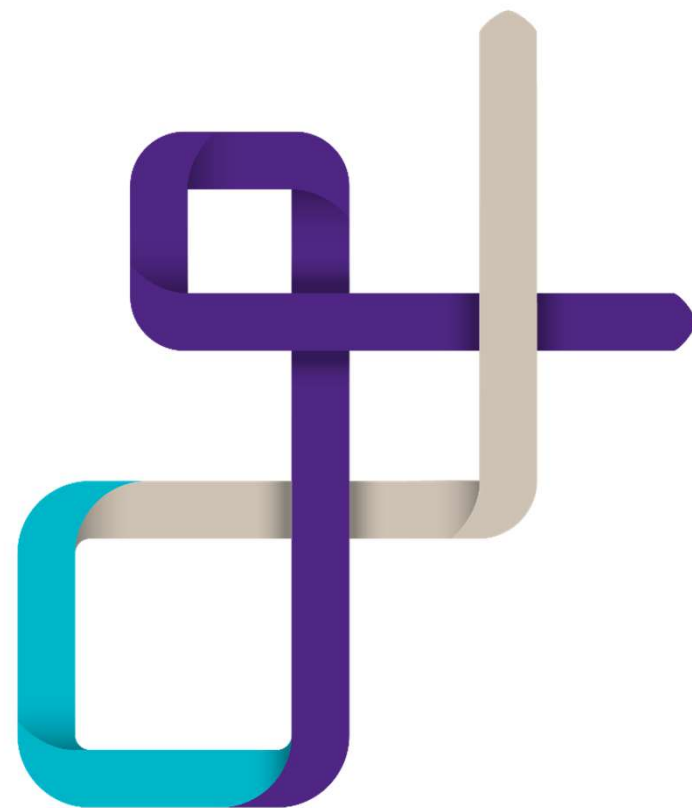


Audit Findings Report

Year ending 31 March 2018

Thanet District Council

25 July 2018



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key issues arising from the statutory audit of Thanet District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for the Governance and Audit Committee as those charged with governance.

Financial Statements	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, andhave been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 12. To date we have not identified any amendments to the overall financial position reported within the Statement of Comprehensive Income and Expenditure, although some presentation changes have been made to this Statement.</p> <p>A number of other audit adjustments have been identified and are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance and Audit Committee meeting on 25 July 2018, as detailed in Appendix E. These outstanding items include:</p> <ul style="list-style-type: none">completion of our work in a few minor areas (more details on the following page);completion of our internal quality review process;receipt of management representation letter;review of the final set of financial statements and Annual Governance Statement. <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Thanet District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 13 to 16.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">report to you if we have applied any of the additional powers and duties ascribed to us under the Act; andcertify the closure of the audit	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

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.

Summary

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the Council's internal controls environment including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance and Audit Committee meeting on 25 July 2018, as detailed in Appendix E. These outstanding items include:

- completion of our testing in the following areas: Employee Remuneration, including the Local Government Pension Scheme, Housing Benefit Expenditure, Financial Instruments
- completion of our internal quality review process;
- receipt of management representation letter;
- review of the final set of financial statements and Annual Governance Statement.

Our approach to Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our assessment of materiality and related measures has been adjusted to reflect the change in Gross Expenditure in 2017/18, when compared to the spend incurred in the previous year. This change was largely due to the transfer of functions provided by East Kent Services to Civica in February 2018, and the impact of the transfer of the related Pensions Liability as well. We detail in the table below our assessment of materiality for Thanet District Council.

