



The Audit Findings for Dover District Council

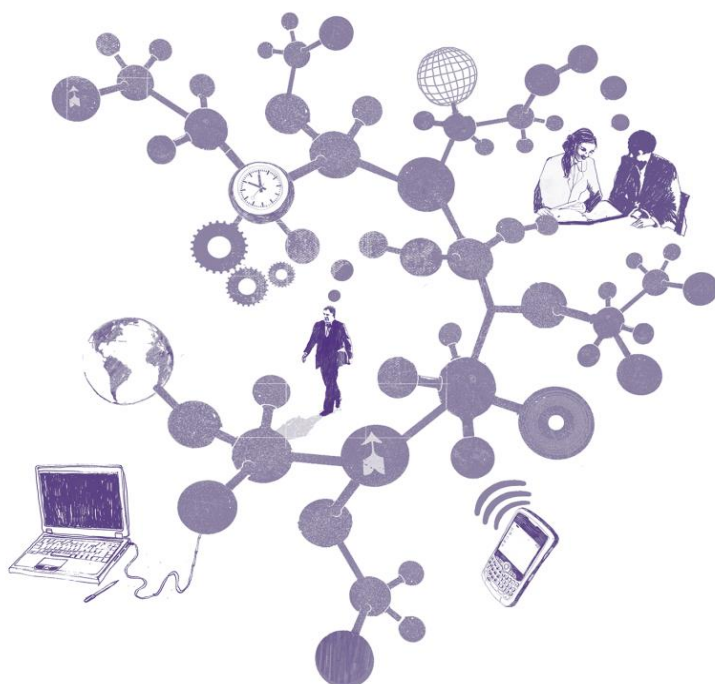
Year ended 31 March 2016

29 September 2016

Elizabeth Jackson
Engagement Lead
T 0207 728 3329
E elizabeth.l.jackson@uk.gt.com

Terry Blackman
Audit Manager
T 020 7728 3194
E terry.blackman@uk.gt.com

Andy Southall
In Charge Auditor
T 0117 305 7636
E andy.m.southall@uk.gt.com





Grant Thornton

Private and Confidential

Dover District Council
White Cliffs Business Park
Dover
Kent
CT16 3PJ

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP
T +44 (0) 20 7383 5100
www.grant-thornton.co.uk

29 September 2016

Dear Members of the Governance Committee

Audit Findings for Dover Council for the year ending 31 March 2016

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

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

Elizabeth Jackson

Engagement lead

Chartered Accountants

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP.

A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see grant-thornton.co.uk for further details.

Contents

Section	Page
1. Executive summary	4
2. Audit findings	8
3. Value for Money	21
4. Other statutory powers and duties	25
5. Fees, non-audit services and independence	27
6. Communication of audit matters	29

Appendices

- A Action plan
- B Audit opinion

Section 1: Executive summary

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Other statutory powers and duties
- 05. Fees, non audit services and independence
- 06. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Dover District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

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

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

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

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

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

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

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 24 March 2016.

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

- testing of Housing Benefit payments
- review of the final version of the financial statements and the Annual Governance Statement
- obtaining and reviewing the management letter of representation
- review of revised versions of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion.

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

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position. We have, however, recommended a number of adjustments to improve the presentation of the financial statements. Details are presented in section two of this report.

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

- the draft accounts were prepared to a high standard
- improvements could be made in the retention of records to support capital accounting entries.

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

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

Other financial statement responsibilities

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

This includes:

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

Controls

Roles and responsibilities

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

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

Findings

We draw your attention in particular to the following control issues:

- journals produced by Accountancy are not authorised before entry on the Council's accounting system. As a result there is a risk of fraud or error in the Council's accounting system and financial statements
- the accounting system was unable to provide a listing that balances, as the pence element was not being displayed, resulting in trivial differences between debits and credits
- the findings of the valuer are not subject to adequate oversight by management, for example instructing the valuer on the assets to be reviewed and documenting consideration of the validity of the assumptions used.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

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

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

Grant certification

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

The way forward

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

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

Acknowledgement

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

Grant Thornton UK LLP
September 2016

Section 2: Audit findings

- 01. Executive summary
- 02. Audit findings**
- 03. Value for Money
- 04. Other statutory powers and duties
- 05. Fees, non audit services and independence
- 06. Communication of audit matters

Materiality

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

As we reported in our audit plan, we determined overall materiality to be £1,653k (being 2% of gross revenue expenditure in your 2014/15 financial statements, the most recent available at the planning stage of our audit). We have considered whether this level remained appropriate during the course of the audit and upon receipt of your draft statements have revised our overall materiality to £1,320k (being 2% of gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £66k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.	£100k
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£50k

Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Dover District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited; and• the culture and ethical frameworks of local authorities, including Dover District Council, mean that all forms of fraud are seen as unacceptable.	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Review of accounting estimates, judgments and decisions made by management</p> <p>Assessment of internal controls in place relating to the posting of journal entries</p> <p>Testing of journal entries</p> <p>Review of unusual significant transactions</p>	<p>Our audit work has not identified any evidence of management over-ride of controls. However, we found that journal entries produced by Accountancy are not authorised, and have reported this as an internal control weakness (see page 22).</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Valuation of property, plant and equipment</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none">• A walkthrough of the council's processes and controls over this area to gain an understanding of these.• Verification of the existence and ownership of material assets and a sample of those remaining.• Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions.• Review of the internal revaluation of any Council owned assets and challenge the assumptions made in arriving at the valuation.• Testing of the significant movements in the year such as additions, depreciation, transfers and disposals to ensure that these amounts are valid.• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding.• Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.	<p>Our audit work has not identified any significant issues in relation to the risk identified. However, we noted the following control weakness:</p> <ul style="list-style-type: none">• The findings of the valuer are not subject to adequate oversight by management, for example instructing the valuer on the assets to be reviewed and documenting consideration of the validity of the assumptions used. <p>Recommendation:</p> <ul style="list-style-type: none">• Issue instructions for the valuer's annual review of the Council's assets and document management's consideration of the validity of the valuer's assumptions.

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>Walkthrough of the council's processes and controls over this area to gain an understanding of these.</p> <p>Trend analysis on the council's Monthly Payroll Figures to identify any months where there are outliers present which may indicate issues with the completeness of the figures included within the GL from the Payroll System.</p> <p>Testing of a sample of employees across the year to agree pay back to the relevant supporting records, such as their contracts/pay rise letters, to ensure the full costs have been included within the Accounts for the year.</p>	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>Walkthrough of the council's processes and controls over this area to gain an understanding of these.</p> <p>Detailed substantive testing will be performed over the operating expenditure incurred by the Council, during the year, including payments made post-period end.</p> <p>Trend analysis of the month-on-month spend on Operating Expenses will be performed to identify any months where amounts have been potentially omitted, and explanations will be obtained for these.</p> <p>Testing will also be performed on the Creditors included within the Accounts at year end to ensure that these amounts are valid.</p>	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant and equipment	Property, plant and equipment activity not valid	<ul style="list-style-type: none">• A walkthrough of the council's processes and controls over this area to gain an understanding of these.• Verification of the existence and ownership of material assets and a sample of those remaining.• Test of significant movements in the year such as additions, depreciation, transfers and disposals to ensure that these amounts are valid.	Our audit work has not identified any significant issues in relation to the risk identified.
Pension valuation (IAS 19)	Valuation of the pension fund assets and liabilities have been incorrectly valued	<ul style="list-style-type: none">• Walkthrough of the council's processes and controls over this area to gain an understanding of these.• Document our understanding of the qualifications, experience and expertise of the actuary in reaching the valuation of the pension fund's assets and liabilities.• Test the completeness and appropriateness of the data sent to the pension fund by the council.• Review the assumptions used by the actuary in arriving at their valuation for reasonableness.• Test the input of the valuation data from the actuary to the financial statements, and review disclosures made under IAS 19.	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates and judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>The Council has three principal revenue streams</p> <ul style="list-style-type: none">• taxation income relating to council tax and business rates, which is recognised in the year that the tax was levied• grant income, which is recognised in accordance with the terms of the grant, whether specific or non-specific• income from fees and charges in the provision of services, which is recognised when the service has been provided, or when title to goods has passed. An exception is car park penalty notices.	<p>The revenue recognition policies are appropriate and in accordance with the CIPFA Code and International Financial Reporting Standards (IFRS).</p>	<div>●</div> <div>Green</div>
Estimates and judgements	<p>Significant estimates and judgements include:</p> <ul style="list-style-type: none">• useful life of capital equipment• land and building revaluations• expenditure accruals• allowance for doubtful debt• assessment that the waste collection and recycling contract does not contain an embedded lease• assessment that group accounts are not required for East Kent Housing.	<p>Our review of key judgements and estimates has not highlighted any issues which we wish to bring to your attention.</p>	<div>●</div> <div>Green</div>
Estimates and judgements – pension fund valuations	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements. Actuaries are engaged to provide the Council with expert advice about the assumptions to be applied. The effects on the net pension's liability of changes in individual assumptions can be measured and are disclosed in the accounts.</p>	<p>The policy adopted for the pension fund liability is appropriate under the Code.</p> <p>We have reviewed the work of the actuary as an expert and considered whether key assumptions (eg. discount rates, life expectancy, increases in salary) are reasonable.</p> <p>We have received assurances from the auditor of Kent County Council regarding the operation of controls in the pension schemes it administers on behalf of the Council.</p>	<div>●</div> <div>Green</div>

