Audit Findings

Year ending 31 March 2018

Dover District Council

July 2018

Contents

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Headlines

Introduction

This table summarises the key issues arising from the statutory audit of Dover District Council ('the Council') and the preparation of your financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • your financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year, and have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting; • other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), are consistent with the financial statements	Our audit work was completed on site during June and July 2018. Our findings are summarised on pages 4 to 11. We have identified a number of adjustments to the financial statements that are detailed in Appendix B. None of the adjustments identified have impacted on the reported deficit for the year or General Fund position for the Council. We have also raised one recommendation for management as a result of our audit work in Appendix A. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance Committee meeting and the completion of our closedown procedures, as detailed in Appendix D. These outstanding items are listed on page 4. We have concluded that the other information published with the financial statements, which includes the Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	We have completed our risk based review of your value for money arrangements. We have concluded that Dover District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified 'except for' value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 12 to 19.
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 • 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 under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

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

Summary

Overview of the scope of our audit

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

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

Audit approach

Our audit approach was based on a thorough understanding of your business and is risk based, and in particular included:

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

Conclusion

We have substantially completed our audit of your financial statements and, subject to outstanding queries being resolved, anticipate issuing an unqualified audit opinion following the Governance Committee meeting on 30 July 2018, as detailed in Appendix D. These outstanding items include:

- completion of sample testing of non-pay expenditure, debtors, expenditure completeness and creditors;
- completion of testing of senior officer remuneration disclosures;
- completion of testing of exit packages;
- completion of review of the bad debt provision;
- review of members allowances disclosures;
- receipt of management representation letter;
- receipt and review of the final set of financial statements;
- final senior management and quality reviews; and
- review of your Whole of Government Accounts consolidation pack.

Please note, additional queries may arise from the completion of the above matters.

Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan. We detail in the table opposite our assessment of materiality for Dover District Council.

	Council Amount (£)
Materiality for the financial statements	£1,584,000
Performance materiality	£1,188,000
Trivial matters	£79,000
Materiality for specific transactions, balances or disclosures - Cash and cash equivalents	£500,000

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Dover District Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for your audit.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. You face external scrutiny of your spending, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.	**Auditor commentary** • We undertook the following procedures in relation to this risk: – gained an understanding of the significant accounting estimates, judgements applied and decisions made by management and consider their reasonableness; – obtained a full listing of journal entries, identified and then tested unusual journal entries for appropriateness; and – evaluated the rationale for any changes in accounting policies or significant unusual transactions that came to out attention during the course of the audit. • Our audit work has not identified any material issues in respect of this risk.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of property, plant and equipment** You revalue your land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration and a key audit matter for the audit. .	**Auditor commentary** • We undertook the following procedures in relation to this risk: – reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; – considered the competence, expertise and objectivity of valuation experts used by management; – discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions; – reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; – tested revaluations made during the year to ensure they have been input correctly into your asset register; and – evaluated the assumptions made by management for those assets not revalued during the year to verify how management have satisfied themselves that these are not materially different to their current value. • Our audit work has not identified any material issues in respect of this risk.
4	**Valuation of pension fund net liability** Your pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration and a key audit matter for the audit.	**Auditor commentary** • We undertook the following procedures in relation to this risk: – identified the controls put in place by management to ensure that the pension fund liability is not materially misstated and assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; – evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation; – gained an understanding of the basis on which the valuation was carried out; – undertook procedures to confirm the reasonableness of the actuarial assumptions made; and – checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary, Barnett Waddingham. • Our audit work has not identified any material issues in respect of this risk.

Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
5	**Employee remuneration** Payroll expenditure represents a significant percentage (21%) of your operating expenses. As the payroll expenditure comes from a number of individual transactions and an interface with a number of different sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.	**Auditor commentary** • We undertook the following procedures in relation to this risk: – evaluated your accounting policy for recognition of payroll expenditure for appropriateness; – gained an understanding of your system for accounting for payroll expenditure and evaluate the design of the associated controls; and – tested payroll expenditure for the year by completing a substantive analytical review of payroll expenditure for the year. • Our audit work has not identified any material issues in respect of this risk.
6	**Operating expenses** Non-pay expenses on other goods and services also represents a significant percentage (32%) of your operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of creditors as a risk requiring particular audit attention.	• We undertook the following procedures in relation to this risk: – evaluated your accounting policy for recognition of non-pay expenditure for appropriateness; – gained an understanding of your system for accounting for non-pay expenditure and evaluate the design of the associated controls; and – tested a sample of post-year end payments to test completeness of expenditure recorded in the financial statements. • Our audit work has not identified any material issues in respect of this risk.