	Council Amount (£) – Planning Stage	Council Amount (£) – Final Accounts	Qualitative factors considered
Materiality for the financial statements	£2.579m	£2.231m	As mentioned above, the value of our overall Materiality threshold decreased from the planning stage to the final Accounts stage due to the decrease in expenditure incurred during the course of the year.
Performance materiality	£1.934m	£1.673m	Performance Materiality is based on a percentage of the overall materiality, hence an decrease in this value has decreased Performance Materiality in line with this.
Trivial matters	£128,950	£111,000	As above, Triviality is based on a percentage of the overall materiality, hence an decrease in this value has decreased Triviality in line with this.
Materiality for specific transactions, balances or disclosures	£500k for Cash and Cash Equivalents	£500k for Cash and Cash Equivalents	As at the Planning Stage, no specific materialities have been set for the purposes of our work in 2017-18.

Significant audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Auditor commentary

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:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited;
- The culture and ethical frameworks of local authorities, including Thanet District Council, mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk for Thanet District Council.

To support this assessment, we have completed the following work in respect of this risk:

- reviewed and tested the Council's revenue recognition policies;
- performed testing on material revenue streams.

Our audit work has not identified any significant issues in relation to the risk identified.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

We have undertaken the following work in relation to this risk:

- gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness;
- obtained a full listing of journal entries, identify and test unusual journal entries for appropriateness;
- evaluated the rationale for any changes in accounting policies or significant unusual transactions.

Our audit work has not identified any significant issues in relation to the risk identified.

Significant audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of property, plant and equipment

The Council revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from current or fair value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

Auditor commentary

We have undertaken the following work in relation to this risk:

- reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- considered the competence, expertise and objectivity of any management experts used;
- discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions;
- reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding;
- tested revaluations made during the year to ensure they are input correctly into the Council's asset register; and
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

The work completed to date has not identified any issues in respect of this area. Should any issues be identified from our outstanding work, then we will provide an update to Management and the Committee.

4

Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

Auditor commentary

We have undertaken the following work in relation to this risk:

- 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;
- Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have also gained an understanding of the basis on which the valuation is carried out;
- Undertaken procedures to confirm the reasonableness of the actuarial assumptions made;
- Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

The work completed to date in this area has not identified any issues in respect of this area. Should any issues be identified from our outstanding work, then we will provide an update to Management and the Committee.

Reasonably possible audit risks

Risks identified in our Audit Plan

Commentary

5

Employee remuneration

Payroll expenditure represents a significant percentage (13%) of the Council's operating expenses.

As the payroll expenditure comes from a number of individual transactions and an interface with a sub-system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.

Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness;
- gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls;
- agreed that payroll costs are complete within the financial statements via review of the reconciliations between the payroll system and the General Ledger; and
- We have obtained assurances via detailed analytics to ensure that pay included within the accounts is materially complete. Given we were able to obtain this assurance, we did not need to undertake detailed testing in this area.

Our audit work completed to date has not identified any significant issues in relation to the risk identified. Should any issues be identified from our outstanding work, then we will provide an update to Management and the Committee.

6

Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage (70%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non-pay expenses as a risk requiring particular audit attention:


Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;
- gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls;
- performed detailed substantive testing on operating expenditure recorded for the financial year; and
- tested operating expenditure to ensure cut-off has been correctly applied.

Our audit work has not identified any significant issues in relation to the risk identified.



Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	<ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> – Useful life of Property, plant and equipment – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Provision for Business Rate appeals – Other provisions 	<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.</p> <ul style="list-style-type: none"> • Ahead of the Final Accounts Audit starting, the Council identified that it had omitted £1.339m of Depreciation from the draft Accounts, This has now been subsequently included within the revised Accounts, which reduces the Council's Surplus on Provision of Services but does not affect the final overall financial position at the end of 2017-18. • We did not identify any significant issues with the items relating to property, plant and equipment, the asset lives applied, or the revaluations applied by the Council during the course of the year. • We note that on completion of further work at Dreamland, a transfer was made from assets under construction to heritage assets. The Council has determined that Dreamland meets the criteria of a heritage asset. That is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. The Council may have to revisit its classification in future years should components of the Dreamland site be let on commercial terms. We also note Dreamland is held on the balance sheet at cost in accordance with FRS102. The Code of Practice of Local Authority Accounting notes that heritage assets are normally measured at valuation, but being carried at cost is allowed where the costs of obtaining a valuation are not commensurate with the value obtained from a valuation. • We confirmed the pension fund valuations were consistent with the reports received from the Fund's Actuary, Barnett Waddingham. Our use of an expert, PwC, to assess the work performed by the Actuary did not identify any issues. • Our work on the Business Rate Provision identified a slight increase in the provision from the previous year, which was due to an harmonisation of policies across Kent as part of the move to a Kent Business Rates Pool in 2018-19. We reviewed the Council's approach and assumptions around this area and are comfortable with the revised provision included in this year's Accounts. 	 Amber