Assessment

● Marginal accounting policy which could potentially attract attention from regulators ● Accounting policy appropriate but scope for improved disclosure ● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements

continued

Accounting area	Summary of policy	Comments	Assess ment
Going concern	The Director of Finance, Housing and Community, s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	<div>●</div> <div>Green</div>
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	<div>●</div> <div>Green</div>

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient
- Accounting policy appropriate but scope for improved disclosure

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none">• We have previously discussed the risk of fraud with the Governance Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none">• From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none">• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none">• A standard letter of representation has been requested from the Council.
5.	Confirmation requests from third parties	<ul style="list-style-type: none">• We requested from management permission to send confirmation requests to a number of banks and financial institutions. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation, with the exception of your soft loans which required adjustment by a decrease of £28,000.
6.	Disclosures	<ul style="list-style-type: none">• Our review found no material omissions in the financial statements.
7.	Matters on which we report by exception	<ul style="list-style-type: none">• We are required to report on a number of matters by exception in a number of areas. We have not identified any issues we would be required to report by exception in the following areas:<ul style="list-style-type: none">• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit• The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<p>We are only 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 where the Council exceeds the audit threshold.</p> <p>Dover District Council is below the threshold.</p>

Internal controls

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

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

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	<div><div></div><div>Amber</div></div>	Journal entries produced by Accountancy are not authorised. Our testing of a sample of journals identified no issues that we need to report to you. However, there remains a risk of fraud or error in the Council's accounting records and financial statements.	<ul style="list-style-type: none">Implement procedures to ensure journal entries produced by Accountancy are authorised.
2.	<div><div></div><div>Amber</div></div>	The accounting system is unable to provide a listing that balances, as the pence element is not displayed resulting in trivial differences between debits and credits.	<ul style="list-style-type: none">Consider amending system parameters to allow the pence element of balances to be displayed.
3.	<div><div></div><div>Amber</div></div>	The findings of the valuer are not subject to adequate oversight by management, for example instructing the valuer on the assets to be reviewed and documenting consideration of the validity of the assumptions used	<ul style="list-style-type: none">Issue instructions for the valuer's annual review of the Council's assets and document management's consideration of the validity of the valuer's assumptions

Assessment

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

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Internal controls – review of issues raised in prior year

	Assess ment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<ul style="list-style-type: none">The Council hold s data in relation to home improvement loans which is provided to Capita to support their valuation assessment. Our audit review identified a need to review the underlying information to ensure that records are fully up to date such as timing of grants and loans.	Audit work performed during 2015/16 identified no issues where soft loans were not supported by original documentation which tied back to figures disclosed.

Assessment

- ✓ Action completed
- X Not yet addressed

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. We have not identified any adjustments affecting the Council's reported financial position .

Adjustment type		Value £'000	Account balance	Impact on the financial statements
1	Misclassification	1,136	Creditors	Debtors incorrectly included in creditors balance. No overall impact on financial position.
	Misclassification	(1,136)	Debtors	
2	Misclassification	1,462	PPE Note – Revaluation decreases recognised in the provision of services	Revaluation movements were incorrectly classified within the PPE Note. This has no impact on financial position and was correctly disclosed within the CIES and the revaluation reserve note disclosures.
	Misclassification	(1,462)	PPE Note – Revaluation Increases recognised in the revaluation reserve	
3	Other minor disclosure issues	-	Various	We agreed a number of minor amendments to disclosures to correct errors and reflect current best practice. No impact on financial position.

Section 3: Value for Money

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Other statutory powers and duties
- 05. Fees, non-audit services and independence
- 06. Communication of audit matters

Background

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

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

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

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

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

Risk assessment

We carried out an initial risk assessment in March 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated 24 March 2016.

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

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

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

Significant qualitative aspects

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

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

- The increasingly challenging financial environment and the Authority's response to this through its medium term financial planning.
- The need to update your HRA Business Plan in response to the Government's requirement for a 1% rent reduction on council dwellings for the four years from 2016/17.