Going concern

Our responsibility

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

Going concern commentary

Management's assessment process	Auditor commentary
Your management have assessed that you remain a going concern on the basis that you have prepared a balanced Medium Term Financial Plan (MTFP) for the next four years (2018-19 to 2021-22).	• We have reviewed the significant assumptions upon which your Medium Term Financial Plan is based and have satisfied ourselves that those assumptions are reasonable. • We note that you continue to face pressure on your financial position as a result of reductions in funding from central government. It is therefore important that you continue to maintain appropriate budgetary control and that you continue to identify and deliver recurrent and sustainable savings so that you remain a going concern over the longer tem.

Conclusion	Auditor commentary
	• We have concluded that management’s judgement that you remain a going concern is reasonable and that there is no material uncertainty around going concern that we would be required to report.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• You have four principal revenue streams: – taxation revenues in respect of council tax and business rates are recognised in the year that the tax was levied; – grant income is recognised in accordance with the terms of the grant, whether specific or non-specific – income from social housing dwelling rents is recognised evenly over the period to which it relates; and – income from fees and charges in the provision of services is recognised when the service has been provided or when the title to goods has passed.	We have no material concerns with your revenue recognition policies or with the application of those policies. The revenue recognition policies adopted are in line with the CIPFA Code of Practice.	Green
Judgements and estimates	• Key estimates and judgements include: – Useful life of Property, Plant and Equipment – Revaluations – Impairments – Valuation of the net pension fund liability – Non-domestic rates appeals provision – Provision for doubtful debts – Expenditure accruals – Financial instrument fair value disclosures	• We have reviewed and tested all of the material areas of estimation and judgement that are reflected within your financial statements. • You estimated the fair value of long term Public Works Loans Board (PWLB) borrowings, disclosed in Note 14 'Financial instruments', as £92.7m and £98.1m as at 31 March 2018 and 31 March 217 respectively. You took these estimates from the fair values confirmed to you by the PWLB, however these fair values were not calculated in a manner that is consistent with the CIPFA Code of Practice. You have subsequently estimated that the fair values of your long term PWLB liabilities as at 31 March 2018 and 31 March 2017 should be £86.4m and £91.9m respectively. We are satisfied the appropriateness of your revised fair value estimates. • We have noted no other material issues or concerns to report to you.	Medium

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

Accounting policies (continued)

Accounting area	Summary of policy	Comments	Assessment
Other critical policies	• You have adopted accounting policies that you consider to be consistent with the CIPFA Code of Practice.	We have reviewed your policies against the requirements of the CIPFA Code of Practice. Your accounting policies are appropriate and consistent with previous years.	● Green

Assessment
- ● Marginal accounting policy which could potentially be open to challenge by regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Other communication requirements

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

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Governance Committee in our Audit Plan dated 16 March 2018 and been made aware of frauds identified from the work of internal audit, none of which are significant to the financial statements. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We identified from review of Companies House related party interests for three members and one officer that had not been disclosed on their annual declarations. We identified that there had been transactions with one of these related parties, being a £5k grant paid to Gazen Sales Nature Reserve. You have updated Note 37 'Related Party Transactions' to provide disclosure of this transaction. • We are not aware of any other related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations. • We have not identified any incidences of non-compliance with laws and regulations from our audit work performed.
4	**Written representations**	• A standard letter of representation has been requested from you, which is included in the Governance Committee papers alongside this report
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests in respect of your bank balances, investments and loans as at 31 March 2018. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6	**Disclosures**	• Our review found no material omissions in the financial statements. We identified a number of immaterial disclosure adjustments, which are set out in Appendix B.
7	**Matters on which we report by exception**	• We have not identified any issues we would be required to report by exception in relation to the following: – 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; and – the information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of your financial position and performance acquired in the course of performing our audit, or otherwise misleading.
8	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As your financial statements exceed the specified group reporting threshold of £500m we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is not yet completed and we plan to undertake this work in August in accordance with the deadline set by the National Audit Office.

Value for Money

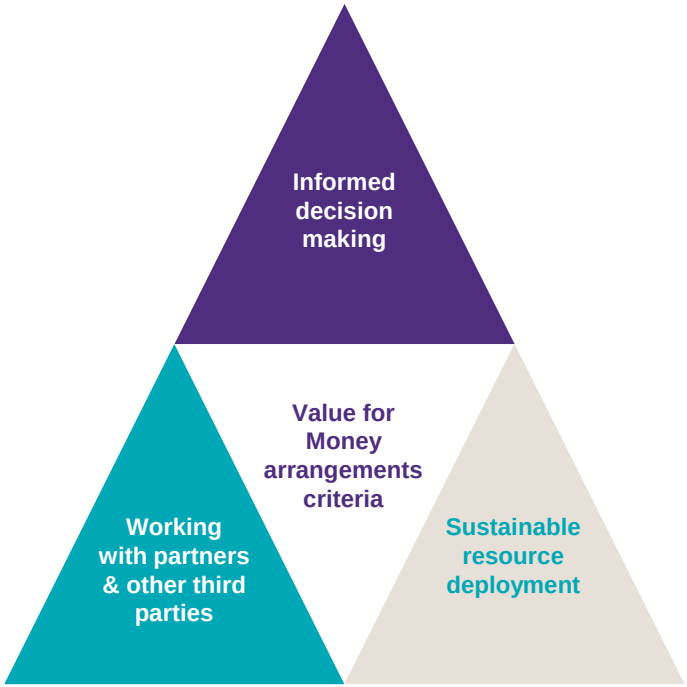
Background to our VFM approach

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

The guidance identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in March 2018 and identified one significant risks in respect of a specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risks to you in our Audit Plan dated 16 March 2018. The risks that we identified was as follows:

- Budget position and medium term financial planning.

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

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment.

Value for Money

Our work

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

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

- you have a good track record of delivery of budgeted savings in recent years and you attained a balanced budget position in 2017/18, delivering a small £6k deficit for the general fund;
- you have prepared a Medium Term Financial Plan up to 2021/22 based on reasonable assumptions that indicates you will continue to deliver a balanced budget over that period; and
- you have implemented a Property Investment Strategy to invest up to £200m in commercial and residential property with a view to increasing economic regeneration and generating returns. As part of this Strategy, during 2017/18, you invested £21.75m on the acquisition of B&Q, Whitfield and Whitfield Court.

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 on pages 14 to 15.

Overall conclusion

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

- you have proper arrangements in all significant respects.

We therefore propose to give an unqualified conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The text of our proposed report can be found at Appendix D.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment:

Significant risk	Findings
Budget position and medium term financial planning The national local government settlement has placed further pressure on your finances and your medium financial plan includes the need for significant savings over the next few years. There is therefore a risk that you will not be able to achieve the forecast savings and continue to deliver a balanced budget over the medium term horizon. We have reviewed recent performance against the budget and considered the reasonableness of the assumptions upon which your medium term financial planning has been based. We have also reviewed your plans to deliver savings over the period covered by the medium term financial plan.	**Outturn for 2017/18** Despite the challenging funding settlement for local authorities nationally, you have continued your good track record of delivery of services within budget and attainment of planned savings and income generation targets, delivering an outturn position for 2017/18 of a small deficit of £6k. You also reported a surplus of on the Housing Revenue Account (HRA) for the year, which has enabled you to achieve a £2.2m increase in HRA and earmarked HRA reserves. This is a healthy outturn position and demonstrates that you have applied appropriate budget management during 2017/18. Your outturn position also reflects an improvement in performance from the forecast deficit for 2017/18 of £61k that you projected in your original 2017/18 budget A major area of budget pressure in 2017/18 has been a £569k overspend due to increased costs of emergency accommodation for the homeless, which has been offset by savings elsewhere in the Council and in particular from your treasury management activities.. **2018/19 budget and medium term financial sustainability** The Medium Term Financial Plan (MTFP) approved by the Council in February 2018 covers the four year period to 2021/22. The MTFP reflects an anticipated loss in Revenue Support Grant funding available to you of £1.3m by 2020/21 compared to 2017/18 levels, on top of significant funding reductions that you have already faced in recent years. You plan to offset these challenges through growth in your Council Tax base and rate, anticipated increases in business rates funding, additional revenues from commercial property regeneration initiatives and via savings realised through your externalisation of revenues and benefits and customer services to Civica. Your MTFP recognises you face pressures in maintaining a balanced budget for the Housing Revenue Account (HRA) as a result of the Government requirement to reduce rents by 1% per annum for the period 2016/17 to 2019/20, and also due to the impact of increased levels of Right to Buy sales in recent years. These have resulted in reductions in your revenue at a time when the HRA is also facing general inflationary pressure on its expenditure. You have forecast that you will continue to deliver a balanced budget for the HRA over the medium term despite these challenges and we are satisfied that your projections are based on reasonable assumptions. While attaining budget savings to mitigate reductions in central government funding on the scale forecast within your MTFP will continue to be challenging, we note that your MTFP is based upon reasonable assumptions and that you have appropriate arrangements in place for identifying and implementing appropriate savings to allow this plan to be achieved. Your savings plans have been developed as part of an incremental process throughout the year and have been subject to detailed member scrutiny and challenge. You also have the infrastructure in place to support these savings including regular budget monitoring and through your investment in a “Delivering Effective Services” (DES) team to review services to identify efficiencies, savings and alternative delivery models. You have spent considerable effort seeking to mitigate the risks to the delivery your medium term financial plans and, whilst the medium term outlook remains challenging, you have demonstrated a history of being able to meet these challenges and in delivering planned financial targets.

