The Audit Findings Report for Folkestone and Hythe District Council

Year ended 31 March 2023

March 2023

Contents

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

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

Sophia Brown

For Grant Thornton UK LLP

March 2024

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Folkestone and Hythe District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Financial statements

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

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

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

Our audit work was completed remotely during December 2023 to February 2024. Our findings are summarised on pages 7 to 20. Identified audit adjustments are detailed in Appendix D.

Our audit fieldwork is substantially complete, subject to review, and there are no matters of which we are aware, at this stage, that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters:

<u>With the Council</u>

- Audit is working with the finance team to select samples of council tax and business rate debtors and creditors, now that a breakdown of the balances is available.
- Third party confirmations pending for investments, money market funds and borrowings.
- We await receipt of the updated Movement In Reserves checker tool.
- We await receipt of samples for the following areas: creditors (2 samples), grant income (2 samples), bank receipts (1 samples), land & building revaluations (4 samples)

<u>With the audit team</u>

- The audit team is finalising audit procedures for heritage assets, group consolidation, other disclosures.
- The audit team is processing testing in the following areas: fees & charges income (9 samples), Collection Fund creditors (1 sample), and debtor testing (3 samples).
- PPE & investment property valuation procedures are in progress.
- Pensions experience item review is in progress.
- Clearance of technical queries raised in the GT 'hot review' of the original draft financial statements.
- Quality review of audit fieldwork is in progress.

<u>Closing procedures</u>

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

We have raised recommendations for management as a result of our audit work in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

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

Subject to the completion of the outstanding work, as outlined above, our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have completed our Value for Money work, which is summarised on pages 21-22, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We expect to certify the completion of the audit upon the completion of our Whole of Government Accounts work once submission arrangements have been issued by the National Audit Office.
Significant matters	The Council originally published draft 2022-23 financial statements in September 2023. The Statement of Accounts did not balance internally, and management provided a revised set of draft 2022-23 financial statements in January 2024. During the course of the audit, we experienced significant difficulties in mapping the trial balance to the financial statements, and also challenges obtaining year end listings to support income and expenditure, and debtor and creditor balances. This caused delays to our audit fieldwork and put the audit timeframe 3 weeks behind schedule. Please refer to 'Timeline for 2022-23 audit' on page 6 for further details.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021-22 accounts by the extended deadline of 30 November 2022. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as possible as soon as possible, and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk).

We would like to thank everyone at the Council for their support in working with us.

National context – level of borrowing

All councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on council budgets, there are concerns as councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

2. Financial statements

Overview of the scope of our audit

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

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

Audit approach

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

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

Conclusion

Our audit fieldwork is substantially complete, subject to review (refer to detail on page 3), and we anticipate issuing an unqualified audit opinion following the Audit & Governance Committee meeting on 13 March 2024.

Acknowledgements

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

Timeline for the 2022-23 audit

In May 2023 we agreed with management, that due to audit resource restrictions, the 2022-23 audit would commence in October 2023. The Council published its draft 2022-23 financial statements in September 2023. The Statement of Accounts did not balance internally and as part of the audit risk assessment framework we then carried out a detailed review (or 'hot review) for the draft financial statements. We confirmed to management that issues identified in the hot review would need to be resolved before we could commence our audit fieldwork. Hot review findings were shared management in November 2023 and management provided a revised set of draft 2022-23 financial statements on 12 January 2024. Our audit fieldwork has been carried out on this revised 2022-23 Statement of Accounts

During the course of the audit, we experienced significant difficulties in mapping the trial balance to the financial statements, and also challenges in obtaining year end listings to support income and expenditure, and debtor and creditor balances. This caused delays to our audit fieldwork and put the audit timeframe 3 weeks behind schedule. For example, we were not able to issue a complete journals sample until 20 February 2024. We note that issues with debtor and creditor balances were communicated in our 2021-22 Audit Findings Report and relate to the prior year recommendation on page 27 of this report.

