

Audit Findings (ISA 260) Report for Folkestone & Hythe District Council

Year ended 31 March 2025

December 2025



Folkestone & Hythe District Council
Civic Centre
Castle Hill Avenue
Folkestone
Kent CT20 2QY

Grant Thornton UK LLP
8 Finsbury Circus
London
EC2M 7EA

17 December 2025

www.grantthornton.co.uk

Dear Members of the Audit & Governance Committee

Audit Findings for Folkestone & Hythe District Council for the 31 March 2025

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 and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. 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.

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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We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to manage risk, quality and internal control particularly through our Quality Management Approach. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at [transparency-report-2024-.pdf \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2024-2025.pdf).

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

Paul Dossett

Partner
For Grant Thornton UK LLP

Chartered Accountants

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Headlines and status of the audit

Headlines

This page and the following summarises the key findings and other matters arising from the statutory audit of Folkestone & Hythe District Council (the 'Authority') and the preparation of the group and Authority's financial statements for the year ended 31 March 2025 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 Authority's financial statements give a true and fair view of the financial position of the group and Authority and the group and Authority'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 consistent with the financial statements and with our knowledge obtained during the audit, or otherwise whether this information appears to be materially misstated.

Our audit work was completed during October-December as planned. Our findings are summarised on pages 19 to 32. We have identified not identified any adjustments to the financial statements.

Audit adjustments are detailed at page 40. We have also raised recommendations for management as a result of our audit work. These are set out at page 46-47. Our follow up of recommendations from the prior year's audit are detailed at page 48-49.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion page 61-66, subject to the following outstanding matters:

- Completion of audit file review procedures
- Resolution of significant matter identified around the accounting treatment of the Princes Parade project (page 28)
- Receipt of management signed representation letter and
- Review of the final set of financial statements

Further information on outstanding work is set out on page 14

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

Our anticipated financial statements audit report opinion will be unmodified. We anticipate signing your accounts on 17/12/2025.

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 Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Authority'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 Authority's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance.

We have completed our VFM work, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Headlines

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 have completed the majority of work required under the Code. However we cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until;

- We have concluded our work in relation to consolidation returns for the Whole of Government Accounts for 2024/25 and 2023/24 and a certificate has been issued for 2023/24.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2025.

Significant matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

Headlines

National context – audit backlog

Government proposals around the backstop

On 30 September 2024, the Accounts and Audit (Amendment) Regulations 2024 came into force. This legislation introduced a series of backstop dates for local authority audits. These Regulations required audited financial statements to be published by the following dates:

- For years ended 31 March 2025 by 27 February 2026
- For years ended 31 March 2026 by 31 January 2027
- For years ended 31 March 2027 by 30 November 2027

The statutory instrument is supported by the National Audit Office's (NAO) new Code of Audit Practice 2024. The backstop dates were introduced with the purpose of clearing the backlog of historic financial statements and enable to the reset of local audit. Where audit work is not complete, this will give rise to a disclaimer of opinion. This means the auditor has not been able to form an opinion on the financial statements.

Headlines

Implementation of IFRS 16

Implementation of IFRS 16 Leases became effective for local government bodies from 1 April 2024. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Local government accounts webinars were provided for our local government audit entities during March, covering the accounting requirements of IFRS 16. Additionally, CIPFA has published specific guidance for local authority practitioners to support the transition and implementation on IFRS 16.

Introduction

IFRS 16 updates the definition of a lease to:

- “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.”

In the public sector the definition of a lease is expanded to include arrangements with nil consideration. This means that arrangements for the use of assets for little or no consideration (sometimes referred to as peppercorn rentals) are now included within the definition of a lease.

IFRS 16 requires the right of use asset and lease liability to be recognised on the balance sheet by the lessee, except where:

- leases of low value assets
- short-term leases (less than 12 months).

This is a change from the previous requirements under IAS 17 where operating leases were charged to expenditure.

The principles of IFRS 16 also apply to the accounting for PFI liabilities.

The changes for lessor accounting are less significant, with leases still categorised as operating or finance leases, but some changes when an authority is an intermediate lessor, or where assets are leased out for little or no consideration.










Impact on the Authority




The implementation of IFRS 16 has not had a material impact on the financial statements. Appropriate changes have been made to the accounting policies and disclosures in the financial statements for this change in accounting standard. The Council has completed a thorough exercise assessing all leases and contracts against whether they should be accounted for under IFRS 16 and has determined there are no leases in the scope of IFRS that are required to be disclosed as Right of Use assets in the financial statements.

Subject to final review, we have not identified any issues to report in respect of the Council's implementation of IFRS 16.

Status of the audit

Our work is nearing completion, however there are a number of items which remain outstanding at the point of writing this report. The outstanding matters are set out below.

-  **Valuation of Land & Building, Investment Property and Council Dwellings** – work is ongoing in assessing assumptions and inputs used by managements expert in determining valuation.
-  **L3 Financial Assets and Liabilities**– work is ongoing to obtain sufficient appropriate evidence to corroborate the valuation of level 3 financial assets and liabilities.
-  **Creditors / Expenditure Testing** – Our testing of creditors and expenditure is not concluded. At the time of writing no issues have been identified that require reporting.
-  **Debtors / Income Testing** – Our testing of debtors and income is not concluded. At the time of writing no issues have been identified that require reporting.
-  **Princes Parade** – We have challenged managements accounting treatment and disclosures relating to the Princes Parade Project in the 2024/25 draft accounts. At the time of writing management have provided a response to our challenge and this is currently being reviewed and considered by the audit team.
-  **Fair Value of Oportunitas Ltd** – See page 27 of our report for the detail on the matter reported. The requirement to report a PPA was identified in July 2025, at the report date management have not provided the audit team with the updated disclosure notes and we are unable to conclude on this matter.
-  Receipt of signed letters of representation
-  Review of updated financial statements and annual governance statements
-  Completion of internal file and quality review processes

-  Significant elements outstanding – high risk of material adjustment or significant change to disclosures
-  Some elements outstanding – moderate risk of material adjustment or significant change to disclosures
-  Not considered likely to lead to material adjustment or significant change to disclosures

Materiality

Our approach to materiality

As communicated in our Audit Plan dated April 2025, we determined materiality at the planning stage as £2.62m based on 2.5% of prior year gross expenditure. At year-end, we have reconsidered planning materiality based on the draft consolidated financial statements. The audit team did not consider that the movement in gross expenditure was significant enough to change materiality levels. Our materiality levels, therefore, remain unchanged from the assessment made at the planning stage of the audit.

A recap of our approach to determining materiality is set out below.

Basis for our determination of materiality

- We have determined materiality at £2.6m based on professional judgement in the context of our knowledge of the Authority
- We have used 2.5% of gross expenditure as the basis for determining materiality.
- We use a benchmark of gross expenditure as the Council prepares an expenditure based budget for their financial year with the primary objective of providing services to the local community.
- The benchmark of gross expenditure has increased to 2.5% from 1.75% in the prior year due to a change in the benchmark permitted by the GT methodology.

Performance materiality

- Performance materiality is the level at which we perform specific audit testing. This is based on a percentage of materiality. This percentage is assessed at 70% and has not changed from the planning stage of the audit.
- **Component Performance materiality**
- Where audit work on components is being performed using component performance materiality, this has been set at £1.76m, with the component performance materiality used reflecting the relative risk and size of that component to the group

Specific materiality

- If Senior officer remuneration is an area of interest to readers of the financial statements. A lower level of materiality in these areas is appropriate due to the nature of these disclosure notes.
- We have therefore assessed a specific materiality for senior officer remuneration that is £20k per senior officer. Note this is not a cumulative amount and has been applied to each senior officer.
- **Reporting threshold**
- We will report to you all misstatements identified in excess of £0.131m, in addition to any matters considered to be qualitatively material.

Our approach to materiality

A summary of our approach to determining materiality is set out below.

| | Group (£) | Authority (£) | Qualitative factors considered |
|--|-----------|------------------|--|
| Materiality for the financial statements | £2.65m | £2.62m | We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure-based budget for the financial year with the primary objective to provide services to the local community, therefore gross expenditure was deemed the most appropriate benchmark. This benchmark was also used in the prior year. |
| Performance materiality | £1.85m | £1.83m | Performance Materiality is based on a percentage of the overall materiality. We have determined to apply 70% of overall materiality considering the requirements of ISA 320. |
| Specific materiality for senior officer remuneration | - | £20k per officer | Senior officer remuneration is an area of interest to readers of financial statements. A lower level of materiality in these areas is appropriate due to the nature of these disclosure notes. |
| Reporting threshold | £0.132m | £0.131m | |

Overview of significant other risks identified

Overview of audit risks

The below table summarises the significant risks discussed in more detail on the subsequent pages.

Significant risks are defined by ISAs (UK) as an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the degree to which risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement if that misstatement occurs.

Other risks are, in the auditor's judgement, those where the risk of material misstatement is lower than that for a significant risk, but they are nonetheless an area of focus for our audit.

| Risk title | Risk level | Change in risk since Audit Plan | Fraud risk | Level of judgement or estimation uncertainty | Status of work |
|---|-------------|---------------------------------|------------|--|----------------|
| Management override of controls | Significant | ↔ | ✓ | Low | ● Green |
| Valuation of land and building, council dwellings and Investment property | Significant | ↔ | ✗ | High | ● Amber |
| Valuation of the defined benefit pension net liability | Significant | ↔ | ✗ | High | ● Green |
| Level 3 financial assets and liabilities | Significant | ↔ | ✗ | High | ● Amber |
| Risk of fraud in revenue recognition ISA (UK) 240 presumed – (rebutted for all revenue streams) | Significant | ↔ | ✓ | Low | ● Green |
| Risk of fraud in expenditure recognition (rebutted) and other risk of completeness of expenditure | Other | ↔ | ✓ | Low | ● Green |

↑ Assessed risk increase since Audit Plan

↔ Assessed risk consistent with Audit Plan

↓ Assessed risk decrease since Audit Plan

● Green - Not likely to result in material adjustment or change to disclosures within the financial statements

● Amber - Potential to result in material adjustment or significant change to disclosures within the financial statements

● Red - Likely to result in material adjustment or significant change to disclosures within the financial statements

Significant risks

| Risk identified | Audit procedures performed | Key observations |
|---|---|--|
| <p>Management override of controls</p> <p>Under ISA (UK) 240, there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.</p> <p>We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.</p> | <p>We have:</p> <ul style="list-style-type: none"> evaluated the design and implementation of management controls over journals; analysed the journals listing and determined the criteria for selecting high risk unusual journals; identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness; and reviewed contract waivers and any incidences of non-compliance with procurement regulations | <p>Our audit work is complete and has not identified any significant issues in respect of management override of controls.</p> <p>We have challenged management on their judgements made when accounting for Princes Parade.</p> <p>No issues have been identified and we are satisfied that judgements made by management are appropriate and have been determined using consistent methodology, pending the resolution to the Princes Parade challenge.</p> <p>Having assessed management judgements and estimates individually and in aggregate we are satisfied that there is no material misstatement arising from management bias across the financial statements.</p> |

Significant risks

| Risk identified | Audit procedures performed | Key observations |
|--|---|--|
| <p>Valuation of land and buildings, council dwellings and investment properties</p> <p>The Council re-values its other land and buildings, council dwellings and investment properties to ensure that the carrying value of its assets are not materially different from the current value at the financial statements date.</p> <p>The valuation of land and buildings, council dwellings and investment properties represents a key accounting estimate which is sensitive to changes in assumptions and market conditions. Management has appointed external valuation expert to carry out the valuation as at 31 March 2025.</p> <p><u>Other land & buildings £35.654m (PY £33.209m):</u> The Council re-values its other land and buildings on a rolling five-yearly basis. The Council applies valuation techniques and key assumptions are made by the valuer to determine the current value of the assets at financial statement date.</p> <p><u>Council dwellings £226.781m (PY £217.075m):</u> 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. Key assumptions are made by the valuer in applying this method of valuation.</p> <p><u>Investment properties £27.109m (PY £30.278m):</u> The Council measures and re-values its investment properties at its highest and best use annually.</p> <p>We therefore identified valuation of other land and buildings, council dwellings and investment properties as a significant risk, particularly key assumptions and inputs applied by the valuer at the financial statement date.</p> | <p>We have:</p> <ul style="list-style-type: none">• 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.• Confirming the basis on which the valuation was carried out by the external valuation expert to ensure that the requirements of the Code are met.• Tested revaluations of land and buildings, council dwellings and investment properties recorded during the year to see if they had been input correctly into the Council's asset register and financial statements.• Assessed the value of a sample of land and buildings, investment properties and council dwelling assets in relation to market rates for comparable properties.• Evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. | <p>Our audit work on the valuation of land and buildings, investment properties and council dwellings is not complete.</p> <p>Our work to date has identified two findings in relation to management's process around assets not revalued and process around the reconciliation between the valuation report and asset register. These are set out in further detail on p45 – 46 of this report.</p> |

Significant risks

| Risk identified | Audit procedures performed | Key observations |
|---|---|---|
| <p>Valuation of net pension liability</p> <p>The Authority's share of the pension fund net liability, as reflected in its Balance Sheet as the net liability arising from defined benefit obligation, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£7.1m in the Authority's Balance Sheet at 31 March 2025, falling from £9.1m at 31 March 2024) and the sensitivity of the estimate to changes in key assumptions.</p> <p>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code.</p> <p>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.</p> <p>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.</p> <p>We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.</p> | <p>We have:</p> <ul style="list-style-type: none"> 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 actuary (Barnett Waddingham) 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 reasonableness of the actuary's assumptions and calculations in-line with the relevant standards. 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. Confirmed through analysis of the actuarial report that there was no impact arising from an asset ceiling, as per requirements of IFRIC 14. Obtained assurances from the auditor of Kent 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. | <p>Our audit work is complete and we received assurances from the Kent Pension Fund auditor.</p> <p>We are satisfied that the judgments and estimates made by management regarding the valuation of net pension liability were appropriate.</p> <p>Furthermore, we found no material misstatement arising from management bias as a result of the judgments and estimates made over the valuation</p> |

Significant risks

| Risk identified | Audit procedures performed | Key observations |
|--|--|--|
| <p>Level 3 financial assets and liabilities</p> <p>The Council reviewed its fair value of the financial assets as part of the IFRS 9 assessment and concluded that the soft loans for private sector housing improvement purposes and the equity investment in Oportunitas Ltd are level 3 assets.</p> <p>By 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 the estimate to changes in key assumptions.</p> <p>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.</p> | <p>We have:</p> <ul style="list-style-type: none">• gained an understanding of the Council’s process for valuing level 3 financial assets and liabilities and 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 related assets and liabilities;• considered the competence, expertise and objectivity of any management experts used;• challenged management about the disclosure of the level 3 financial asset; and• considered whether we need to engage our own valuer to assess the inputs and assumptions that underpins the level 3 assets valuation. | <p>Our work in this area is ongoing. The completed audit work to date has not identified any issues in respect of L3 financial assets and liabilities.</p> |

Significant risks

Risk identified

Presumed risk of fraud in revenue recognition

Under ISA (UK) 240, there is a rebuttable presumed risk of material misstatement 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 related to revenue recognition.

Having considered the risk factors set out in ISA (UK) 240 and the nature of the Council and Group’s revenue streams, at the planning stage we determined that the risk of fraud in revenue recognition could 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 the Council, mean that all forms of fraud are seen as unacceptable.

Audit procedures performed

We have evaluated the Council and Group’s accounting policy for recognition of income for appropriateness and compliance with the Code 2024/25, updated our understanding of the Council and Group’s system for accounting for income and evaluated the design and implementation of associated relevant controls.

We have sample tested transactions around the year-end to ensure that income has been recorded in the correct financial year.

We have sample tested grant income receipts to ensure that they have been appropriately categorised and only recognised when conditions have been met.

Key observations

Our work in this area is ongoing. The completed audit work to date has not identified any issues in respect of revenue recognition.

Our audit has not identified any circumstances that would cause us to change our rebuttal.

Other risks

| Risk identified | Audit procedures performed | Key observations |
|--|--|--|
| <p>Presumed risk of fraud in expenditure recognition</p> <p>Practice note 10: Audit of financial statements of Public Sector Bodies in the United Kingdom (PN10) states that the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition for public sector bodies.</p> <p>At the planning stage, we considered the risk that expenditure may be misstated due to the improper recognition of expenditure for all expenditure streams and concluded that there is not a significant risk. This is due to the low fraud risk in the nature of the underlying nature of the transaction, or immaterial nature of the expenditure streams both individually and collectively.</p> | <p>We have evaluated the Council and Group’s accounting policy for recognition of expenditure for appropriateness and compliance with the Code 2024/25, updated our understanding of the Council and Group’s system for accounting for income and evaluated the design and implementation of associated relevant controls.</p> <p>We have sample tested transactions around the year-end to ensure that expenditure has been recorded in the correct financial year.</p> | <p>Our work in this area is ongoing. The completed audit work to date has not identified any issues in respect of expenditure recognition.</p> <p>Our audit has not identified any circumstances that would cause us to change our assessment of risk.</p> |

Other findings

Other findings – significant matters

Issue

Commentary

Prior year adjustments identified

The Council engages Arlingclose to annually assess the fair value of its equity investment in Oportunitas Ltd, a wholly owned subsidiary providing affordable housing. For 31 March 2024, the investment was valued at £734,000. During the 2025 valuation process, Arlingclose identified errors in the prior year's calculation. Specifically, the discount rate was incorrectly applied and this was applied to cash flows that had been calculated on an interim basis rather than for a full year.

Correcting these inputs resulted in a revised fair value of £4.3m, meaning the investment was understated by £3.57m in the 2024 financial statements. This misstatement is material and qualifies as a prior period error.

Management have corrected the error through a prior period adjustment (PPA) in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors.

Auditor view

Our work in assessing the prior period error is not yet concluded, while we are satisfied with managements proposed accounting treatment and adjustment, we are unable to conclude on this until we have reviewed the updated disclosures in the draft financial statements.

Management response

The Council's professional advisors notified the Council of a correction required to their 2023/24 calculations of the fair value of its equity investment in Oportunitas Ltd. As an unlisted private limited company, the Council rightly obtains specialist professional technical advice to ascertain its fair value which is particularly complex for unlisted entities. In this case, having been notified of the issue by the professional advisors, officers disclosed the material error to the auditors. A restatement of the prior period comparatives has been made and disclosed in the revised accounts.

Other findings – significant matters

Issue

Commentary

Princes Parade

On review of the draft financial statements, we considered the accounting treatment of the Princes Parade development and the related contingent liability disclosure.

The Council owns a development site at Princes Parade, Hythe which the Council was planning to develop for Housing use and the development of a new Leisure Centre. Due to difficult economic conditions the Council decided to pause the development of the site to consider potential options in 2022/23. There was a public consultation in February 2025 regarding the future of the development with the results being published in May, in June it was decided that the project would end.

The development was initially capitalised as an asset under construction (AUC), with costs of £3.4m brought forward as at 1 April 2022/23 with management intending to write off this balance within the 2025/26 financial year.

In the 2024/25 draft financial statements the £3.4m capitalised costs relating to the development remain on the balance sheet as AUC. The results of the consultation have been disclosed as an event after the balance sheet date

Our assessment identified potential impairment indicators prior to the public consultation. Under IAS 36 these factors indicated that the asset's intended service or economic benefit would not be achieved, therefore we have challenged management on whether an impairment was required in the 2024/25 financial year. We have also challenged management on whether their disclosure on events after the balance sheet date is sufficient in disclosing the potential future use of the site and associated potential costs.

Auditor view

We have challenged management on their accounting treatment in the 24/25 financial statements. At the time of writing management have provided their response to this challenge and their rationale for the accounting treatment adopted for the project in the 2024/25 draft financial statements. The response is currently being reviewed and considered by the audit team.

Management response

The Council's professional judgment is that the project only formally ended in June 2025. All the while the reserved matters application (22/1192/FH) for the residential part of the Princes Parade scheme remained live, the 'expiry date' for the implementation of the original permission (Y17/1042/SH) was undetermined. Any costs to June 2025 remained capitalised until such time as the planning application obligations were formally disposed of.

The final date became known following the disposal of the application on 13 June 2025 (in the 2025-26 financial year). The Council expects to write the capital out to revenue in 2025/26.

Management have agreed to add additional disclosures to the statement of accounts.

Other findings – key judgements and estimates

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

Assessment:

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Amber] 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
- [Green] We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

| Key judgement or estimate | Summary of management’s approach | Auditor commentary | Assessment |
|---|--|--|------------|
| <p>Valuation of land and buildings including investment properties and council dwellings</p> <p>£289.54m at 31 March 2025</p> | <p>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. Council Dwellings are valued using a beacon methodology every 5 years, with indexation using hose prices indices in the intervening period.</p> <p>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 2025, on a five yearly cyclical basis. The total year end GBV of land and buildings was £37.59m, a net increase of £0.589m from 2021-22 (£34.512m).</p> <p>Council dwellings were valued on existing use value, determined using the basis of existing use value for social housing (EUV-SH).</p> <p>(Continued)</p> | <p>To address this risk, we considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none">• assessment of management's expert;• completeness and accuracy of the underlying information used to determine the estimate;• impact of any changes to valuation method;• consistency of estimate against our internal valuer’s market report; and• obtaining assurance that the disclosure in the PPE note is not materially misstated.• verified that management’s judgement that the carrying value of assets is not materially different to the current value is reasonable. This has been done by setting an independent expectation of the difference using indices provided by Montague Evans. | <p>TBC</p> |

Other findings – key judgements and estimates

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

| Key judgement or estimate | Summary of management’s approach | Auditor commentary | Assessment |
|---|---|--|------------|
| <p>Valuation of land and buildings including investment properties and council dwellings</p> <p>£289.54m at 31 March 2025</p> | <p>The council re-values its investment properties on an annual basis at fair value.</p> <p>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. To corroborate this conclusion, the auditor has evaluated the population of unvalued assets using market indices. The auditor agrees that the unvalued assets are not indicative of a material misstatement in the valuation.</p> <p>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.</p> | <ul style="list-style-type: none">assessed the reasonableness of judgements and assumptions made by management and the valuerconsidered the useful economic lives applied to assets by management’s expert. <p>Conclusion:</p> <p>Our work in this area is not yet complete and as such we cannot conclude on the key judgements and estimates in this area.</p> | <p>TBC</p> |

Other findings – key judgements and estimates

| Key judgement or estimate | Summary of management’s approach | Auditor commentary | Assessment | |
|--|--|--|--|------------|
| Valuation of net pension liability £7.1m at 31 March 2025 | <p>The Council’s net pension liability at 31 March 2025 is £7.1m (PY £9.1m) comprising the Local Government pension scheme as administered by Kent County Council. The Council uses Barnett Waddingham to provide actuarial valuations of the Council’s assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2022. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p> | <ul style="list-style-type: none">• We have assessed the Council’s actuary, Barnett Waddingham, to be competent, capable and objective.• We have performed additional tests in relation to the accuracy of the contribution figures, benefits paid and asset returns, to gain assurance over the 2023-24 roll-forward calculation carried out by the actuary.• We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.• We have confirmed there were no significant changes in 2024/25 to the valuation method.• We conducted an analytical review to confirm reasonableness of the Council’s share of LGPS pension assets.• We have conducted appropriate work to confirm that the application of an asset ceiling, as required by IFRIC 14 is not required. | <div>● Green</div> <p>We consider management’s process is appropriate and key assumptions are neither optimistic or cautious</p> | |
| | | | | |
| | Assumption | Actuary value | PwC range | Assessment |
| | Discount rate | 5.8% | 5.6% - 5.95% | Reasonable |
| | Pension increase rate | 2.9% | 2.85% - 2.95% | Reasonable |
| | Salary growth | 3.9% | 3.9% | Reasonable |
| | Life expectancy (years) – Males currently aged 45/65 | Pensioners: 20.7 Future pensioners: 22.0 | Pensioners: 19.2 – 21.8 Future pensioners: 20.6 – 23.1 | Reasonable |
| Life expectancy (years) – Females currently aged 45/65 | Pensioners: 23.3 Future pensioners: 24.7 | Pensioners: 22.7 – 24.3 Future pensioners: 24.1 – 25.74 | Reasonable | |

Other findings – key judgements and estimates

| Key judgement or estimate | Summary of management's approach | Auditor commentary | Assessment |
|--|---|---|------------|
| Level 3 financial assets and liabilities | <p>The Council reviewed its fair value of the financial assets as part of the IFRS 9 assessment and concluded that the soft loans for private sector housing improvement purposes and the equity investment in Oportunitas Ltd are level 3 assets.</p> <p>By 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 the estimate to changes in key assumptions.</p> <p>Management engaged Arlingclose as their expert to prepare the level 3 assets fair value assessment.</p> | <ul style="list-style-type: none"> • We gained an understanding of the Council's process for valuing level 3 financial assets and liabilities and evaluate the design of the associated controls. • We reviewed the nature and basis of estimated values and consider what assurance management has over the year-end valuation provided for the assets related assets and liabilities. • We considered the competence, expertise and objectivity of any management experts used. • We challenged management about the disclosure of the level 3 financial asset. • We considered whether we need to engage our own valuer to assess the inputs and assumptions that underpins the level 3 assets valuation. <p>Conclusion:</p> <p>Our work in this area is not yet complete and as such we cannot conclude on the key judgements and estimates in this area.</p> | TBC |

Other findings – Information Technology

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

| IT application | Level of assessment performed | Overall ITGC rating | ITGC control area rating | | | Related significant risks/other risks |
|----------------|--|--|--|---|--|---------------------------------------|
| | | | Security management | Technology acquisition, development and maintenance | Technology infrastructure | |
| E-Financials | ITGC assessment (design, implementation and operating effectiveness) | <div><div></div><div>Green</div></div> | <div><div></div><div>Green</div></div> | <div><div></div><div>Green</div></div> | <div><div></div><div>Green</div></div> | Management over-ride of controls |

Assessment:

- [Red] Significant deficiencies identified in IT controls relevant to the audit of financial statements
- [Amber] 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
- [Black] Not in scope for assessment

Communication requirements and other responsibilities

Other communication requirements

| Issue | Commentary |
|---|--|
| Matters in relation to fraud | <ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. |
| Matters in relation to related parties | <ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed |
| 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. |
| Written representations | <ul style="list-style-type: none"> A letter of representation has been requested from the Council, including specific representations in respect of the Group covering the financial statements, annual governance statement and narrative report which is included in the Audit and Governance Committee papers. |
| Confirmation requests from third parties | <ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the Authority's banking and treasury partners. This permission was granted and the requests were sent. All requests were returned with positive confirmation. |
| Disclosures | <ul style="list-style-type: none"> Our review found no material omissions in the financial statements. Details of disclosure changes made to the financial statements following audit review have been set out on page 38. |
| Audit evidence and explanations | <ul style="list-style-type: none"> All information and explanations requested from management was provided as promptly as possible. |
| Significant difficulties | <ul style="list-style-type: none"> No significant difficulties arose during the audit that we require to bring to the attention of those charged with governance. |
| Other matters | <ul style="list-style-type: none"> There are no other matters that we are required to bring to the attention of those charged with governance. |

Other responsibilities

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 2024). 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
- 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 Authority'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 Authority 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 Authority and its group and the environment in which it operates
- the Authority and Group's financial reporting framework
- the Authority and Group's system of internal control for identifying events or conditions relevant to going concern
- management's going concern assessment for the Authority and its group.

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.

Other responsibilities

| Issue | Commentary |
|---|--|
| Other information | <p>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.</p> <p>No inconsistencies have been identified/or set out here any inconsistencies. We plan to issue an unmodified opinion in this respect – refer to Appendix D.</p> |
| Matters on which we report by exception | <p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • 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. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters</p> |

Other responsibilities

| Issue | Commentary |
|---|--|
| Specified procedures for Whole of Government Accounts | <p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that work is not required as the Authority does not exceed the threshold.</p> |
| Certification of the closure of the audit | <p>We intend to certify the closure of the 2024/25 audit of Folkestone and Hythe District Council in the audit report, as detailed in Appendix H.</p> |

Audit adjustments

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

No adjusted misstatements have been identified at the date of issuing our report. We will provide an update to management and the Audit Committee should any issues be identified from the remaining testing.

| | Comprehensive Income and Expenditure Statement | Balance Sheet | Impact on total net expenditure | Impact on general fund |
|----------------|--|---------------|------------------------------------|------------------------|
| Detail | £'000 | £'000 | £'000 | £'000 |
| | - | - | - | - |
| Overall impact | 0 | 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 | Misclassification or change identified | Adjusted? |
|------------|---|-----------|
| CF Note 2 | Disclosure Misstatement - As per CF I&E, business rates income is stated as £29,810k. Upon discussion with management it was identified that the business rates income is actually £28,840k and has been accounted appropriately, hence this is a disclosure misstatement. This impacts the disclosure of the 'total income' line and 'closing balance of surplus/deficit for the year' line in the CF I&E. | ✓ |
| Note 34 | Within the Maturity Analysis table under Liquidity Risk and the Impact of a 1% Increase table under Market Risk, we identified variances between the draft Statement of Accounts figures and those reported in the Arlingclose reports prepared by management's expert. Management confirmed that these disclosures had not been updated and agreed to amend them to ensure consistency with the expert reports. | ✓ |
| Note 43 | Omission of Contingent Liability Disclosure – Virgin Media Case The financial statements did not include a disclosure relating to the ongoing legal matter Virgin Media Ltd v NTL Pension Trustees II Ltd. Based on the nature of the case and its potential implications, this should have been considered for disclosure as a contingent liability in accordance with relevant accounting standards. | ✓ |
| Throughout | A number of typographical errors have been identified throughout the financial statements. | ✓ |
| Throughout | A number of immaterial accounting policies and disclosures have been included in the financial statements. These should be removed to avoid obscuring material information within the financial statements. | ✓ |

Audit adjustments

Impact of unadjusted misstatements

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

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Impact on total net expenditure £'000 | Impact on general fund £'000 |
|--|---|------------------------|---|---------------------------------|
| Pension Fund Liability | - | 416 | - | - |
| The auditors of Kent Pension Fund (KPF) reported a misstatement of £26,711k within their IAS19 assurances due to a difference between the net assets in the pension fund accounts (£8,451,611k) and the fund assets provided to the actuary by the KPF (£8,424,900k). This results in total variance of £26,711k for KPF as a whole. | | (416) | | |
| Folkestone and Hythe District Council's % share of assets in the fund is 1.56%, thus the net effect of the misstatement to FHDC is £416k. | | | | |
| - Pension Fund liability, Dr 416k | | | | |
| - Pensions Reserve, Cr 416k | | | | |
| Overall impact of current year unadjusted misstatements | - | - | - | - |

Impact of unadjusted misstatements in the prior year

The table below provides details of misstatements identified during the prior year audit which were not adjusted for within the final set of financial statements for 2023/24, and the resulting impact upon the 2024/25 financial statements. We also present the cumulative impact of both prior year and current year unadjusted misstatements on the 2024/25 financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Impact on total net expenditure £'000 | Impact on general fund £'000 | Reason for not adjusting |
|---|---|------------------------|---|------------------------------------|-----------------------------|
| Understatement of expenditure – payments made One sample worth £57,134.38 was identified to be expenditure relating to 2023-24, but it was transacted in the 2024-25 general ledger. The projected misstatement of the impact is determined to be £334,351.29. - Creditors, Cr £334k - Operating expenditure, Dr £334k | 334 | (334) | 334 | (334) | Projected misstatement |
| Understatement of expenditure – invoices received One sample worth £190,163.10 was identified to be expenditure relating to 2023-24, but it was transacted in the 2024-25 general ledger. The projected misstatement of the impact is determined to be £571,084.10. - Creditors, Cr £571k - Operating expenditure, Dr £571k | 571 | (571) | 571 | (571) | Projected misstatement |
| Overstatement of expenditure – Note 7 Operating Expenditure One sample worth £1,793.60 was identified to be expenditure relating to 2022-23, but it was transacted in the 2023-24 general ledger. The projected misstatement of the impact is determined to be £114,857.92. - Creditors, Dr £115k - Operating expenditure, Cr £115k | (115) | 115 | (115) | 115 | Projected misstatement |

Impact of unadjusted misstatements in the prior year

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Impact on total net expenditure £'000 | Impact on general fund £'000 | Reason for not adjusting |
|--|--|------------------------|---|------------------------------------|---|
| Overstatement of NNDR creditors One sample worth £6,999 was recorded as a prepayment of NNDR business rates for 2024-25. However, a review of the transaction history noted that there was insufficient evidence that monies received pre year-end did not pertain to 2023-24 taxation. The projected misstatement of the impact is determined to be £230,176.88. - Creditors, Dr £230k - Taxation and non-specific grant income, Cr £230k | (230) | 230 | (230) | 230 | Projected misstatement |
| Note 25 Short-term creditor opening balances In line with our 2021-22 control recommendation, we noted that there were opening balances recorded in the creditor population. For codes N50001 and N50022, this includes a pre-2016 opening balance of £608,398 which cannot be broken down into valid creditors. In reality this balance will have been offset by payments made by the Council in 2016, however the 'matching' of which transactions were made is not possible in the absence of a breakdown of the £619k and a 2016-17 balance of £309k. We have therefore been unable to gain assurance over the £928k recorded within the financial statements. The full balance is therefore deemed to be an uncertainty, in which we have reported to you as a misstatement. | (928) | 928 | (928) | 928 | This is an uncertainty (and not a factual error) it is not appropriate to adjust for this balance |

Impact of unadjusted misstatements in the prior year

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Impact on total net expenditure £'000 | Impact on general fund £'000 | Reason for not adjusting |
|---|--|------------------------|---|------------------------------------|-----------------------------|
| Understatement of the Pension Fund liability The auditors of Kent Pension Fund (KPF) reported a misstatement of £8,465k within their IAS19 assurances due to a difference between the net assets in the pension fund accounts (£8,143,086k) and the fund assets provided to the actuary by the KPF (£8,134,288k). This results in total variance of £8,323k for KPF as a whole. Folkestone and Hythe District Council's % share of assets in the fund is 1.6%, thus the net effect of the misstatement to FHDC is £133k. - Pension Fund liability, Cr £133k - Re-measurement of net defined liability, Dr £133k | 133 | (133) | 133 | (133) | Immaterial actuarial change |
| Overall impact of prior year unadjusted misstatements | (235) | 235 | (235) | 235 | |
| Cumulative impact of prior year and current year unadjusted misstatements on 2024/25 financial statements | 946 | (946) | 946 | (946) | |

Action plan

We set out here our recommendations for the Authority which we have identified as a result of issues identified during our 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 |
|--------------------------------------|---|---|
| <div><div></div><div>Low</div></div> | <p>Lack of Formalised Assessment for Non-Revalued Assets</p> <p>Management does not currently have a formalised process in place for assessing the valuation of assets that are not subject to formal revaluation in each financial year.</p> <p>While we acknowledge that management engages internal property experts (estate) to provide qualitative assessments of asset condition and market relevance, and that a five-year rolling revaluation programme is in place in accordance with CIPFA guidance, the lack of a documented annual assessment increases the risk that material changes in asset values may not be identified on a timely basis.</p> <p>Although the CIPFA Code does not mandate annual revaluation for all assets, it does require that asset values remain materially accurate. Without a structured and consistent approach to assessing non-revalued assets, there is a heightened risk of misstated asset values in the financial statements. This may compromise the accuracy and reliability of financial reporting, and could result in non-compliance with IAS 16 or the Code.</p> | <p>Management should implement a formalised annual assessment process for assets not subject to revaluation. This should include documented procedures for reviewing indicators of impairment or significant changes in value, supported by appropriate evidence and professional judgement.</p> <p>Management response</p> <p>The Council's professional judgment is that the project only formally ended in June 2025. All the while the reserved matters application (22/1192/FH) for the residential part of the Princes Parade scheme remained live, the 'expiry date' for the implementation of the original permission (Y17/1042/SH) was undetermined. Any costs to June 2025 remained capitalised until such time as the planning application obligations were formally disposed of.</p> <p>The final date became known following the disposal of the application on 13 June 2025 (in the 2025-26 financial year). The Council expects to write the capital out to revenue in 2025/26.</p> <p>Management have agreed to add additional disclosures to the statement of accounts.</p> |

Key

- High – Significant effect on control system and/or financial statements
- Medium – Limited impact on control system and/or financial statements
- Low – Best practice for control systems and financial statements

Action plan

| Assessment | Issue and risk | Recommendations |
|--------------------------------------|--|--|
| <div><div></div><div>Low</div></div> | <p>Lack of Formalised Reconciliation Between Valuation Report and Asset Register</p> <p>During our testing of the valuation Land and building and Council dwelling, we noted several reconciling items between the valuer’s report and the Council’s asset register. These differences arose because the valuation included assets that had been disposed of in the current and prior years, as well as assets classified as held for sale. While management was aware of these differences, there was no evidence that a formal reconciliation was performed as part of the financial statement close process.</p> <p>Failure to reconcile valuation reports with the asset register increases the risk of misstatement of property, plant, and equipment balances within the financial statements. This may also result in inaccurate depreciation charges and incorrect impairment assessments. If such errors remain undetected, they could lead to misstatements and non-compliance with IAS 16 or the Code.</p> | <p>Management should implement a formal reconciliation process between the valuation report and the asset register as part of the year-end close procedures. This should include documented checks to ensure that disposed assets and assets held for sale are excluded from valuations and that any differences are investigated and resolved before financial statements are finalised for the inspection period.</p> <p>Management response</p> <p>Whilst no errors have been identified as a result of this finding, the Council takes note of this process improvement point and will implement a relevant reconciliation control between the asset register and the valuation report.</p> |

Key

- High – Significant effect on control system and/or financial statements
- Medium – Limited impact on control system and/or financial statements
- Low – Best practice for control systems and financial statements

Follow up of prior year recommendations

We identified the following issues in the audit of the Authority’s 2023/24 financial statements, which resulted in 2 recommendations being reported in our 2023/24 Audit Findings Report. With a further follow up on 4 recommendations reported in our 2022/23 Audit Findings Report which were not fully implemented at the point of reporting for 2023/24.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|------------|---|--|
| ✓ | <p>2023-24 Trial balance mapping</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>As part of our 2023-24 audit procedures, we have noted improvements in this area. However, some material mapping discrepancies have been identified throughout our audit procedures. We therefore recommend that management perform a consistency check of their mapping as part of the 2024-25 accounts preparation.</p> | <p>As noted in Management’s response to this issue in the 2022/23 (December 2024) and 2023/24 (February 2025) audit findings reports, the Council is - at the time of writing - still 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, management have continued to hone the existing mapping agreed with the auditors for 2022/23, which was brought forward to 2023/24 and 2024/25 and continue to refine it.</p> |
| X | <p>2023-24 Journal authorisation</p> <p>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.</p> <p>Management should ensure that the control around segregation of duties is working effectively to avoid self-authorisation of journals.</p> | <p>The Council followed up this matter with its external system supplier for the incumbent system. From those discussions, it has become clear that an automated control will not be possible in the existing system. Given the forthcoming implementation of a new financial management system, this control will be addressed as part of that implementation using an automated control.</p> |

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|------------|--|--|
| X | <p>2021-22 Debtor and creditor opening balances</p> <p>As part of our 2021-22 debtor and creditor work, we noted that there were several opening balances that were not valid for the period under audit. This continues to increase the volume of work required by the audit team to obtain assurances on the Council's debtor and creditor balances.</p> | <p>As noted in Management's response to this issue in the 2022/23 audit finding's report (December 2024), this issue relates to the reporting available from the current finance system. The Council is, at the time of writing, in the process of changing 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 reviewing the Chart of Accounts and investigating with the technology team to see what mitigations are possible in light of the challenges faced.</p> |
| X | <p>2021-22 Cleansing of the fixed asset register</p> <p>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.</p> <p>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.</p> | <p>There has been insufficient time since the completion of the 2022/23 audit (December 2024 - where this finding was raised), subsequent 2023/24 audit (February 2025) and then commencement of the 2024/25 audit (from March 2025) for management to review the fixed asset register and associated accounting / depreciation policies. This will be addressed following implementation of the new financial management system from April 2026</p> |
| X | <p>2023-24 Journals Authorisation</p> <p>In reviewing journal entries selected within our response to the risk of management override of controls, we noted alternation between the same individuals preparing and authorising journal entries.</p> <p>Consideration has been made by the audit team as to whether this constitutes ineffective separation through segregation of duties. No concerns were noted from this review. However, there is opportunity to improve the process through formalising the authorisation hierarchy.</p> | <p>As with the 2023-24 manual journal automated user access control recommendation raised above, a suitable hierarchy will be implemented alongside the automated controls as part of the new financial management system due to go live in April 2026.</p> |

Value for Money arrangements

Value for Money arrangements

Approach to Value for Money work for the year ended 31 March 2025

The National Audit Office issued its latest Value for Money guidance to auditors in November 2024. The Code requires auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Additionally, The Code requires auditors to share a draft of the Auditor's Annual Report (AAR) with those charged with governance by 30th November each year from 2024-25. Our draft AAR was shared with management on 5 November 2025 and the final AAR reported to you on 17 December 2025.

In undertaking our work, we are required to have regard to three specified reporting criteria. These are as set out below.



Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.



Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.



Governance

How the body ensures that it makes informed decisions and properly manages its risks.

In undertaking this work we have not identified any significant weaknesses in arrangements.

Independence considerations

Independence considerations

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers). In this context, we disclose the following to you:

We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council's Ethical Standard

Further, we have complied with the requirements of the National Audit Office’s Auditor Guidance Note 01 issued in February 2025 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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 Authority 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 Authority or group or investments in the Authority or group 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 Authority or group 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 Authority or group. |
| 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 Authority or group, 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 and network firms 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.

Fees and non-audit services

Audit-related non-audit services

| Service | 2024/25 £ | Threats Identified | Safeguards applied |
|--|-----------|---|---|
| Certification of Housing Benefits Subsidy claim | £35,060 | 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 £35,060 in comparison to the total fee for the audit of £183,758 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 Pooling of Housing Capital Receipts claim | £10,000 | 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 £10,000 in comparison to the total fee for the audit of £183,758 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. |

This covers all services provided by us and our network to the group/Authority, its directors and senior management and its affiliates, that may reasonably be thought to bear on our integrity, objectivity or independence.

Fees and non-audit services

| Audit fees | Proposed fee £ | Final fee £ |
|---|-------------------|----------------|
| Scale fee set by PSAA | 183,758 | 183,758 |
| Group audit procedures | 8,272 | 8,272 |
| Fee variation – implementation of IFRS 16 | - | |
| Total audit fees (excluding VAT) | £192,030 | £192,030 |

Total audit and non-audit fee

| | |
|----------------------|-------------------------|
| Audit fee - £192,030 | Non-audit fee - £45,060 |
|----------------------|-------------------------|

The above fees are exclusive of VAT and out of pocket expenses.

The fees above reconcile to the financial statements.

A fee variation for our work on the implementation of IFRS 16 is currently being calculated and will then be discussed with management, before submission to PSAA for approval. We will update the Governance and Audit Committee when the fee variation is approved.





This covers all services provided by us and our network to the group/Authority, its directors and senior management and its affiliates, that may reasonably be thought to bear on our integrity, objectivity or independence.

Appendices

A. Communication of audit matters with 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 matters in relation to going concern | ● | ● |
| Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud | ● | ● |
| Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures | | ● |
| 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 | | ● |

A. Communication of audit matters with those charged with governance

| Our communication plan | Audit Plan | Audit Findings |
|---|------------|---|
| 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, as a minimum a requirement exists for our findings to be distributed to all the company directors and 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 those charged with governance.

B. Our team and communications

Grant Thornton core team

Paul Dossett

Key Audit Partner

- Key contact for senior management and Audit and Governance Committee
- Overall quality assurance

Kieran McDermid

Audit Manager

- Works with your senior finance team members
- Resource management
- Responsible for overall audit management, audit delivery and reporting

Mary Adeson

Audit Senior

- Day-to-day point of contact
- Leads the audit fieldwork

Thomas Foster

Value for Money
Lead Manager

- Leads on our Value for Money work
- Responsible for meeting with Officers and Members and concluding on the efficiency of arrangements for obtaining value for money

As part of our overall service delivery, we may utilise colleagues who are based overseas, primarily in India and the Philippines. Those colleagues work on a fully integrated basis with our team members based in the UK and receive the same training and professional development programmes as our UK based team. They work as part of the engagement team, reporting directly to the Audit Senior and Manager and will interact with you in the same way as our UK based team albeit on a remote basis. Our overseas team members use a remote working platform which is based in the UK. The remote working platform (or Virtual Desktop Interface) does not allow the user to move files from the remote platform to their local desktop meaning all audit related data is retained within the UK.

C: Group audit

In accordance with ISA (UK) 600 Revised, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The table below summarises our final group scoping, as well as the status of work on each component.

| Subsidiary Level | | | | | | Risk of material misstatement to the group | Auditor | Planning - Audit scope | Final – Audit Scope | Status |
|---|--|---|---|---|---|--|-------------------------------|------------------------|---------------------|--------|
| 1 | 2 | 3 | 4 | 5 | 6 | | | | | |
| Folkestone and Hythe District Council Group | | | | | | | Grant Thornton UK LLP | | | ● |
| | Folkestone and Hythe District Council | | | | | Yes | Grant Thornton UK LLP | | | ● |
| | Oportunitas Limited | | | | | Yes | Begbies Chartered Accountants | | | ● |
| | Otterpool Park LLP | | | | | No | Kreston Reeves LLP | | | ● |
| | Otterpool Park Development Company Ltd | | | | | No | Kreston Reeves LLP | | | ● |

Key

Scope 1

Scope 2

Scope 3

Out of scope

●

●

●

Audit of entire financial information of the component, either by the group audit team or by component auditors (full-scope)

Specific audit procedures designed by the group auditor (specific scope)

Specific audit procedures designed by the component auditor (specific scope)

Out of scope components are subject to analytical procedures performed by the Group audit team to group materiality.

Planned procedures are substantially complete with no significant issues outstanding.

Planned procedures are ongoing/subject to review with no known significant issues.

Planned procedures are incomplete and/or significant issues have been identified that require resolution.

D: Draft Audit Opinion

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 subsidiaries (the 'group') for the year ended 31 March 2025, 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 Movement on the Housing Revenue Account 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 2024/25.

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 2025 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 2024/25; 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 (2024) ("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 Finance (s.151) 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.

D: Draft Audit Opinion

In our evaluation of the Director of Finance (s.151) conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 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 2024) 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 Finance (s.151) 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 Finance (s.151) 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 Statement of Accounts, other than the financial statements and our auditor's report thereon. The Director of Finance (s.151) 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 November 2024 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 requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25, 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.

D: 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 Finance (s151)

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 Finance (s.151). The Director of Finance (s.151) 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 2024/25, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance (s.151) 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 Finance (s.151) 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.

D: Draft Audit Opinion

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.

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 2024/25, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Accounts and Audit (Amendment) Regulations 2024 and the Local Government Act 2003.
- We enquired of management and the Audit and 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, internal audit and the Audit and 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, fraud in income and expenditure recognition and potential management bias in determining accounting estimates for the valuation of land and buildings (including council dwellings and investment properties), the valuation of the pension fund net liability, the valuation of level 3 financial assets and liabilities, and the completeness of expenditure accruals. 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 closing journal entries.
- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud;
 - journal entry testing, with a focus on unusual journal entries using criteria based on our knowledge of the Authority and the use of data analytics;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of land and buildings, the pension fund net liability, level 3 assets and liabilities; and manual expenditure accruals;
 - 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.

D: Draft Audit Opinion

- We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including potential for fraud in revenue/ expenditure recognition and significant accounting estimates. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.
- The engagement partner's 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:
 - 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
 - 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 2025.

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

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.

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.

D: Draft Audit Opinion

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in November 2024. 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 2025 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 in relation to the Authority’s consolidation returns and we have received confirmation from the National Audit Office the audit of the Whole of Government Accounts is complete for the year ended 31 March 2025. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2025.

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 85 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.

Paul Dossett, Key Audit Partner

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



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