Assessment

- - **Red** - Marginal accounting policy which could potentially be open to challenge by regulators
- - **Amber** - Accounting policy appropriate but scope for improved disclosure
- - **Green** - Accounting policy appropriate and disclosures sufficient

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	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>Following the work performed we are satisfied that the Council's revenue recognition policies are in line with the requirements of the CIPFA Code.</p> <p>Our testing of your various revenue sources did not identify any instances of inappropriate revenue recognition.</p>	 Green
Other critical policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. We identified some minor enhancements to these policies to improve the transparency of these disclosures, all of which have been processed by the Council.	 Green

Assessment

-  - **Red** - Marginal accounting policy which could potentially be open to challenge by regulators
-  - **Amber** - Accounting policy appropriate but scope for improved disclosure
-  - **Green** - Accounting policy appropriate and disclosures sufficient

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 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 procedures.
② Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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.
④ Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council, which is included within the papers for this meeting of the Governance and Audit Committee.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to all of the Council's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We requested management to send letters to those solicitors who worked with the Council during the year. All responses have been received and no issues have been identified.
⑥ Disclosures	<ul style="list-style-type: none"> Our review identified a number of disclosures which required amendment or expansion, and management agreed to amend all of the items identified. Further detail is provided within the Misclassifications and disclosure changes page, which is included later in the Report.

Other responsibilities under the Code

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

Issue	Commentary
① Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>Inconsistencies and omissions have been identified from the work performed on the Annual Governance Statement but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect – refer to Appendix E</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> 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 other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
③ Specified procedures for Whole of Government Accounts	<p>The NAO require auditors to carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Detailed work has not been required as the Council did not exceed the £350m threshold across any of the criteria set out by the National Audit Office.</p>
④ Certification of the closure of the audit	<p>We intend to certify the closure of the 2017/18 audit of Thanet District Council in the audit opinion, as detailed in Appendix E.</p>

Value for Money

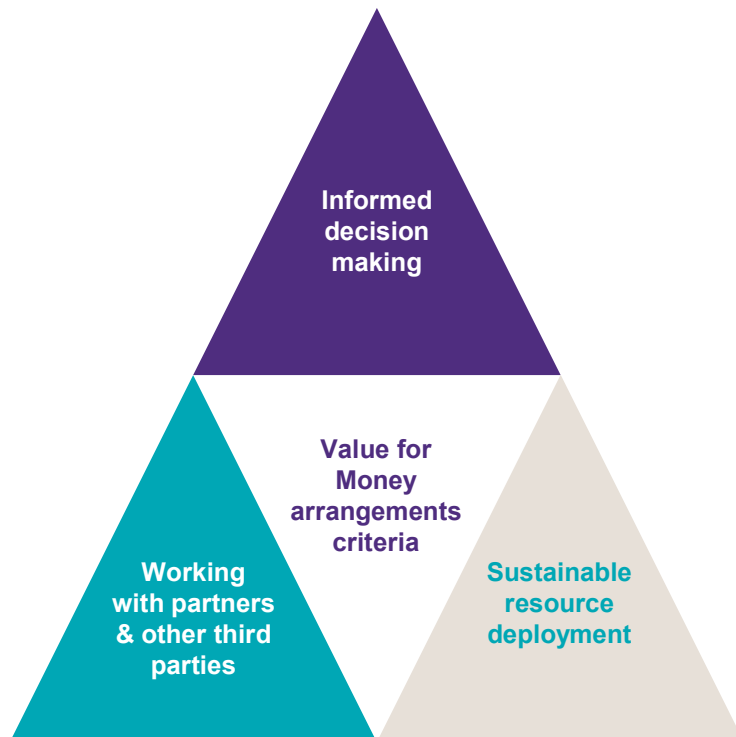
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 6 March 2018, which was as follows:



Overall Financial Position – Medium Term Financial Plan (MTFP)

The Council has identified that a significant level of savings are needed over the life of the next Medium Term Financial Plan. Council reserves have been depleted over the past few years reducing future flexibility.

We propose to:

- Review the assumptions behind the MTFP for the coming four years;
- Consider the 2017-18 Budget outturn and any implications for the MTFP, along with the latest year to date outturn against budget for 2018-19;
- Review the savings proposals which have been identified to date in respect of the savings gap, along with how the Council is planning to identify the remaining gap at this stage.

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 risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk 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.

Value for Money

Our work

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 risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council delivered a breakeven position at the end of 2017-18, managing some small over and underspends across several directorates to do so. The Council also delivered a considerable proportion of its capital programme as well.
- The Council did not call on its reserves to support the general fund breakeven position, and was able to grow its General Fund and HRA Reserves by **£3.5m**.
- A balanced budget for 2018-19 was set, which includes **£2.808m** of savings/income generation plans. These had been fully worked up ahead of the start of the financial year. Unlike in 2017-18, the Council was able to balance its budget without the use of any Reserves, which is positive given the pressures that these Reserves have been placed under in recent years. However as was the case in the previous year, the Council has not identified any contingency in its plans should some of the original plans not deliver the required benefits.
- Looking longer term, the Council is still working through the level of savings which are going to be needed over the life of the Medium Term Financial Plan, which puts at the risk the identification of all the savings needed during this period. Further pressure is going to be placed on the Council's Financial Position by the revised Local Government Funding Settlement, which is going to apply from 2020, and the Council's current Reserves position, despite the improvement during 2017-18, does not provide much room for manoeuvre should the full range of savings not be identified.

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work on the following page.

Overall conclusion

Based on the work we performed to address the significant risk, 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 E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed one recommendation for improvement as follows:

- the Council need to continue to look longer term to ensure that savings needed for later years are being considered in a timely manner to reduce the risk of reserves being put under even further pressure in later years. This is becoming even more acute given the next Local Government Spending Review is due in December 2019 ahead of 2020.

Our recommendation and management's response to this can be found in the Action Plan 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.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Overall Financial Position – Medium Term Financial Plan (MTFP)</p> <p>The Council has identified that a significant level of savings are needed over the life of the next Medium Term Financial Plan. Council reserves have been depleted over the past few years reducing future flexibility.</p>	<p>We performed the following work in respect of this area:</p> <ul style="list-style-type: none"> Review the assumptions behind the MTFP for the coming four years; Consider the 2017-18 Budget outturn and any implications for the MTFP, along with the latest year to date outturn against budget for 2018-19; Review the savings proposals which have been identified to date in respect of the savings gap, along with how the Council is planning to identify the remaining gap at this stage. 	<p>The key points from our work in this area are the following:</p> <ul style="list-style-type: none"> The Council delivered a breakeven position against its General Fund Budget in 2017-18, within which it managed some small under and overspends within each of the Council's directorates to achieve the breakeven position. The outturn included a net transfer of £1.4 million to earmarked reserves covering the planned drawdown on reserves assumed in the budget setting. General Fund Balance was maintained at £2.011m. The Council also delivered £6.05m of its Capital Programme, against a revised plan of £15.637m. The Council has deferred the remaining spend into 2018-19 to ensure the planned projects are still delivered. Some £3m of the deferred balance was spent in the early part of 2018-19. The performance for the Housing Revenue Account (HRA) against budget was positive with a surplus of £1.039m in 2017-18. The Council set a balanced budget for 2018-19, which includes £2.808m of savings (£1.66 million) and additional income (£1.15 million). The previous MTFS (covering 2017/19 to 2021) assumed savings of £1.9 million would be required in 2018/19. Additional cost pressures account for the increased requirements for income and efficiency savings. The Council had fully identified the £2.808m of savings and additional income ahead of the start of the year, which is a positive achievement. The Council has four broad themes, Income Generation, Digitalisation, Alternative Delivery Models, and making the most of the assets it owns around which income generation and efficiency savings are framed. Unlike in the prior year, there is no planned use of reserves to help achieve breakeven and similarly for later years covered by the MTFS, there are no plans to support the annual budgets through reserves. Usable Reserves, covering both the general fund and HRA, increased by nearly £3.5m, helping to offset some of the one-off costs supported by reserves in recent years. Rebuilding Reserves remains a key tenant of the MTFS. The Council's latest Financial Plan (MTFP) covers the period from 2018 to 2022. Whilst the 2018-19 savings have been fully identified, the Council has yet to set out its plans for delivering the savings needed over the remainder of the Plan. There is a risk of the Council not identifying all of £2.878m of savings needed over the remainder of the MTFP (from 2019/20 onwards) in a timely manner. This also continues to put pressure on the savings identified in any one year to deliver as there are a lack of contingency plans should some of these savings not deliver as required. There is also a degree of uncertainty around the impact of the Local Government Spending Review due in December 2019. This could have a significant impact on the Council's financial position once the next settlement is known.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Overall Financial Position – Medium Term Financial Plan (MTFP)</p> <p>The Council has identified that a significant level of savings are needed over the life of the next Medium Term Financial Plan. Council reserves have been depleted over the past few years reducing future flexibility.</p>	<p>We performed the following work in respect of this area:</p> <ul style="list-style-type: none"> Review the assumptions behind the MTFP for the coming four years; Consider the 2017-18 Budget outturn and any implications for the MTFP, along with the latest year to date outturn against budget for 2018-19; Review the savings proposals which have been identified to date in respect of the savings gap, along with how the Council is planning to identify the remaining gap at this stage. 	<p>Recommendation</p> <p>The Council should 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 during the course of the MTFP. There is also a need for the Council to look further ahead with its savings plans to ensure it is well placed ahead of the new Local Government Funding Settlement, which takes effect from 2020.</p>

Independence and ethics

Independence and ethics

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified:


Service	£	Threats	Safeguards
Audit related			
Certification of Housing Capital Receipts Grant	2,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,500 in comparison to the total fee for the audit of £66,296 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Audit of the Council's Harbour Accounts	2,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,000 in comparison to the total fee for the audit of £66,296 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Governance and Standards Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.




None of the services provided are subject to contingent fees.

Action plan

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this recommendation during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<p>1</p> <p> Amber</p>	<p>VFM – Medium Term Financial Plan</p> <p>Whilst the Council has been able to deliver a balanced budget in 2017-18 without drawing down any Reserves, and has identified all of the savings needed for 2018-19, there remain challenges ahead longer term. The new Local Government Spending Review, which is due in December 2019, may adversely impact the Council, and thus there is a need to ensure savings are being considered as far in advance as possible to make sure the Council is well placed to tackle the potential challenges post-2020.</p>	<p>The Council need to continue to look longer term to ensure that savings needed for later years are being considered in a timely manner to reduce the risk of reserves being put under even further pressure in later years. This is becoming even more acute given the next Local Government Spending Review is due in December 2019 ahead of 2020</p> <p>Management response</p> <p>The budget build factors in the four year span of the Medium Term Financial Strategy. In addition, the budget monitoring process has recently been reviewed to better focus on targeted savings on an ongoing basis. New opportunities for more efficient working and income generation are being continually reviewed by finance staff in a business partnering role with other departments.</p>