	Significant risk	Findings
1	**Budget position and medium term financial planning** Continuation of risk noted on page 14.	**Reserves position** As at 31 March 2018, you had general fund reserves of £2.5m and earmarked general fund reserves of £25.9m, compared to £2.5m and £24.3m respectively as at 31 March 2017 and £3.0m and £24.1m as at 31 March 2016. This indicates that your general fund reserves have remained at a consistent level over the last two years despite the budget pressures you have faced. Your HRA and earmarked HRA reserves were £15.7m as at 31 March 2018, compared to £13.5m as at 31 March 2017 and £9.4m as at 31 March 2016. Your general fund reserves level as they currently stand provides you with a cushion to weather the financial challenges that you face over the medium term. However, you only have finite reserves available and it is important that you continue to maintain appropriate budgetary control going forward. **Property Investment Strategy**. In November 2016 you launched your Property Investment Strategy, which approved investing up to £200m in commercial and residential property. Under this strategy, you have acquired a portfolio of property assets to generate an income stream and to increase economic regeneration across Dover. There are risks inherent in this strategy, for example the risk of the properties acquired becoming vacant, and you have mitigated these through your use of professional advisers to support the identification and evaluation of potential purchase opportunities. During 2017/18, you invested £21.7m in the acquisition of new properties, including the purchase of Whitfield Court and the B&Q retail warehouse at the White Cliffs Business Park. Your investment property portfolio was valued at £24.0m as at 31 March 2018, compared to £2.6m as at 31 March 2017, and the portfolio generated £1.0m of rental income during the year. This has made a sizeable contribution to supporting your revenue outturn position and supporting the services that you provide. Overall, we have noted no concerns in relation to the arrangements supporting your property investment strategy. You have undertaken property investments in a reasonable and measured way, with an appropriate due process supporting the acquisition including a clear consider of the risks and appropriate signoff by the Cabinet on all key investment decisions. **Conclusion** You have delivered a balanced budget in 2017/18 and you have set a Medium Term Financial Plan that indicates that you will continue to deliver a balanced budget through to the end of 2021/22. You continue to face financial risk over the medium term, however you have clear plans in place to mitigate this risk. **On the basis of the work completed we have concluded that the risk that we identified in respect of your funding pressures has been sufficiently mitigated and that you have proper arrangements.**

Independence and ethics

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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

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

Details of fees charged are detailed in Appendix C.

Audit and Non-audit services

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

Service	£	Threats	Safeguards
Audit related			
Certification of the pooling of housing capital receipts return	£1,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £1,500 in comparison to the total fee for the audit of £53,685 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 mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.
None of the services provided are subject to contingent fees.

Action plan

We have identified 2 recommendations for you as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	Low	• You have a process whereby journal postings to the general ledger are reviewed on a monthly basis to check that they are appropriate. However, no formal documentation is retained to evidence that these reviews have taken place.	• You should ensure that the process of review of journal postings on a monthly basis is formally documented. **Management response** • We agree the recommended action and will implement this change for 2018/19.
1	Low	• Under section 12 of the Audit and Accounts Regulations 2015, the Annual Governance Statement (AGS) should be published on your website from 1st June from 2017/18. • While your draft AGS was published on your website on 24th May within the papers for your Cabinet meeting on 4th June, the AGS was not published on the 'Accounts and Budgets' page on your website on 6th July. • Though you have complied with the legal requirement to publish on your website a draft or approved AGS by 1st June, we would advise that going forward you publish the draft AGS on the 'Accounts and Budgets' on your website by 1st June to make it easier for a local elector seeking to review the AGS to find it on your website.	• You should ensure in future periods that the draft Annual Governance Statement is published on the 'Accounts and Budgets' page on your website by 1st June, alongside the draft financial statements. **Management response** • We agree the recommended action and will implement this change for 2018/19.

Controls
- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit Adjustments

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

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

Other omissions	Detail	Adjusted?
Comprehensive Income and Expenditure Statements (CIES)	• Within the Comprehensive Income and Expenditure Statement, no sub-headings showing the classification of movements in Other Comprehensive Income between “Will not be reclassified subsequently to the Surplus or Deficit on the Provision of Services” and “Will be reclassified subsequently to Surplus or Deficit on the Provision of Services when specific requirement are met”.	✓
Movement in Reserves Statement (MIRS)	• In the Movement in Reserves Statement, Total Comprehensive Income and Expenditure under the “Unusable Reserves” heading were stated as £116.4m but should have been stated as £16.2m. This reflects a casting error in the subtotal within the MIRS and has no impact on the bottom line position.	✓

Audit Adjustments (continued)

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Income and Expenditure Analysed By Type	Within Note 4 'Income and Expenditure Analysed By Type', fees charges and other service income were disclosed as £8.3m, but per the prior year accounts should be £8.5m.	✓
Capital Expenditure and Capital Financing	In the calculation of your Capital Financing Requirement disclosed in Note 10 'Capital Expenditure and Capital Financing', investment property additions of £21.7m were incorrectly included within the line item disclosing property, plant and equipment additions. In addition, £0.1m of property, plant and equipment additions were incorrectly classified within the note as 'revenue expenditure funded by capital' additions.	✓
Financial Instruments	Within Note 14 'Financial Instruments', £2.6m of prepayments were incorrectly included within the disclosure of financial instrument debtors.	✓
Financial Instruments	No disclosure was provided within Note 14 'Financial Instruments' of the financial instruments categories into which each class of financial asset and financial liability fall.	✓
Financial Instruments	No fair value hierarchy disclosures were provided within Note 14 'Financial Instruments' in respect of your available for sale financial assets.	✓
Financial Instruments	You estimated the fair value of long term Public Works Loans Board (PWLB) borrowings, disclosed in Note 14 'Financial instruments', as £92.7m and £98.1m as at 31 March 2018 and 31 March 217 respectively. You took these estimates from the fair values confirmed to you by the PWLB, however these fair values were not calculated in a manner that is consistent with the CIPFA Code of Practice. You have subsequently estimated that the fair values of your long term PWLB liabilities as at 31 March 2018 and 31 March 2017 should be £86.4m and £91.9m respectively.	✓
Financial Instruments	Within Note 14 'Financial Instruments', in the disclosure of a maturity analysis of borrowings, a £1.0m PWLB borrowings was incorrectly analysed within the 'More than 10 years' category rather than the 'Between 5 and 10 years' category.	✓
Pension Costs	Within Note 19 'Pension Costs', the Rate of inflation – RPI and Rate of inflation – CPI assumptions made by the actuary in estimating your net pension liability were disclosed as 3.5% and 2.6% respectively but should be 2.6% and 3.5% respectively.	✓
Related Party Transactions	No disclosure was provided in Note 37 'Related Party Transactions' of £5k of grants paid to Gazen Sales Nature Reserve, and £3k payment to Aylesham and District Community Workshop Trust, both of which are a related parties of the Council.	✓

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	£53,685	£53,685
Grant Certification	£16,558	£16.558
Total audit fees (excluding VAT)	**£70,243**	**£70,243**

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

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
• Certification of the pooling of housing capital receipts return	£1,500
	£1,500

Audit opinion

We anticipate we will provide you with an unmodified audit report.

Independent auditor's report to the members of Dover District Council

Report on the Audit of the Financial Statements

Opinion

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

In our opinion the financial statements:

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

Basis for opinion

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

Who we are reporting to

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

Conclusions relating to going concern

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

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

Other information

The Director of Finance, Housing and Community is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 3 to 93, the Narrative Report and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the Director of Finance, Housing and Community and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 16, 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, Housing and Community. 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 2017/18, which give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Governance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Conclusion

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

Responsibilities of the Authority

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

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 completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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

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