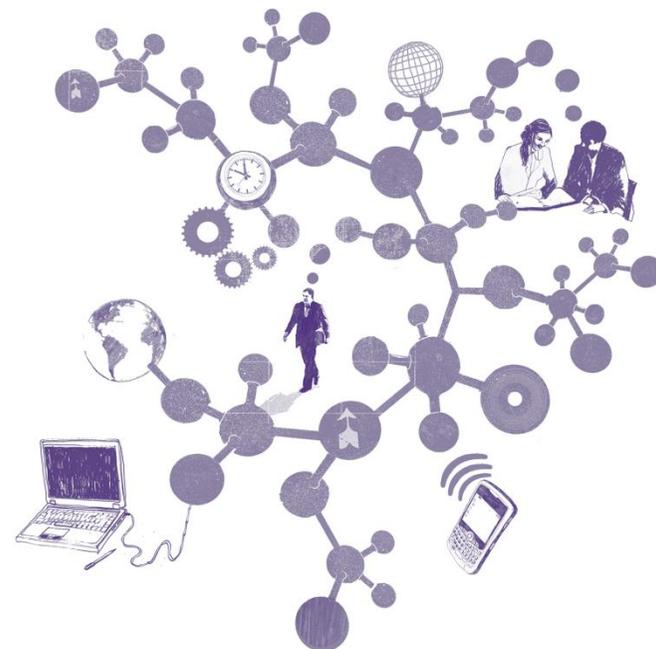
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20th September 2016

Dear Members of the Governance and Audit Committee

**Audit Findings for Thanet District Council for the year ending 31 March 2016**

This Audit Findings report highlights the key findings arising from the audit for the benefit of the Governance and Audit Committee (as those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with Management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

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 and giving a value for money conclusion. 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.

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

Yours sincerely

Darren Wells  
Engagement Lead

**Chartered Accountants**

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- B Audit Opinion

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# 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

## Purpose of this report

This report highlights the key issues affecting the results of Thanet District Council ('the Council') financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 15<sup>th</sup> March 2016.

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

- completion of our work on the Council's Housing Benefit Subsidy Return for accounts purposes;
- our final internal quality reviews;
- obtaining and reviewing the management letter of representation;
- updating our post balance sheet events review, to the date of signing the opinion;
- Whole of Government Accounts.

## Key audit and financial reporting issues

### Financial statements opinion

We have identified one adjustment affecting the Council's reported financial position (details are recorded in section two of this report), which the Council has decided not to amend, and hence is reported as an unadjusted misstatement. The draft financial statements for the year ended 31 March 2016 recorded net

income of £34,478k; the audited financial statements shows the same. We have recommended a number of adjustments to improve the presentation of the financial statements

The key messages arising from our audit of the Council's financial statements are:

- The quality of the draft statements presented for audit was good. Only a few minor amendments have been identified from the audit work performed.
- We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with an agreed timetable. The Council has responded promptly to queries raised during the course of the audit.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### **Other financial statement responsibilities**

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

We have nothing to report in respect of any of these areas.

## **Controls**

### **Roles and responsibilities**

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.

### **Findings**

We draw your attention in particular to control issues identified in relation to:

- the Council's accounting for operating expenses accruals
- the allocation of revaluation gains in respect of Council Dwellings

Further details are provided within section two of this report.

### **Value for Money**

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. However several recommendations have been raised, details of which can be seen within Section 3 of the Report.

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

### **Other statutory powers and duties**

We have received three objections to the 2015/16 accounts which we are currently considering. We cannot certify the closure of the audit and issue an audit certificate until our review of the objections is completed.

### **Grant certification**

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Governance and Audit Committee which is due in March 2017.

### **The way forward**

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Corporate Resources and Section 151 Officer.

### **Acknowledgement**

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 2016**

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## Section 2: Audit findings

01. Executive summary

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# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £2,699k (being 2% of prior year gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £134k. This remains the same as reported in our audit plan.