The audit team has worked closely with your finance team on the above issues. Control finding recommendations relating to these issues are included in Appendix B and audit adjustments identified are included in Appendix D.

2. Financial statements

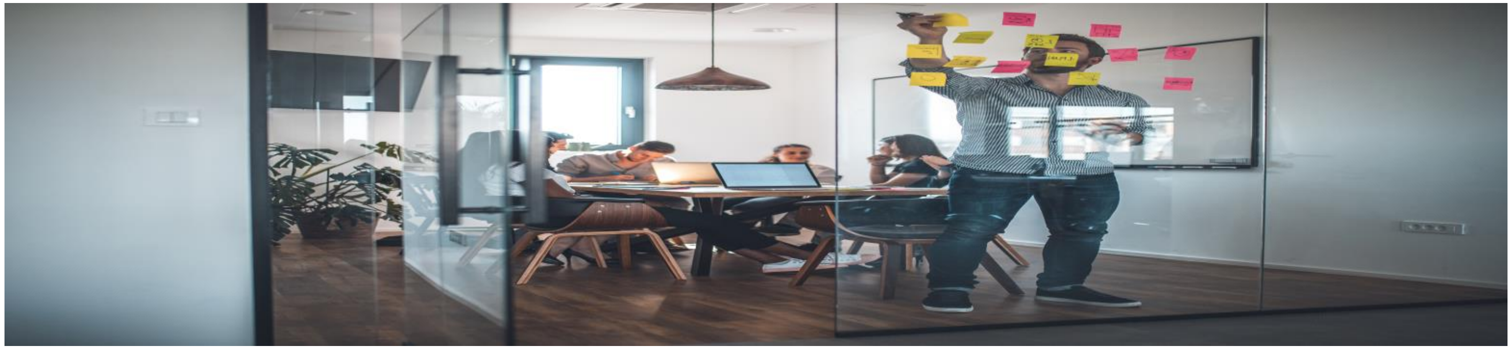
Our approach to materiality

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

Materiality levels(%) remain the same as reported in our audit plan.

We set out in this table our determination of materiality for Folkestone and Hythe District Council and group.

	Group amount (£)	Council amount (£)	Qualitative factors considered
Materiality for the financial statements	2,194,300	2,187,800	We have determined financial statement materiality for the group and Council based on a proportion of the gross expenditure of the group and Council for the year ended 31 March 2023. Materiality of our audit equates to 2% of your gross expenditure for the period for group and Council.
Trivial matters	109,700	109,400	We are obliged to report uncorrected and corrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at 5% of materiality.
Materiality for specific transactions, balances or disclosures senior officer remuneration	50,000	50,000	We have identified senior officer remuneration and termination benefits as disclosures where we will apply a lower materiality level, as they are considered sensitive disclosures. Materiality of £50,000 has been set in this area.



2. Financial statements – significant risks

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

Risks identified in our Audit Plan	Relates to	Commentary
The revenue cycle includes fraudulent transactions (rebutted)	Council	Under ISA (UK) 240 there is a rebuttable 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. Having considered the risk factors set out in ISA (UK) 240 and nature of the revenue streams at Folkestone & Hythe 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; and • The culture and ethical frameworks of local authorities, including that of Folkestone & Hythe District Council, mean that all forms of fraud are seen as unacceptable. There have been no changes to our assessment as reported in the Audit Plan. To gain assurance over revenue, we: • Documented our understanding of the revenue business process; • Tested a sample of revenue to gain assurance over the accuracy and occurrence of revenue recorded during the financial year; and • Performed testing over post year-end receipts to assess completeness of revenue and receivables recognition. Our audit work to date has not identified any issues in respect of this risk that require reporting.
Management override of controls	Council and group	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. To address this risk, we: • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determined the criteria for selecting high risk unusual journals. • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work to date has not identified any issues in respect of this risk that require reporting.

