



# The Annual Audit Letter for Dover District Council

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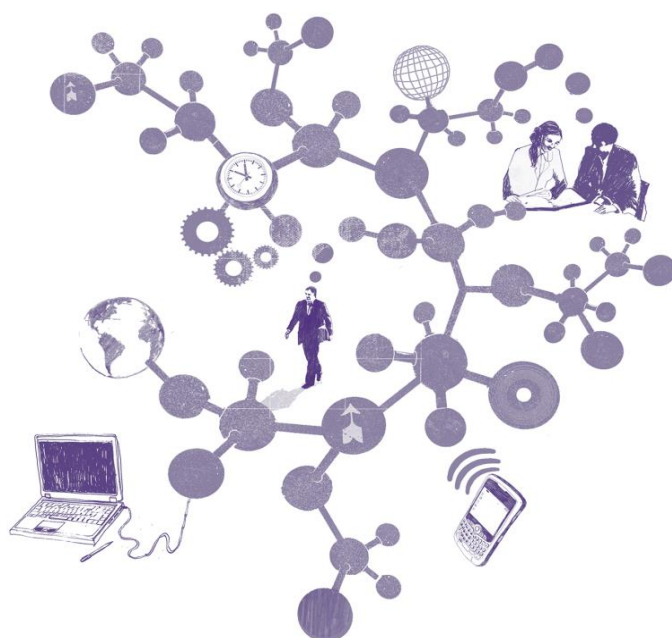
**Year ended 31 March 2016**

26 October 2016

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# Executive summary

## Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Dover District Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Governance Committee as those charged with governance in our Audit Findings Report on 29 September 2016.

## Our responsibilities

We have carried out our audit in accordance with the NAO's Code, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISA(UK&I)s) and other guidance issued by the NAO.

## Our work

### Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 29 September 2016.

### Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 29 September 2016.

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**Certificate**

We certified that we had completed the audit of the accounts of Dover District Council in accordance with the requirements of the Code on 29 September 2016.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**October 2016**

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# Audit of the accounts

## Our audit approach

### Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1,320,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as cash and senior officer remuneration for example due to increased public interest. We set a lower threshold of £66,000, above which we reported errors to the Governance Committee in our Audit Findings Report.

### The scope of our audit

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

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISA(UK&I)s and the NAO Code. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and was risk based. We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 29 September 2016.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Council's Governance Committee on 29 September 2016.

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.

A small number of amendments to disclosures were agreed, with no impact on the Council's reported financial position.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of property, plant and equipment</b></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"><li>• A walkthrough of the council's processes and controls over this area to gain an understanding of these.</li><li>• Verification of the existence and ownership of material assets and a sample of those remaining.</li><li>• Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions.</li><li>• Review of the internal revaluation of any Council owned assets and challenge the assumptions made in arriving at the valuation.</li><li>• Testing of the significant movements in the year such as additions, depreciation, transfers and disposals to ensure that these amounts are valid.</li><li>• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding.</li><li>• 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.</li></ul> <p><b>Our audit work did not identify any significant issues in relation to the risk identified.</b> However, we noted the following control weakness:</p> <ul style="list-style-type: none"><li>• The findings of the valuer were 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.</li></ul> <p>The Council agreed the following recommendation:</p> <ul style="list-style-type: none"><li>• 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.</li></ul>

# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<b>Employee remuneration expenses not correct</b>	<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 were outliers present which may have indicated 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..</p> <p><b>We did not identify any issues to report</b></p>
<b>Creditors understated or not recorded in the correct period</b>	<p>Walkthrough of the council's processes and controls over this area to gain an understanding of these.</p> <p>Detailed substantive testing 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 to identify any months where amounts may have been omitted.</p> <p>Testing was also performed on the Creditors included within the Accounts at year end to ensure that these amounts were valid.</p> <p><b>We did not identify any issues to report</b></p>
<b>Property, plant and equipment activity not valid</b>	<p>Walkthrough of the council's processes and controls over this area to gain an understanding of these.</p> <p>Verification of the existence and ownership of material assets and a sample of those remaining.</p> <p>Test of significant movements in the year such as additions, depreciation, transfers and disposals to ensure that these amounts are valid.</p> <p><b>We did not identify any issues to report</b></p>
<b>Valuation of the pension fund assets and liabilities incorrectly valued</b>	<p>Walkthrough of the council's processes and controls over this area to gain an understanding of these.</p> <p>Document our understanding of the qualifications, experience and expertise of the actuary in reaching the valuation of the pension fund's assets and liabilities.</p> <p>Test the completeness and appropriateness of the data sent to the pension fund by the council.</p> <p>Review the assumptions used by the actuary in arriving at their valuation for reasonableness.</p> <p>Test the input of the valuation data from the actuary to the financial statements, and review disclosures made under IAS 19.</p> <p><b>We did not identify any issues to report</b></p>



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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code, following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate which was that:

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

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in September 2016, we agreed one recommendation to address our findings, that the Council ensures 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.

## Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

# Value for Money

Risk identified	Work carried out	Findings and conclusions
<p><b>Medium term financial plan</b></p> <p>The local government settlement has placed further pressure on the Council's finances and the Council's medium term financial plan includes the need for significant savings over the next four years.</p>	<p>Review the Council's plans to deliver savings over the course of the medium term financial plan.</p>	<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><b>Recommendation:</b> 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><b>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.</b></p>
<p><b>HRA Business Plan</b></p> <p>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.</p>	<p>Update our understanding of the Council's HRA business planning.</p>	<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><b>On this basis we have concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</b></p>

# Appendix A: Reports issued and fees

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

### Fees

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

### Fees for other services

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

### Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016

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