Controls

-  - Red - High – Significant effect on control system
-  - Amber - Medium – Effect on control system
-  - Green - Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Thanet District Council's 2016/17 financial statements, which resulted in four recommendations being reported in our 2016/17 Audit Findings Report. We have followed up on the implementation of our recommendations and note that as it stands one of these still needs to be carried forward to 2018-19, with the other recommendation subject to confirmation at the date of issuing the Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
① ✓	<p>PPE Revaluations</p> <p>Our work in 2016-17 encountered significant challenges in obtaining sufficient assurance over this area of the Accounts. To reduce the level of uncertainty in this area we proposed the Council should consider the following:</p> <ul style="list-style-type: none"> - if it wishes to retain the process of considering 20% of properties per year, ensure this is calculated by value rather than the number of properties. - it should consider whether a full revaluation would be beneficial next year to ensure the whole asset base is accurately valued ahead of the earlier deadline. - whatever approach is adopted, valuations for all assets other than Council Dwellings should be moved closer to the 31st of March to reduce the level of uncertainty over the valuations produced by the valuer. 	<p>The Council has taken several steps to provide us with sufficient assurance over this area:</p> <ul style="list-style-type: none"> - It has reduced the threshold for individually significant assets, ie those which are revalued every year, from £1m to £800k, thus increasing the number of assets revalued each year; and - Has moved the date of valuation to the end of December, reducing the period of uncertainty between the valuation date and 31 March. <p>Whilst the Council has not undertaken a full revaluation exercise, the work performed has enabled us to obtain sufficient assurance over the PPE Valuations included within the Accounts. On this basis we can confirm that this issue has been resolved.</p>
② ✓	<p>Accruals</p> <p>Our testing of the Council's Accruals in 2016-17 identified an item which the Council was unable to provide support for. Our recommendation was that the Council should continue to strengthen procedures around accruals during the year to ensure they are all supported by valid documentation.</p>	<p>During our testing of accruals during the course of 2017-18 no issues were identified, which provides us with sufficient assurance that this issue has been adequately cleared by the Council.</p>
③ ✓	<p>VFM – Cost Savings</p> <p>During our Value for Money work within 2016-17, we identified that the Council needs to ensure that cost savings and income generation need to be developed in excess of the estimated funding gap to help cover the possibility of unforeseen financial pressures that may arise during the course of the year.</p>	<p>Our VFM Work in 2017-18 identified that the Council was able to deliver a balanced budget without the use of any Reserves, which provides assurance that sufficient cost savings and income generation activities were identified during the course of the year. Going forward, the challenge will be planning for life post-2020, which is covered by point 4, and thus we are satisfied this recommendation has been cleared.</p>

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4	<p>X</p> <p>VFM – Medium Term Financial Plan</p> <p>We also identified that there was a need for the Council to look longer term to ensure that savings which are needed for later years are being considered in a timely manner to reduce the risk of reserves being put under even further pressure in later years.</p>	<p>Our VFM work this year continued to identified that the Council needs to look further ahead when identifying savings, which is particularly acute given the Local Government Spending Review, due in December 2019. The Council needs to look as far ahead as possible when identifying savings to ensure they are able to deal with the challenges ahead.</p>

Assessment

✓ Action completed

X Not yet addressed

Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1 PPE Depreciation The Council identified it had omitted £1,339k of Depreciation from the CIES, which should have been charged to 2017-18. However as the depreciation was charged in respect of Assets which were revalued during the course of the year, this has no overall impact on the Council's Total Net Expenditure at year end.	Cr Net Cost of Services £1,339k Dr Surplus on Revaluation of Non Current Assets £1,339k	Dr Capital Adjustment Account £1,248k Cr Revaluation Reserve £1,248k	Nil
Overall impact	£0	£0	£0

Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Value (£000)	Impact on the Accounts	Adjusted?
Note 4a – Material Items of Income and Expenditure	Various	We asked the Council to provide additional disclosures around the financial impact of the transfer of a number of functions previously provided by East Kent Services to Civica on the 1 st February 2018. This enhanced disclosure has now been included within the revised Accounts.	✓
Note 14 – Harbours	£771k	The error identified on the previous page in respect of the in-year depreciation charge has also had an increase in the expenditure incurred by the Council's Harbours. This amendment has been correctly processed within the revised Accounts.	✓
Note 19 – Heritage Assets	£182k	We identified that the Council had incorrectly accounted for Depreciation in respect of their Heritage Assets, when this should have been treated as an impairment. This has subsequently been adjusted in the revised Accounts.	✓
Note 22 – Financial Instruments and Note 36 – Capital Financing Requirement	£2,964k	Our work identified that the Council had incorrectly included the financial liability relating to the Spine Road Creditor with East Kent Opportunities, despite this being paid off in-year. This balance has been removed from the Note in the updated Accounts, and has also been correctly reflected within Note 36, covering the Capital Financing Requirement as well.	✓
Note 38 – Defined Benefit Pension Scheme – Sensitivity Analysis	Various	The Council had not included the required sensitivity analyses in the draft Note, which provides information around the risk that the Council's share of the Local Government Pension Scheme is exposed to. These numbers have been correctly included within the updated Note.	✓
Note 40 – Contingent Liabilities	n/a – narrative disclosure	The Council has added some additional narrative to a couple of the liabilities within this Note to enhance the transparency around the treatment of these liabilities.	✓
Note 3 of the Collection Fund – Income from Business Rates	Various	The initial disclosure showed the incorrect value for the total Rateable Value of the Council's Premises, which meant the following disclosures were also incorrect. This value has now been updated, along with the subsequent calculations driven by this balance.	✓
Various Notes	Various	A number of minor presentational and disclosure amendments have been made to the Accounts to enhance the transparency of the disclosures within the Accounts.	✓

Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2016/17 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1 Transfer of Council Dwellings to Assets under Construction (AUC) – Gross Book Value including Additions and Accumulated Depreciation				Response from Thanet DC:
- AUC (Opening Gross Book Value)		1,186	Nil impact on	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.
- Council Dwellings (Opening Gross Book Value)		(1,186)	Total Net	
- AUC Additions		686	Expenditure	
- Council Dwellings Additions		(686)		
- AUC Accumulated Depreciation		89		
- Council Dwellings Depreciation		(89)		
Reversal of in year Depreciation Charge in respect of Council Dwellings above				
- Accumulated Depreciation		66		
- Depreciation Charge to the CIES	(66)		(66)	
- General Fund		66		
- Capital Adjustment Account		(66)		
				2017/18 Update: The Council has moved two further assets to Council Dwellings which we would say should be held as AUC. However when considered with the remaining assets from 2016-17, which remain in this state, the NBV of these assets is £1,421k, which is below our materiality threshold and thus does not have an impact on our Audit Opinion.

Fees

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

Audit Fees

	Proposed fee £	Final fee £
Council Audit	66,296	66,296
Grant Certification	31,836	31,836
Total audit fees (excluding VAT)	£98,132	£98,132

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

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
• Certification of Housing Capital Receipts Grant	2,500
• Audit of Council's Harbour Accounts	2,000
Non-audit services	None
Total	4,500

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Thanet District Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves 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 Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Who we are reporting to

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Deputy Chief Executive and Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Deputy Chief Executive and Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Deputy Chief Executive and Section 151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Audit opinion (continued)

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

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Deputy Chief Executive and Section 151 Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Deputy Chief Executive and Section 151 Officer. The Deputy Chief Executive and 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 2017/18, which give a true and fair view, and for such internal control as the Deputy Chief Executive and Section 151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Deputy Chief Executive and Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Governance and Audit Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

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

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 this criterion as that 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 2018.

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 be satisfied that the Authority has put in place proper

Audit opinion (continued)

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

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

Report on other legal and regulatory requirements - Certificate

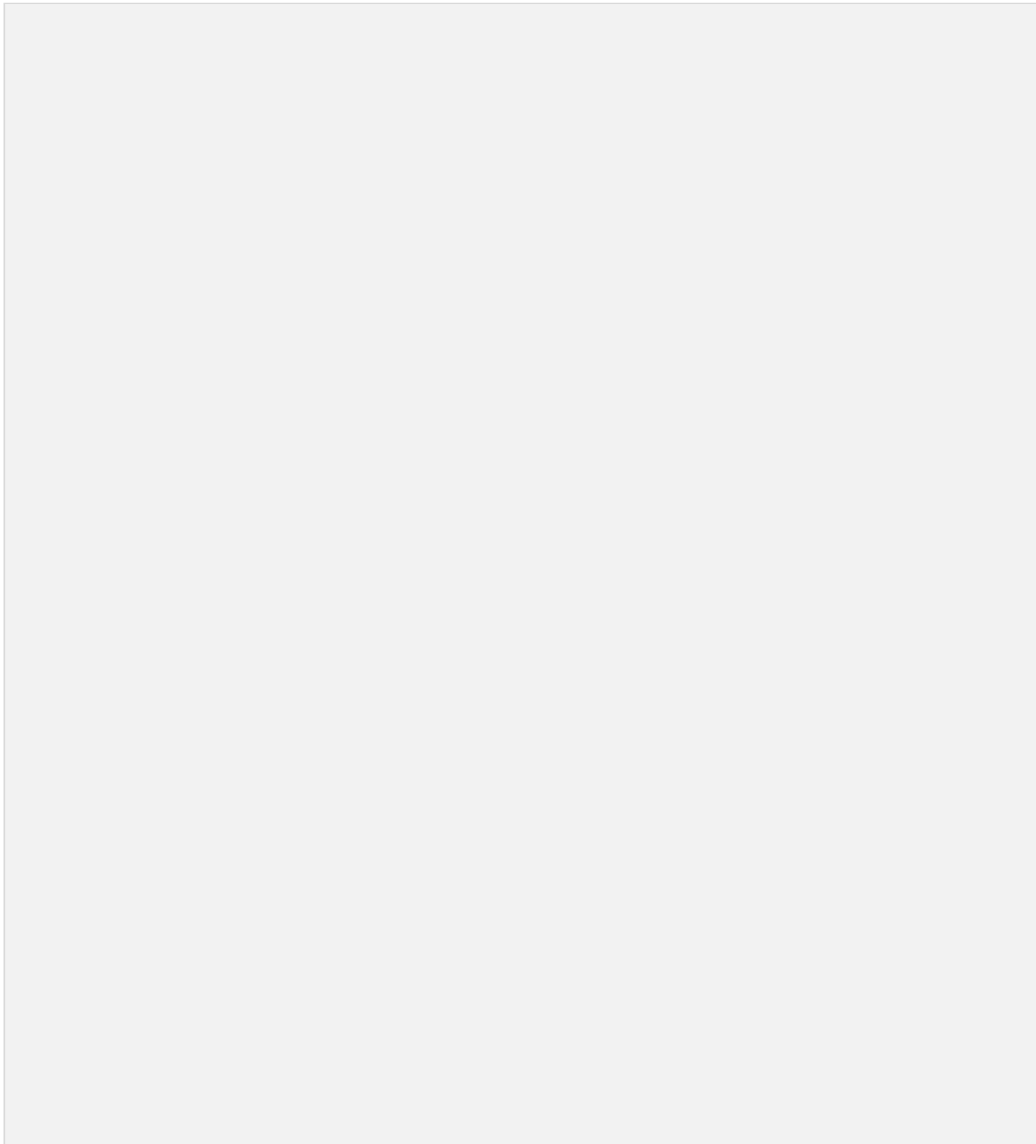
We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[Signature]

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

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xx July 2018





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