2. Financial statements – significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of the pension fund net liability	Council	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability, noting that the impact of the Local Government Pension Scheme 2022 triennial valuation will impact the Council's 2022-23 pension fund net liability. We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation we will reconsider this if it becomes apparent at the year-end that there are significant special events relating to the source data (such as bulk transfers, redundancies or other significant movements of staff) which would need to be given special consideration during the audit. Despite not being considered a significant risk we still carry out testing and consideration of the source data to obtain sufficient and appropriate audit evidence that there is no material misstatement.
		To address this risk we: • Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. • Obtained assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our audit work to date has not identified any issues in respect of this risk that require reporting.

2. Financial statements – significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of land and buildings (including council dwellings and investment properties)	Council	The Council has the following types of properties that are valued: Other land & buildings: The Council re-values its land and buildings on a rolling five-yearly basis. Council dwellings: The Council measures its dwellings at fair value, determined using the basis of existing use value for social housing and is re-valued on a cyclical approach using the Beacon methodology. Investment Properties: The council re-values its investment properties on an annual basis at fair value. The valuations of land and buildings and council dwellings and investment properties represents a significant estimate by management in the financial statements due to the size of the numbers involved, and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for investment properties included with other land and buildings) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which is one of the most significant assessed risks of material misstatement.
		To address this risk we : • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Wrote to the valuer to confirm the basis on which the valuation was carried out. • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation. • Tested revaluations made during the year to see if they had been input correctly into the asset register. • Assessed the value of a sample of assets in relation to market rates for comparable properties. • Tested a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group. • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. Our audit work to date has not identified any issues in respect of this risk that require reporting.

2. Financial statements – significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Level 3 financial assets and liabilities	Council	The Council has reviewed the fair value of the finance assets as part of the IFRS 9 assessment in preparing the draft accounts and concluded that the soft loans for private sector housing improvement purposes and the equity investment in Oportunitas Limited are Level 3 assets. By their nature Level 3 assets and liabilities valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 financial assets and liabilities by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We therefore identified valuation of Level 3 financial assets and liabilities as a significant risk, which was one of the most significant assessed risks of material misstatement.
		To address this risk, we: • Gained an understanding of the Council's process for valuing hard to value financial assets and liabilities evaluate the design of the associated controls; • Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuation provided for the assets and liabilities; • Considered the competence, expertise and objectivity of any management experts used; and • Challenged management about the disclosure of the Level 3 financial assets. Our audit work to date has not identified any other issues in respect of this risk that require reporting.

2. Other risks identified

Risks identified in our Audit Plan	Relates to	Commentary
Fraud in expenditure recognition	Council	As most public bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk that the Council may manipulate expenditure to that budgeted by under-accruing non-pay expense incurred during the period or not record expenses accurately to improve financial results. In line with the Public Audit Forum Practice Note 10, having considered the risk in relation to fraud in expenditure recognition and the nature of the Council's expenditure streams we determine that the risk of fraud arising from expenditure can be rebutted because: • There is little incentive to manipulate expenditure recognition; • Opportunities to manipulate expenditure recognition are very limited; and • The culture and ethical framework of local authorities, including Folkestone and Hythe District Council, mean that all forms of fraud are seen as unacceptable. However, we have identified that due to the level of estimation involved in manual accruals of expenditure, and the potential volume of large accruals at year end, there is an increased risk of error in the completeness of expenditure recognition.
		To address this risk we: • Inspected transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period. • Inspected a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year. We compared listings of accruals(creditors) to the previous year to ensure completeness of accrued items. • Investigated manual journals posted as part of the year end accounts preparation that reduce expenditure, to assess whether there is appropriate supporting evidence for the transaction. On our audit work completed up to date, we have not identified any issues in relation to this risk.

2. Financial statements – key findings arising from the group audit

Component	Findings	Group audit impact
Folkestone & Hythe District Council	We plan to issue an unmodified audit opinion for Folkestone & Hythe District Council. No material issues were identified which will have an impact on the group.	None
Opportunitas Limited	Our work is in progress. No material issues identified to date which will have an impact on the group.	None
Otterpool Park LLP	Our work is in progress. No material issues identified to date which will have an impact on the group.	None
Otterpool Park Development Company Ltd	Our work is in progress. No material issues identified to date which will have an impact on the group.	None

2. Financial statements – key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Valuations of land and buildings, including investment properties and council dwellings	The Council carries out a rolling programme of revaluations that ensures that all property, infrastructure assets, plant and equipment required to be measured at current value is re-valued at least every five years. Investment properties, surplus properties and assets held for sale are re-valued every year. Other land and buildings includes specialised assets which are required to be valued at depreciated replacement cost (DRC), reflecting the cost of a modern equivalent asset delivering the same service provision. Non-specialised assets are required to be valued at existing use in value (EUV). The Council engaged Wilks Head & Eve to complete the valuation of other land and buildings as at 31 March 2023, on a five yearly cyclical basis. The total year end valuation of land and buildings was £27.673m, a net increase of £0.589m from 2021-22 (£27.084m). Council dwellings were valued on existing use value, determined using the basis of existing use value for social housing (EUV-SH). The council re-values its investment properties on an annual basis at fair value. Management has considered the year end value of non-valued properties, based on market review provided by the valuer as at 31 March 2023, to determine whether there has been a material change in the total value of the properties. Management's assessment of assets not revalued has not identified a material change to the properties' value. Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.	Our work is still in progress.	**TBC**

Assessment

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

2. Financial statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Valuations of net pension liability – LGPS	The Council recognises and discloses the retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'. At 31 March 2023 the Council has a net pension liability of £13.1m (2021-22 £72.5m) relating to the Local Government Pension Scheme, as administered by Kent Pension Fund. Folkestone and Hythe District Council uses an external actuary Barnett Waddingham to provide an actuarial valuation estimate of the Council's assets and liabilities deriving from these schemes. A full valuation is required every three years. The latest full actuarial valuation was completed in 2022-23 for the LGPS. A roll forward approach is used in intervening periods. The valuations are based on key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability small changes in assumptions can result in significant valuation movements.	• We assessed management's actuarial expert and concluded they are clearly competent, capable and objective in producing the estimate. • We carried out analytical procedures to conclude on whether the Council's share of LGPS pension assets and liabilities was reasonable. We concluded the Council's share of assets and liabilities was analytically in line with our expectations. • We engaged an auditor's actuary expert to challenge the reasonableness of the estimation method used and the approach taken by the actuary to verity the completeness and accuracy of information used. We were satisfied that the actuary was provided with complete and accurate information about the workforce, and that the method applied was reasonable. • The auditors' expert provided us with indicative ranges for assumptions by which we have assessed the assumptions made by management's expert. As set out below all assumptions were within the expected range and were therefore considered:	Light purple

Assumption	Actuary Value	PWC range	Assessment
Discount rate	4.80%	4.8- 4.85%	Within expected ranges
Pension increase rate	2.95%	2.65 – 2.95%	
Salary growth	3.95%	3.95%	
Life expectancy – Males currently, aged 45 Future pensioners	21.6 22.3	19.5 – 22.1 20.9 – 23.4	
Life expectancy – Females currently aged 45 Future pensioners	23.5 25.0	22.9 - 24.5 24.3 – 25.9	

Assessment

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

2. Financial statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Minimum Revenue Provision - £3.263m (2021-22 £1.211mm)	The Council is responsible, on an annual basis, for determining the amount charged for the repayment of debt, known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £3.263m a net increase of £1.211m from 2021-22.	We considered and completed the following in the course of our testing: • Whether the MRP has been calculated in line with the statutory guidance; • Whether the Council's policy on MRP complies with statutory guidance; • Assessed whether any changes to the Council's policy on MRP has been approved by Full Council; and • Reasonableness of the change in MRP charge. We note that the 2022-23 MRP now includes provision of £1.4m in respect of the Otterpool Scheme to ensure that it is compliant with Regulations. No further issues to report, estimate is reasonable.	● Light purple

Assessment

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

2. Financial statements – information technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating			
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks
E-Financials	ITGC assessment (design and implementation effectiveness only)	Green	Green	Green	Green	Management override of controls

Assessment

- Red – Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Yellow – Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- Green – IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Grey – Not in scope for testing

2. Financial statements – other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit & Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	Per work to date we have not identified any related parties which have not been disclosed. Per Appendix D we identified that group intercompany income/expense is material and should be disclosed within the Related Parties note as related party transactions.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council.
Confirmation requests from third parties	We requested from management permission to send a confirmation requests to relevant Investments held with third parties. This permission was granted, and the requests were sent out with all requests having been received.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review to date has not found any material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	During the audit we encountered some difficulties in obtaining timely responses from the Council, due to impact from issues described on page 7, which delayed audit progress. As a result, we allocated additional audit resource to this audit engagement. Overall, the audit and finance teams are working constructively together to resolve outstanding audit queries to achieve the completion of the audit.

2. Financial statements – other communication requirements

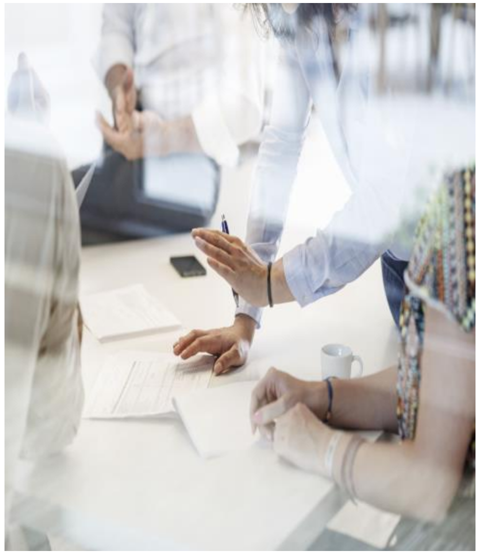
Our responsibility

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

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

2. Financial statements – other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements, including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our work to date has not identified any inconsistencies to report.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • If the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit; • If we have applied any of our statutory powers or duties; or • Where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that detailed work is not required as the Council does not exceed the threshold specified by the NAO.
Certification of the closure of the audit	We expect to certify the completion of the audit upon the completion of our Whole of Government Accounts work once submission arrangements have been issued by the National Audit Office.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022-23

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

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

Improving economy, efficiency and effectiveness

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

Financial sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM – our procedures and conclusions

We have completed our VFM work, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

4. Independence and ethics

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies. Details of fees charged are detailed in Appendix E.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

Audit and non-audit services

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

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits Assurance Process	43,000	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 lower in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Capital Receipts return	TBC	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 lower in comparison to the total fee for the audit 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.

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council or investments in the Council held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control-related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council, senior management or staff that would exceed the threshold set in the Ethical Standard.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Appendices

A. Communication of audit matters to those charged with governance

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 including significant risks	•	
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	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action plan – audit of financial statements

We have identified three recommendations for the Council as a result of issues identified during the course of our audit. We have agreed recommendations with management and will report on progress with these recommendations during the course of the 2022-23 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
Medium	**Trial balance mapping** As part of our testing procedures, we are required to obtain a mapped trial balance that aligns with the Council's financial statements (FS). The current mapping structure proved challenging to trace back to the FS which significantly delayed the audit. Linked to this, the use of fees and charges income and operating expenditure as balancing figures in the Expenditure and income analysed by nature disclosure resulted in material adjustments to the presentation of the disclosure note.	Management should implement a trail balance mapping structure that aligns with both the opening trial balance, transaction listings for the year, and closing trial balance to ensure the financial statements tie through for completeness and presentation purposes. **Management response** The Council is in the process of replacing its financial management system that will aid / support in the automated mapping of accounts to the financial statements. In the interim, we have agreed a mapping with the auditors that correlates to the presentation in the financial statements.
Medium	**Journal authorisation** Based on our review of manual journals, we have identified that it is possible for journals preparers to self-authorise journals. This has occurred because the intended approver was unavailable, but the journal posting was necessary for the timely closure of accounts. This raises concerns about the system's susceptibility to manipulation by any preparer or authoriser, indicating a control deficiency.	Management should ensure that the control around segregation of duties is working effectively to avoid self-authorisation of journals. **Management response** The Council will review the implementation of the control with the technology team and ensure that the control around segregation of duties is operating effectively.

Controls

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

C. Prior year audit recommendations – follow up

We identified the following issues in our 2021-22 and 2020-21 audits of the group and Council's financial statements, which resulted in three recommendations being reported in our 2021-22 Audit Findings Report (AFR). Our planned audit includes a review of these recommendations, and we have reported in our Audit Findings Report whether management has implemented our recommendations, or they are still ongoing.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
High	2021-22 Debtor and Creditor opening balances As part of our Debtor and Creditor work, we noted that there were several opening balances that were not valid for the period under audit. **Audit update 2022-23: This area remains an issue for 2022-23 and has contributed to significant delays in our debtor and creditor work this year.**	This issue relates to the reporting available from the current finance system. The Council is in the process of upgrading and/or replacing this system that will aid/support in reporting on the debtors and creditors balances to facilitate easier extractions of relevant populations. In the interim, Finance are investigating with the technology team what is possible from the existing system to mitigate the challenges currently faced.
Medium	2021-22 Cleansing of the fixed asset register As part of our review of the fixed asset register, we identified vehicle, plant and equipment assets with a nil net book value (NBV) that had a total historic cost of £7.7m, with an offsetting balance of £7.7m of accumulated depreciation. The balance sheet records the net book value and is correct. The Council's depreciation policy would indicate that the assets held at nil NBV are no longer in use. Good practice would require these assets to be written out of the fixed assets register or re-lifted if they are still operational.	The Council is reviewing its accounting and depreciation policies. Upon completion of this, we will consider whether any assets need to be written out of the fixed asset register or re-lifed.
Medium	2020-21 HRA componentisation As part of our HRA valuation work, we noted that management has written out £4.3m of capital expenditure works (i.e Kitchen and bathroom replacements) as impairment instead of componentising each part of the assets with the cost that should be depreciated separately. That is to say, management will need to write out the old components from the Gross book value and the accumulated depreciation before adding on the new component for yearend valuations.	The Council is reviewing its accounting policy and considering what level of componentisation is required.

Controls

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

D. Audit adjustments – adjusted misstatements

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 ending 31 March 2023.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on total net expenditure £'000	Impact on General Fund £000	Management comment
Overall impact	£0	£0	£0	£0	

D. Audit adjustments – unadjusted misstatements

Impact of unadjusted misstatements

The table below provides details of audit adjustments identified during the 2022-23 audit which have not been made within the final set of financial statements. The Audit & Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Overall impact	£0	£0	£0	£0	£0

D. Audit adjustments – presentation and disclosure

Presentation and disclosure changes

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

Disclosure	Auditor recommendations	Adjusted?
Capital expenditure and capital financing – Note 32 Note 32 in the draft financial statements has the amount for additions recorded as £16.309m. However, in the PPE note and workings provided additions are £15.487m, difference of £0.822m. In the prior year amounts we noted a casting error. The total increase/(decrease) in Capital Financing Requirement was shown as £6.407m but should be £6.233m.	Amounts in Note 32 to be corrected. Management response Agreed to amend	To be checked in final revised 2022-23 SoA
Expenditure and income analysed by nature (note to support the CIES) Collection Fund income of £22.808m and expenditure of £6.204m was incorrectly included in fees & charges income/operating expenditure, respectively. It should be separately disclosed in the Expenditure and income by nature note. Depreciation was overstated by £2.128m in the mapped listing. This was offset against operating expenditure, which was adopted as a balancing figure in producing the Expenditure and income by nature note. Grant income was overstated by £0.851m in the mapped listing. This was offset against fees and charges income, which was adopted as a balancing figure in producing Expenditure and income by nature note.	Expenditure and income by nature should be corrected. Management response Agreed to amend	To be checked in final revised 2022-23 SoA
Movement in Reserves Statement (MIRS) The movement in reserves shown on balance sheet is £47.968m with net expenditure in the CIES is £48.596m. There is difference of £0.628m which must be corrected for the accounts to internally balance. The adjustments between accounting and funding basis figures in the MIRS should net to zero but in the draft financial statements it net to £6.6m.	MIRS to be corrected. Management response Agreed to amend	To be checked in final revised 2022-23 SoA
Group Movement in Reserves Statement (MIRS) In the draft financial statements the single entity CIES did not agree with the Group CIES. Also, the opening and closing General Fund and HRA (and other reserves) did not agree with the single entity MIRS – the General Fund and HRA reserve positions were corrected in the revised draft financial statements but there is still inconsistency in other reserves, such as the Major Repairs Reserve.	Group MIRS to be corrected. Management response Agreed to amend	To be checked in final revised 2022-23 SoA

E. Fees and non-audit services

We confirm below our final fees charged for the audit. Fee for non audit fee will be confirmed when we commence the work.

Description	Proposed 2022-23 fee £
Revised 2022-23 scale fee published by PSAA	54,054
Additional work on Value for Money under the new NAO Code	9,000
Increased audit requirements of revised ISA 540	2,100
Increased journal testing procedures	3,000
Base audit fee 2021-22	**68,154**
New issues for 2022-23	
• Introduction of ISA 315	3,000
• Payroll change of circumstances procedures	500
• Collection Fund – reliefs testing	750
Total proposed audit fee 2022-23 (excluding VAT)	**72,404**
Fee proposed to account for additional work due to complexity/delays in trial balance mapping, Journals, Debtors and Creditors (subject to PSAA approval)	TBC
Total proposed fee	**TBC**

F. Draft audit opinion

DRAFT Independent auditor's report to the Members of Folkestone and Hythe District Council

Report on the audit of the financial statements.

Opinion on financial statements

We have audited the financial statements of Folkestone and Hythe District Council (the ‘Authority’) and its subsidiary (the ‘group’) for the year ended 31 March 2023, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the notes to the financial statements including a summary of significant accounting policies, the Housing Revenue Account Income and Expenditure Statement, the Collection Fund Statement, the notes to the Collection Fund accounts, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement, and notes to the group accounts including a summary of significant group 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 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2023 and of the group’s expenditure and income and the Authority’s expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Conclusions relating to going concern

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

F. Draft audit opinion

In our evaluation of the Director of Corporate Services' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

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

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

Our responsibilities and the responsibilities of the Director of Corporate Services with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Annual Governance Statement and the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Director of Corporate Services is responsible for the other information. 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.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. 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 in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

F. Draft audit opinion

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority and the Director of Corporate Services

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 Director of Corporate Services. The Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Director of Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Corporate Services is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

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.

F. Draft audit opinion

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. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.

We enquired of management and the Audit & Governance Committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management and the Audit & Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and fraud in income and expenditure recognition. We determined that the principal risks were in relation to manual journals that altered the Authority's financial performance for the year, post year-end and closing journal entries. We considered whether there was any potential management bias in accounting estimates or any significant transactions with related parties which could give rise to an indication of management override. Our audit procedures included:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on significant journals at the end of the financial year which had an impact on the Authority's financial performance,
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of valuation of land and buildings including council dwellings, and the valuation of net pensions liability; and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's:

F. Draft audit opinion

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

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

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

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

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

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

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.

F. Draft audit opinion

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

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

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

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

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Folkestone and Hythe District Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2023. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2023

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 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.

[Signature]

Sophia Brown, Key Audit Partner

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

London

[Date]

G. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible.
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance.
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

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