# 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 (UK&I) 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><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Thanet District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Thanet District Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>As part of our audit work we have completed the following:</p> <ul style="list-style-type: none"> <li>• review of the Council's revenue recognition policies</li> <li>• testing of material revenue streams received by the Council during the year.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have performed the following work:</p> <ul style="list-style-type: none"> <li>• review of accounting estimates, judgments and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We were not made aware of nor identified any unusual transactions.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</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
<b>Employee remuneration</b>	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding.</li> <li>• We have performed a review of the year-end reconciliation of the payroll system to the General Ledger.</li> <li>• A high level trend analysis has been performed on the monthly employee remuneration totals to provide assurance over the completeness of the figures included within the Financial Statements.</li> <li>• Sample testing has also been performed on the employee remuneration expenditure incurred during the year by the Council, including agreement back to relevant supporting documentation.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• Performed a review of the year-end reconciliation of your Accounts Payable system to the General Ledger to provide assurance over the completeness of operating expenditure recorded within the Financial Statements.</li> <li>• Sample tested post-period end payments to identify any items which have been potentially omitted from the Financial Statements.</li> <li>• In year expenditure incurred by the Council substantively tested.</li> <li>• Amounts remaining outstanding at year end were tested to ensure they had been appropriately recorded as liabilities within the Financial Statements.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

# Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• Detailed testing has been performed on the expenditure included within the draft Housing Benefit Subsidy claim.</li> <li>• We have performed sample testing of Local Council Tax Support cases to ensure expenditure in relation to these cases has been correctly calculated for inclusion with the Financial Statements.</li> <li>• Finally, a high level analytical review has been performed on the figures within the draft Housing Benefit Subsidy claim in order to identify any significant variances requiring explanation.</li> </ul>	Our audit work to date has not identified any significant issues in relation to the risk identified, however we will provide the Committee with an update should any issues be identified.
<b>Valuation of pension fund net liability</b>	The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• We have reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out.</li> <li>• Undertaken procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> <li>• We have also tested the data provided to the actuary.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified

# Accounting policies, estimates and 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
<p><b>Revenue recognition</b></p>	<p>The Council's revenue recognition policy is disclosed within Note 1 of the Accounts, within Accounting Policies, and covers each of the main areas of revenue received by the Council, including revenue received from the sale of goods, the provision of services along with how revenue is recognised for the non-exchange transactions such as Council Tax and Business Rates.</p>	<p>Following the work performed we are satisfied that the Council's revenue recognition policies are in line with the requirements of the CIPFA Code with the exception of the policy around non-exchange transactions (Council Tax, National Non-Domestic Rates and Housing Revenue Account Transactions), which the Council has agreed to enhance to make this area clear within the Accounts.</p> <p>Our testing of your various revenue sources did not identify any instances of inappropriate revenue recognition.</p>	<p style="text-align: center;">● <b>Amber</b></p>
<p><b>Judgements and estimates</b></p>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>• Useful life of capital equipment</li> <li>• Pension fund valuations and settlements</li> <li>• Impairments</li> <li>• PPE revaluations</li> <li>• Depreciation</li> <li>• Bad debt provisions</li> <li>• Business rate appeals</li> </ul> </li> </ul>	<p>Your critical judgements and estimation uncertainties are disclosed within Notes 3 and 4 of the financial statements, and are in line with the requirements of the CIPFA Code. Following our work in this area the Council have now agreed to add a disclosure around the valuation of Dreamland Amusement Park given this is an area of considerable judgement which has been exercised by the Council. No other issues were identified.</p> <p>In terms of detailed testing, we have performed work on the Council's adoption of IFRS13 in respect of their PPE Valuations, and we are satisfied with how this has been applied within the Accounts. We have also reviewed your Business Rate Appeals provision and again we are satisfied with the approach taken in this area.</p>	<p style="text-align: center;">● <b>Amber</b></p>

**Assessment**

● **Red** - Marginal accounting policy which could potentially attract attention from regulators disclosures sufficient

● **Amber** - Accounting policy appropriate but scope for improved disclosure

● **Green** - Accounting policy appropriate and

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going Concern</b>	The Director of Corporate Responsibilities and s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed management's assessment and concur that the going concern basis is appropriate for the 2015/16 financial statements preparation.	 <b>Green</b>
<b>Other accounting policies</b>		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	 <b>Green</b>

**Assessment**

● **Red** - Marginal accounting policy which could potentially attract attention from regulators disclosures sufficient

● **Amber** - Accounting policy appropriate but scope for improved disclosure

● **Green** - Accounting policy appropriate and

# 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
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>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 procedures</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We have obtained direct confirmations from all of the Council's Banks, Investment and Borrowing Counterparties for the balances included within the Accounts.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review identified a number of disclosures which required amendment or expansion, and Management agreed to amend all of the items identified.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas</li> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.</li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> <li>Note that work is not required as the Council does not exceed the threshold</li> </ul>

# 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. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses, Welfare Expenditure and the Valuation of the Pension Fund Net Liability as set out on pages 11 and 12 preceding this page.

The matters that we identified during the course of our audit are set out in the table below. 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><b>Accounting for Operating Expenses Accruals</b></p> <p>During our testing of operating expenses accruals at year end we identified two accruals where you were unable to provide supporting documentation for the items selected for testing which agreed to the amount tested, and a third item where an accrual had been made in year but subsequently had not been reversed out when the item was paid. The Council needs to ensure supporting documentation is retained for all accruals to support their validity, and also to ensure these are correctly reversed out when paid to ensure the accruals balance is fairly stated at year end.</p>	<p>The Council should look to strengthen procedures around accruals during the year to ensure they are all supported by valid documentation and that all accruals which are paid are reversed out in a timely manner to ensure the position during the year is correctly stated, including the balance at year end.</p>
2	 Amber	<p><b>Allocation of Revaluation Gains on Council Dwellings</b></p> <p>Our testing in this area has identified that the Council is currently holding the revaluation gains from this year's revaluation as a lump sum on the Asset Register as opposed to allocating these on an asset-by-asset basis. Thus there is a risk that the Council may incorrectly allocate future revaluation movements against either the Revaluation Reserve or the Comprehensive Income and Expenditure Statement as they are not aware of the correct Revaluation Reserve balance for each property.</p>	<p>The Council should ensure all revaluation gains are allocated to individual properties so any further revaluation movements, either upward or downward are charged to the correct place in the Accounts.</p>

**Assessment**

-  Red Significant deficiency – risk of significant misstatement
-  Amber Deficiency – risk of inconsequential misstatement

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.

# Unadjusted misstatements

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

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
<b>1 Transfer of Council Dwellings to Assets under Construction (AUC) – Gross Book Value including Additions and Accumulated Depreciation</b> <ul style="list-style-type: none"> <li>- AUC (Opening Gross Book Value)</li> <li>- Council Dwellings (Opening Gross Book Value)</li> <li>- AUC Additions</li> <li>- Council Dwellings Additions</li> <li>- AUC Accumulated Depreciation</li> <li>- Council Dwellings Depreciation</li> </ul>		1,859 (1,859) 1,314 (1,314) 120 (120)	Response from Thanet DC:  The CIPFA Local Authority Capital Accounting Reference Manual states that 'categorisation hinges on the readiness of the asset for use (not the readiness of the authority to use it or the project's financial completion)'. Following a review of the HRA properties in question, we feel that these assets are ready for use (being purchased rather than constructed) but just not ready for use in the way that the Council intends to use them as council dwellings, as the conversions were not complete at the year-end. Accordingly, we view the conversions to be 'change of use' rather than Assets Under Construction (AUC). The properties are being converted to meet social housing needs rather than being demolished and rebuilt and accordingly we have classified them as HRA OLB not AUC.
<b>2 Reversal of in year Depreciation Charge in respect of Council Dwellings above</b> <ul style="list-style-type: none"> <li>- Accumulated Depreciation</li> <li>- Depreciation Charge to the CIES</li> <li>- General Fund</li> <li>- Capital Adjustment Account</li> </ul>	(137)	137 137 (137)	

## Misclassifications 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	n/a	Note 3 – Critical Judgements in applying Accounting Policies	Given the critical judgement made by the Council over the classification of Dreamland as an Heritage Asset, the Council has added some rationale over this judgement within the Note in the Accounts.
2 Disclosure	n/a	Note 3 – Critical Judgements in applying Accounting Policies	We also identified that the Council had incorrectly excluded the Port from its sense check on in-year asset movements, and the Council has now reconsidered this area and revised the narrative in Note 3 to reflect this change.
3 Disclosure	n/a	Note 3 – Critical Judgements in applying Accounting Policies	Thirdly, we identified that the Council had failed to disclose the judgement that had been made around the immaterial movement of their Investment Property during the 2015/16 financial year, which has now also been added to this note.

A number of other minor disclosure amendments have been made to the draft accounts to help improve the transparency of the information included within the Accounts, but given the minor nature of these they have not been listed individually.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

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## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in February 2016 and identified a number of significant risks, which we communicated to you in our Audit Plan dated 14 April 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

### Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- **Dreamland project:** The Council has had to increase the budget for this major regeneration project by £1.2m across 2015/16 and 2016/17, against a background of significant risk with the site operator having gone into administration.
- **Medium term financial plan:** The local government settlement placed further pressure on the Council's finances and the Council's medium term financial plan includes the need for significant savings over the next four years.
- **HRA Business Plan:** The rent reduction required by central government will reduce HRA income by £4.5 million over the next 4 years. This will have a significant impact on the HRA Business Plan.
- **Corporate Peer Challenge:** The Council has done much to address the findings of the LGA Corporate Peer Challenge in April 2014 regarding Member behaviour. This work needs to continue to ensure there is no recurrence of these issues.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

### Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this, can be found at Appendix B.

### Recommendations for improvement

We discussed findings arising from our work with management and have agreed three recommendations for improvement, which can be seen along with Management's response within the Action Plan which can be found at Appendix A.

### Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

### Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

### Any other matters

We have received a number of objections on matters that relate to the risks we have identified above. However we are satisfied that the outcome of our enquiries in respect of these objections will not have an impact on the planned conclusion on the Council's arrangements for delivering economy, efficiency and effectiveness during 2015/16.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment, which has remained unchanged.

Significant risk	Work to address	Findings and conclusions
<p><b>Dreamland project</b> The Council has had to increase the budget for this major regeneration project by £1.2m across 2015/16 and 2016/17, against a background of significant risk with the site operator having gone into administration.</p>	<p>We reviewed the Council's arrangements for managing the Dreamland project to ensure it meets its objectives and is delivered within budget.</p>	<p>The Council has a significant financial investment in the Dreamland project. It is taking reasonable measures to protect itself against the possibility of operator failure, and has plans and funding in place to see the capital scheme through to completion. The long term viability of the theme park may be open to question, however, and the Council should ensure that this is borne fully in mind when reaching decisions regarding the application of any further public funds to the scheme.</p> <p><b>Recommendation:</b></p> <ul style="list-style-type: none"> <li>Continue to monitor closely the costs of the Dreamland scheme and the performance of the operator, ensuring that any further commitment of public funds is supported by clear evidence of the scheme's sustainability.</li> </ul>
<p><b>Medium term financial plan</b> The local government settlement has placed further pressure on the Council's finances and the Council's medium term financial plan includes the need for significant savings over the next four years.</p>	<p>We reviewed the Council's plans to deliver savings over the course of the medium term financial plan.</p>	<p>The Council has a range of savings schemes under continuous development and has reported achievement of £1.2m savings in 2015/16. At the same time there has been a £4m reduction in earmarked revenue reserves. The compensation payments made in year of £2.4m relating to the animal exports ban of September 2012 were a significant element behind this movement. Looking ahead, the Council has increased its estimated savings requirement for 2017/18 from £0.9m to £1.2m. With General Fund earmarked reserves having reduced to £6.2m as at 31 March 2016, the Council needs to avoid any further deterioration on the scale that occurred during 2015/16.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>Ensure that the risk of further compensation payments has been realistically assessed and provided for in forward financial planning.</li> <li>Consider the development of cost savings and income generation in excess of the estimated funding gap to cover the possibility of unforeseen additional financial pressures such as the animal exports compensation payments.</li> </ul>

Significant risk	Work to address	Findings and conclusions
<p><b>HRA Business Plan</b> The forthcoming rent reduction required by central government will reduce HRA income by £4.5 million over the next 4 years. This will have a significant impact on the HRA Business Plan.</p>	<p>We updated our understanding of the Council's HRA business planning.</p>	<p>The Council has implemented the 1% reduction and taken adequate measures to manage its effects and remain in overall surplus. The primary effect has been to curtail the Council's plans for building new properties.</p>
<p><b>Corporate Peer Challenge</b> The Council has done much to address the findings of the LGA Corporate Peer Challenge in April 2014 regarding Member behaviour. This work needs to continue to ensure there is no recurrence of these issues.</p>	<p>We reviewed the outcome of the forthcoming follow up to the Corporate Peer Challenge and the Council's continuing progress in addressing the findings of the original report.</p>	<p>In its follow up review LGA was satisfied that the issues that gave rise to its highly critical report of April 2014, and our subsequent qualification of the 2013/14 VFM conclusion have now been fully addressed.</p>

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## 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

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

### Fees

	Proposed fee £	Final fee £
Council audit	66,296	66,296
Grant certification	20,770	TBC
<b>Total audit fees (excluding VAT)</b>	<b>87,066</b>	<b>TBC</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

### Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

### Fees for other services

Service	Fees £
<b>Audit related services</b>	<b>17,990</b>
- Assessment of the Empty Property Intervention Programme (Grant Funding from HCA)	
<b>Non-audit services</b>	Nil

### Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

### 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.

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## 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 to those charged with governance

International Standards on Auditing ISA (UK&I) 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
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		✓
Non compliance with laws and regulations		✓
Expected modifications to 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

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should look to strengthen procedures around accruals during the year to ensure they are all supported by valid documentation and that all accruals which are paid are reversed out in a timely manner to ensure the position during the year is correctly stated, including the balance at year end.	Medium	Whilst moving towards earlier close down, Management within Finance and Procurement will work together during the year to deliver comprehensive training to cover all aspects of accruals to include all areas of the Authority's accounts, in order to minimise the potential impact of failure to recognise expenditure in the appropriate year and at the appropriate level.	December 2016 to March 2017 Head of Financial Services
2	The Council should ensure all revaluation gains are allocated to individual properties so any further revaluation movements, either upward or downward are charged to the correct place in the Accounts.	Medium	Financial Services will review accounts starting from 2010 to ensure the relevant revaluation balances are recorded to facilitate this work from 2016/17 onward.	Information will be available in readiness of the 2016/17 Accounts. Head of Financial Services
3	The Council should continue to monitor closely the costs of the Dreamland scheme and the performance of the operator, ensuring that any further commitment of public funds is supported by clear evidence of the scheme's sustainability.	Medium	Whilst the Council has no direct control over the day to day operations of the Dreamland theme park, it exercises close strategic control and constantly monitors risks. It is also seeking to exploit any opportunities to enhance the offer across the whole site, whilst reducing exposure to risk. There are revised project management arrangements in place that will help monitor costs and ensure sustainability.	On-going Director of Corporate Resources

## Appendix A: Action plan (continued)

### Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	The Council needs to ensure that the risk of further compensation payments has been realistically assessed and provided for in forward financial planning	Medium	The Council has sought and obtained legal advice on the likelihood of future claims in respect of live animal exports. It has made appropriate provisions on the basis of this advice.	On-going Director of Corporate Resources
5	Going forward, cost savings and income generation need to be developed in excess of the estimated funding gap to help cover the possibility of unforeseen additional financial pressures such as the animal exports compensation payments.	Medium	The Medium Term Financial Strategy will take a prudent approach to addressing the budget gap and identify deliverable, sustainable cost savings and income generation. Steps will be taken to replenish reserves where possible to help manage the known and unknown financial risks.	On-going Director of Corporate Resources

# Appendix B: Audit opinion

## We anticipate we will provide the Council with an unmodified audit report

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

We have audited the financial statements of Thanet District Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). 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, the 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 2015/16.

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

#### Respective responsibilities of the Corporate Resources & Section 151 Officer and auditor

As explained more fully in the Statement of the Director of Corporate Resources and Section 151 Officer's Responsibilities, the Director of Corporate Resources & Section 151 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 2015/16, which 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 Corporate Resources & Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement 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:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

### Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

### Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

### Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

#### Respective responsibilities of the Authority and 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 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## Appendix B: Audit opinion (continued)

### We anticipate we will provide the Council with an unmodified audit report

#### Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

#### Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

#### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2016 in accordance until we have completed our consideration of formal objections brought to our attention by local government electors under Section 27 of the Act. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

Darren Wells  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Fleming Way  
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xx September 2016



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