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

Overall conclusion

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

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

Recommendations for improvement

We discussed findings arising from our work with management and have no recommendations to make.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Key findings

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

Significant risk	Work to address	Findings and conclusions
Medium term financial plan The local government settlement has placed further pressure on the Council's finances and the Council's medium term financial plan includes the need for significant savings over the next four years.	Review the Council's plans to deliver savings over the course of the medium term financial plan.	<p>The Council has sound arrangements for developing, updating and implementing its medium term financial plan (MTFP). Focus on achievement of corporate priorities is evident through the financial planning process, and the MTFP ensures that resources are focused on priorities. Service and financial planning processes are well integrated, and the MTFP is consistent with other key strategies, including workforce plans. There is regular review of the MTFP and the assumptions made within it, and the Council has performed sensitivity analysis on its financial model using a range of economic assumptions. The Council responds to changing circumstances and manages its financial risks effectively.</p> <p>Within the MTFP, there is a cumulative savings and income growth target of £1 million per annum for the three years from 2017/18. The cumulative target of £3 million represents a significant challenge which if not achieved could result in a shortfall of £1 million on the General Fund by 2019/20.</p> <p>Recommendation: Ensure the funding gap projected in the Council's medium term financial plan and the measures in place to address it are kept under active review to address any slippage.</p> <p>On this basis we have concluded that the risk was sufficiently mitigated and has proper arrangements but the Council needs to take action to maintain financial balance.</p>
HRA Business Plan The rent reduction required by central government will reduce HRA income by £6.9 million against previous forecasts over the next 4 years. This will have a significant impact on the HRA Business Plan.	Update our understanding of the Council's HRA business planning.	<p>The Council has updated the HRA Business Plan to take full account of the required rent reductions. Over the four year period of the reductions, the HRA balance is projected to remain at £1 million to £1.028 million while making a £6.5 million cumulative contribution to reserves. Although the capacity to invest in HRA capital projects has inevitably been adversely affected, the Council has rightly planned to ensure that the HRA balance remains at a prudent level.</p> <p>On this basis we have concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</p>

Section 4: Other statutory powers and duties

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Other statutory powers and duties**
- 05. Fees, non audit services and independence
- 06. Communication of audit matters

Other statutory powers and duties

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

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none">We have not identified any matters that would require a public interest report to be issued
2.	Written recommendations	<ul style="list-style-type: none">We have not made any written recommendations that the Council is required to respond to publicly
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none">We have not used this duty
4.	Issue of an advisory notice	<ul style="list-style-type: none">We have not used this duty
5.	Application for judicial review	<ul style="list-style-type: none">We have not used this duty

Section 5: Fees, non-audit services and independence

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Other statutory powers and duties
- 05. Fees, non audit services and independence
- 06. Communication of audit matters

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

Fees

	Budget £	Actual £
Council audit	53,685	53,685
Grant certification	12,341	TBC
Total audit fees (excluding VAT)	65,926	TBC

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services: <ul style="list-style-type: none">• Pooling Housing Capital Receipts return	1,500

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 6: Communication of audit matters

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Other statutory powers and duties
- 05. Fees, non audit services and independence
- 06. Communication of audit matters

Communication to those charged with governance

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

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

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Journal entries produced by Accountancy are not authorised. As a result, there is a risk of fraud or error in the Council's accounting records and financial statements.	Medium	All journal requests from outside Accountancy are reviewed & authorised to ensure they are correct and appropriate. Digitisation of the process in recent years has negated the need for paper copies which were previously countersigned within the team. The journals undertaken by Accountancy are not considered to pose a significant risk for fraud or misstatement and so the internal authorisation has been removed to improve the efficiency of the process. In light of this recommendation a monthly report of transactions will be run for review by the Senior Accountant or Head of Finance.	Accountant (Revenue) & Head of Finance Implemented
2	The journal reports do not display the pence element of transactions. Consider amending system parameters to allow the pence element of balances to be displayed.	Medium	This is a system issue which will be worked on with EKS ICT to resolve.	Accountant (Revenue) Implemented
3	Issue instructions for the valuer's annual review of the Council's assets and document management's consideration of the validity of the valuer's assumptions	Medium	Regular liaison between the Estate Valuation Manager and Accountancy is undertaken throughout the production of the accounts, however as much of this is face-to-face or verbal it is difficult to evidence to satisfy the audit requirement. A review of the process will be undertaken before the production of the 2016/17 accounts to consider if appropriate changes are necessary.	Head of Finance & Estate Valuation Manager 31st March 2017
4	Ensure the funding gap projected in the Council's medium term financial plan and the measures in place to address it are kept under active review to address any slippage.	High	Reports & updates are considered by CMT & Members as part of the standard budget setting & MTFP timetable.	Head of Finance On-going

Appendix B: Audit opinion

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

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

We have audited the financial statements of Dover District Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Comprehensive Income and Expenditure Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state 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.

Respective responsibilities of the Director of Finance, Housing and Community and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance, Housing and Community is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Resources & Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matters

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

Matters on which we are required to report by exception

We are required to report to you if:

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

We have nothing to report in these respects.

Appendix B: Audit opinion (continued)

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

Respective responsibilities of the Authority and auditor

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

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

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

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

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

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

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Elizabeth Jackson
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

xx September 2016



© 2016 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk