

# Public Document Pack



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26 July 2021

Dear Councillor

I am now able to enclose, for consideration at the meeting of the **GOVERNANCE COMMITTEE** on Thursday 29 July 2021 at 6.00 pm, the following reports that were unavailable when the agenda was printed.

7 **AUDIT FINDINGS REPORT** (Pages 2 - 29)

To consider the report of Grant Thornton (external auditors).

9 **STATEMENT OF ACCOUNTS 2019/20** (Pages 30 - 32)

Appendix 2 - Letter of Representation.

10 **SECTOR UPDATE - GRANT THORNTON** (Pages 33 - 56)

To consider the report of Grant Thornton (external auditors).

Yours sincerely

A handwritten signature in black ink, appearing to be "Nicky", written in a cursive style.

Chief Executive



# The Audit Findings for Dover District Council

Year ended 31 March 2020

26 July 2021



Agenda Item No 7

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Dover District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

|   |   |   |
|---|---|---|
| <b>Financial statements Progress update</b> | <p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council.</p>  | <p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 21/04/2021. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our Value for Money approach. Further detail is set out on page 6.</p>   |
|   | <p>Although the income and expenditure impacts in 2019/20 were not significant and are likely to be felt in 2020/21, the pandemic has presented the Council with significant front-line challenges such as administration of grants to businesses, starting to provide additional support to customers unable to pay council tax or business rates and additional monitoring and resetting of the 2020/21 budget and the Medium Term Financial Strategy to factor in the high level of uncertainty around the impact of Covid-19.</p> | <p>Restrictions for non-essential travel and home working during the pandemic have meant both Authority and audit teams have had to perform the audit entirely remotely. This has required the audit team to use regular video calls to ensure that both teams kept in contact as we would when carrying out fieldwork on site. The audit team have also had to consider alternative approaches to obtaining audit evidence to corroborate transactions, estimates and judgements in the financial statements. Remote working also requires our teams to carry out additional tests to corroborate the completeness and accuracy of information produced by the Council which we would otherwise have performed in person on site (for example viewing a report being run from Council systems by the officer). In common with all audit firms we have found that this way of working has proved more time consuming than carrying out an audit under normal circumstances on site and largely face to face. Across many Local Government audits where auditors received accounts and working papers at the beginning of July 2020 it proved challenging to sign auditor's reports for the end of November 2020. There have been challenges for both the audit team and the Council's team to conduct the audit virtually during the pandemic with additional complexity that both teams had to face and address.</p> |
|   | <p>The pandemic has also impacted the Finance Team who like many other employees have had to adapt to working from home at short notice.</p>  |   |
|   | <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>  | <p>The pandemic has placed additional work pressure on your finance team which did impact the production of the accounts and therefore the start date for the audit. A complete draft statement of accounts were produced in January 2021. Working papers to support the accounts were also produced then. The audit began in February working through until April. Progress was constrained in part by resolving queries in the journals completeness population upon which to test and the production of listings for debtors and creditors that reconciled to the statement of accounts.</p>   |
|   |   | <p>In late April, we had to stop work on the audit to focus on NHS audits. We commenced the audit of Dover in the middle of July.</p>   |
|   |   | <p>Unfortunately, due to circumstances beyond our control, the recommencement of the audit in July was by a new audit team. This handover of significant and complex pieces of work between audit team members has also proved a challenge for the delivery and finalisation of the audit.</p>  |
|   |   | <p>Consequently, we have not yet finished the audit. We estimate we have approximately two to three more weeks of audit input to complete the audit. We acknowledge that as we enter August both council finance staff and audit team staff will be taking annual leave, and therefore the additional audit input will need to be wrapped around council staffs' availability.</p>  |

# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Dover District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

|                                     |  |   |
|-------------------------------------|--|---|
| <b>Value for Money arrangements</b> | Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, 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').            | <p>We have completed our risk based review of the Council's 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.</p> <p>We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 15-16.</p> <p>For the 2018/19 audit, we deferred issuing a VfM conclusion whilst we considered objections raised at other East Kent districts in respect of East Kent Housing. We have finalised our consideration of the objections to conclude on the 2018/19 VfM conclusion. We concluded that appropriate arrangements were not in place in that year for each of the four East Kent districts in respect of the arrangements to oversee the effective discharge of the Council's landlord duties to its tenants. We will issue an 'except for' qualification for 2018/19. Our conclusions are set out at page 18 -19.</p> |
| <b>Statutory duties</b>             | <p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>To certify the closure of the audit.</li> </ul> | <p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have not received any questions or objections in relation to the Council's financial statements.</p> <p>On completion of our work, we intend to issue the certificates for the completion of the 2018/19 and 2019/20 audits.</p>   |

## Acknowledgements

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

# Audit approach

## 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 will be discussed with management.

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

## Audit approach

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

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

We have had to alter our audit plan, as communicated to you on 21 April, to reflect our response to the Covid-19 pandemic. As part of this, we identified an additional significant risk with respect to Covid-19 (see comments on Significant audit risks on subsequent pages). No changes were made to our VfM risk assessment.

## Conclusion

We have made significant progress towards the completion of our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion. These outstanding items include:

- completion of our testing on revenue, expenditure, journals and asset valuations;
- completion of senior level review of outstanding items;
- receipt of management representation letter on request;
- review of the final set of financial statements.

## Our approach to materiality

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

Materiality levels remain around the same as reported in our audit plan.

## Council Amount (£) Qualitative factors considered

|  |        |  |
|--|--------|--|
| Materiality for the financial statements | 1.600m | This is based on 1.98% of your gross revenue expenditure for the year 2019/20, based on your draft accounts. This benchmark was chosen based on our knowledge of District Councils, your reporting framework and how stakeholders use your accounts. |
| Performance materiality                  | 1.120m | This is based on 70% of the materiality benchmark  |
| Trivial matters<br>☞                     | 80k    | This is based on 5% of (group) materiality and represents the level above which uncorrected omissions or misstatements are reported to those charged with governance. Items below this are deemed to be 'trivial' for this purpose.                  |

# Significant audit risks

## Risks identified in our Audit Plan

### Covid- 19

## Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.

No issues have been identified with respect to this significant risk. To the extent that Covid-19 has a bearing on Value for Money arrangements, this has been considered separately as part of our VfM work reported below.

### The revenue cycle includes fraudulent transactions (rebutted)

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- 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 Dover District Council.

# Significant audit risks

## Risks identified in our Audit Plan

### Management override of controls

## Auditor commentary

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and;
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

At the time of writing, our audit procedures in this area remain underway. This work was delayed whilst we resolved queries with the Council on the completeness of the journal population provided for audit. Our audit work has not yet identified any issues in respect of management override of controls.

### Valuation of land and buildings

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- written to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- tested a sample of revaluations made during the year to see if they had been input correctly into the Council's asset register; and;
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

At the time of writing, our audit procedures in this area remain underway.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of pension fund net liability

## Auditor commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;
- obtained assurances from the auditor of Kent Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

We note that the communications we receive from the auditor of the Kent County Council Pension Fund highlighted a material uncertainty in the property investments of the pension fund linked to the RICS guidance mentioned previously. As Dover District Council holds a share of these investments through its share of the pension fund assets the statement of accounts will need to reflect this material matter to the attention of readers of the financial statements. The accounts do not currently reflect this. We will also draw attention to this uncertainty within our audit opinion.

No further issues have been identified in our work on the pension fund liability to date.

# Significant findings – key estimates and judgements

| Accounting area                                       | Summary of management's policy   | Auditor commentary   | Assessment  |
|---|--|--|---|
| <b>Provisions for NNDR appeals - £2.447m</b>          | The Council is responsible for repaying a proportion of successful rateable value appeals. Management uses an external organisation, Analyse Local, to calculate the level of provision required. Analyse Local's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.   | <p>We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate.</p> <p>We have considered the approach taken by the Council's experts to determine the provision, and it is in line with that used by other bodies in the sector.</p> <p>Disclosure of the estimate in the financial statements is considered adequate.</p>   | <br><b>Green</b> |
| <b>Land and Buildings – Council Housing - £201.3m</b> | <p>The Council owns 4,317 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance.</p> <p>The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has an experienced internal valuer who is RICS register to complete the valuation of these properties. The year end valuation of Council Housing was £201.3m, a net increase of £3.9 million from 2018/19 (£197.4m).</p> | <p>We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.</p> <p>There have been no changes to the valuation method this year.</p> <p>We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert.</p> <p>We have considered the completeness and accuracy of the underlying information used to determine the estimate, and have not noted any non-trivial issues.</p> <p>Our work in this area is still in progress.</p> | <br><b>Green</b> |

## Assessment

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

# Significant findings – key estimates and judgements

| Accounting area                             | Summary of management's policy  | Auditor commentary   | Assessment  |
|---|---|--|---|
| <b>Land and Buildings – Other - £98.61m</b> | <p>Other land and buildings comprises specialised assets such as the leisure centres, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.</p> <p>The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUUV) at year end. The Council has engaged its internal valuer to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis.</p> <p>The valuation of properties valued by the valuer has resulted in a net decrease of £2.9m from £101.5m at 31 March 2019 to £98.6m at 31 March 2020. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 April 2019, based on the market review provided by the valuer as at 31 March 2020, to determine whether there has been a material change in the total value of these properties.</p> | <p>We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.</p> <p>There have been no changes to the valuation method this year.</p> <p>We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert.</p> <p>We have considered the completeness and accuracy of the underlying information used to determine the estimate, and have not noted any non-trivial issues to date.</p> <p>Our work in this area is still in progress.</p> | <br><b>Green</b> |

## Assessment

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

# Significant findings – key estimates and judgements

| Accounting area                                  | Summary of management's policy  | Auditor commentary  | Assessment |               |           |            |               |       |       |   |                       |      |               |   |               |       |                                      |   |  |              |                        |   |  |              |                            |   |              |
|--|---|---|------------|---------------|-----------|------------|---------------|-------|-------|---|-----------------------|------|---------------|---|---------------|-------|--------------------------------------|---|--|--------------|------------------------|---|--|--------------|----------------------------|---|--------------|
| <b>Net pension liability – £77.2m</b>            | <p>The Council's net pension liability at 31 March 2020 is £77.2m (PY £76.2m).</p> <p>The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes.</p> <p>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>The actuarial report the Council has received indicates that asset fund performance has been volatile over the period to 31 March 2020. This is particularly in the later months of 2019/20 as a result of the COVID-19 crisis, and thus market valuations may be subject to change, affecting in turn, the net pension liability.</p> | <ul style="list-style-type: none"> <li>We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.</li> <li>We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Pension Fund valuation.</li> </ul> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.35%</td> <td>2.35%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.0%</td> <td>1.85% - 1.95%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.00%</td> <td>Long term assumption of 1% above CPI</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>23.2<br/>21.8</td> <td>22.8-24.7<br/>21.4-23.3</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.2<br/>23.7</td> <td>25.2 – 26.2<br/>23.7 – 24.7</td> <td>●</td> </tr> </tbody> </table> | Assumption | Actuary Value | PwC range | Assessment | Discount rate | 2.35% | 2.35% | ● | Pension increase rate | 2.0% | 1.85% - 1.95% | ● | Salary growth | 3.00% | Long term assumption of 1% above CPI | ● | Life expectancy – Males currently aged 45 / 65 | 23.2<br>21.8 | 22.8-24.7<br>21.4-23.3 | ● | Life expectancy – Females currently aged 45 / 65 | 25.2<br>23.7 | 25.2 – 26.2<br>23.7 – 24.7 | ● | <p>Green</p> |
| Assumption                                       | Actuary Value   | PwC range   | Assessment |               |           |            |               |       |       |   |                       |      |               |   |               |       |                                      |   |  |              |                        |   |  |              |                            |   |              |
| Discount rate                                    | 2.35%   | 2.35%   | ●          |               |           |            |               |       |       |   |                       |      |               |   |               |       |                                      |   |  |              |                        |   |  |              |                            |   |              |
| Pension increase rate                            | 2.0%  | 1.85% - 1.95%   | ●          |               |           |            |               |       |       |   |                       |      |               |   |               |       |                                      |   |  |              |                        |   |  |              |                            |   |              |
| Salary growth                                    | 3.00%   | Long term assumption of 1% above CPI  | ●          |               |           |            |               |       |       |   |                       |      |               |   |               |       |                                      |   |  |              |                        |   |  |              |                            |   |              |
| Life expectancy – Males currently aged 45 / 65   | 23.2<br>21.8  | 22.8-24.7<br>21.4-23.3  | ●          |               |           |            |               |       |       |   |                       |      |               |   |               |       |                                      |   |  |              |                        |   |  |              |                            |   |              |
| Life expectancy – Females currently aged 45 / 65 | 25.2<br>23.7  | 25.2 – 26.2<br>23.7 – 24.7  | ●          |               |           |            |               |       |       |   |                       |      |               |   |               |       |                                      |   |  |              |                        |   |  |              |                            |   |              |
|  |   | <ul style="list-style-type: none"> <li>No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.</li> <li>We have confirmed that the Council's share of the pension scheme assets is in line with expectations.</li> <li>Disclosure of the estimate in the financial statements is considered adequate.</li> </ul>   |            |               |           |            |               |       |       |   |                       |      |               |   |               |       |                                      |   |  |              |                        |   |  |              |                            |   |              |

## Assessment

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

# Significant findings – 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 disclosures

It has been a challenging year due to the Covid-19 pandemic and the impact of this has been felt on council tax and business rates income, with additional challenges of reopening services under new government guidelines, the level of government support to local authorities and the outturn achieved and reserves carried forward.. The Council is facing challenges but has reported a surplus position for 2019/20. Management has undertaken an analysis of the potential financial implications of Covid-19 but has identified that the immediate impact can be offset by reducing contributions to earmarked reserves.

## Going concern commentary

### Management's assessment process

- Cash flow periods
- Judgements and assumptions taken

## Auditor commentary

The situation beyond 2020/21 is more uncertain as the longer-term impact of the pandemic on individuals and businesses in the borough, and by consequence demand for services, remains unclear. However, management are confident that the Council retains sufficient levels of useable reserves which as a last resort can be used to withstand the pressures faced during the period of their assessment. As noted in our VfM review, management have updated their forecasts to take into account the specific challenges presented by Covid-19. As such, management have prepared the accounts on the basis of the going concern assessment.

## Work performed

We have reviewed the Council's financial assessment of the impact of Covid-19, cash flow forecasts, future financial plans and the Council's level of reserves. We reviewed management's disclosures, going concern assessment, cash flow forecasts and Medium Term Financial Strategy, corroborating key inputs and assumptions to our wider knowledge gained through the audit process, and where applicable to supporting documentation. We considered, based on our understanding of the entity and the wider political and economic climate, whether material uncertainties may exist which were not explicitly covered by management's assessment.

## Concluding comments

We are satisfied from the work performed that:

- the going concern basis of preparation is appropriate for the Council's financial statements
- no events or conditions exist which may give rise to material uncertainties casting significant doubt on the Council's ability to continue as a going concern
- the disclosures in the Council's financial statements relating to going concern are adequate.

## Other matters for communication

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   | Auditor commentary  |
|---|---|
| <b>Matters in relation to fraud</b>                             | We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.   |
| <b>Matters in relation to related parties</b>                   | We are not aware of any related parties or related party transactions which have not been disclosed.  |
| <b>Matters in relation to laws and regulations</b>              | 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.  |
| <b>Written representations</b>                                  | A letter of representation has been requested from the Council which is included in the Governance Committee papers.  |
| <b>Confirmation requests from third parties</b>                 | We requested from management permission to send confirmation requests to financial institutions with whom the Council holds cash and investment balances. This permission was granted and the requests were sent. All of the confirmation requests were returned with positive confirmation.  |
| <b>Disclosures</b>  | Our review found no material omissions in the financial statements.   |
| <b>Audit evidence and explanations/significant difficulties</b> | All information and explanations requested from management was provided. Your finance team continued to work well with the audit team to provide us with the required information and embraced the new ways of working to ensure we were able to obtain the required audit evidence. There are elements of the audit that take longer due to remote working and we are considering the impact on our fee. We have not yet discussed this with the Strategic Director (Corporate Resources) but plan to do so once the audit has been finalised. We will then report the outcome of those discussions to the Governance Committee. |

## Other responsibilities under the Code

| Issue  | Commentary  |
|--|---|
| <b>Other information</b>                                     | <p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>                             |
| <b>Matters on which we report by exception</b>               | <p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• 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 other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p> |
| <b>Specified procedures for Whole of Government Accounts</b> | <p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that work is not required as the Council does not exceed the threshold.</p>  |
| <b>Certification of the closure of the audit</b>             | <p>Subject to the completion of outstanding audit procedures, we intend to certify the closure of the 2019/20 audit of Dover District Council in the audit report.</p>  |

# Value for Money

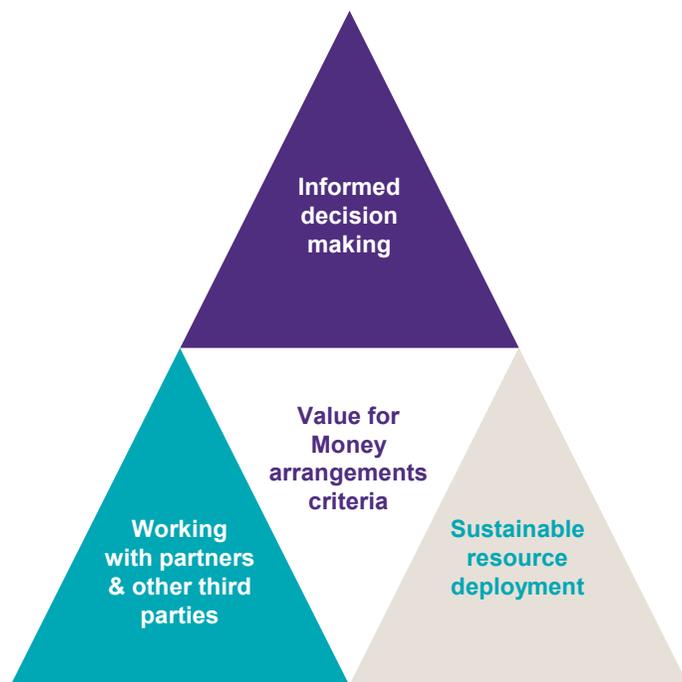
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 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:



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## Risk assessment

We carried out an initial risk assessment in March 2020 and identified a significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2020.

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 have not identified any new VFM risks in relation to Covid-19. However, we have considered the potential impact of Covid-19 on the Council's future financial sustainability, and plans for addressing the arising issues, as part of our work in addressing the previously identified significant VFM risk around the Medium Term Financial sustainability.

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.

# Value for Money

## Our work

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 Council's financial planning arrangements pre-Covid were sound;
- The General Fund outturn delivered an underspend against the original budget of around £2.2m, resulting in an in-year surplus of £26k and retained a year-end General Fund balance of £2.5m. However there is a predicted General Fund budget deficit of £500k for 2021/22.
- The Council invested £20.7m in major projects in 2019/20. The current general fund capital programme totals £90.4m and is fully funded, however the resources for funding capital and revenue projects will be largely exhausted by the current programme.
- The Covid support from government is likely to lead to an overall underspend in 2020/21, which will be used to support pressures in 2021/22. None of the Covid support measures are expected to remain in place beyond 2021/22 and so the recovery from Covid may last into 2022/23 and beyond.

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 page 19.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## 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.

## 2018/19 Value for Money

Upon the completion of the 2018/19 audit the Value of Money Conclusion could not be issued due to objections raised by local electors at two of the East Kent districts. The objections related to a contract with P&R Heating for the provision of central heating, gas and hot water repairs. East Kent Housing was responsible for managing contracts in respect of the housing stock on behalf of the Council. The Council identified weaknesses in the management of the P&R contract and as part of a wider review identified weaknesses in the delivery of the service provided by East Kent Housing to the Council.

## Conclusion

We have undertaken work to assess the impact on the 2018/19 VfM conclusion for the Council and concluded the arrangements in place during 2018/19 were not adequate. To that effect, we will issue a qualified 'except for' conclusion. Given new arrangements put in place in 2019/20 by the Council for both contract monitoring and the scrutiny of East Kent Housing and the strategic decision to bring the housing service back into the Council from 1 October 2020, we propose lifting the qualification for 2019/20 VfM conclusion.

# Value for Money

## 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 as reported in the audit plan

#### Financial Sustainability

The Council approved the 2019/20 budget, forecasting a surplus of £28k. During the year the forecast budget surplus was increased to £110k. Overall the year-end position resulted in a £26k surplus for the year, which is £84k less than the forecast position.

The Council has set a balanced budget for 2020/21, which includes managing potential cost pressures of £9.5m due to Covid-19.

The 2020/21 Medium-Term Financial Plan shows the Council facing a projected budget shortfall in 2021/22 of £1.3m.

### Findings and conclusion

Due to the Covid-19 crisis, the Council took a Contingency Revised budget for 2020/21 to Cabinet on 1 June 2020 and Council on 21<sup>st</sup> October.

This was to address some significant adverse variances to the original approved budget that had been caused the coronavirus. The impact on the budget, forecast £9.8m of additional pressure on the 2020/21 budget.

The financial impacts in 2020/21 come from a combination of some additional cost pressures (mainly homelessness), very significant losses of income and less than anticipated financial support from the Government; direct income losses due to enforced closures of facilities, including leisure centres and consequential losses such as car park income and slow recovery after reopening facilities.

The Council in response looked to reduce the Council's General Fund balance to £1.5m, releasing £1.0m, apply the Government's support to the Council of £1.2m, and cancel budgeted contributions from the General Fund to earmarked reserves of £2.0m. Additionally the Council would consider a programme of asset disposal, for further consideration to generate capital receipts of at least £1.0m and also pause the capital programme with some exceptions. Collectively these actions were forecast to generate £9.8m and the Council would also look to review the earmarked reserves to determine whether any further sums could be released.

The 2020/21 Medium-Term Financial Plan shows the Council facing a projected budget shortfall in 2021/22 of £1.3m. The 12 months impact of full lockdown in 2020/21 is estimated to be circa £10m. Assuming the recovery is underway by that time, then this impact will be diminished, but still significant. For 2021/22, there is likely to be a mix of on-going pressures from a reduced resource base and the pressures created by a slow recovery of other income streams, in addition to whatever changes government may make to the financing of local government. The updated Medium-Term Financial Plan 2021/22 shows a £0.5m deficit for 2021/22.

We are satisfied that the Council has suitable arrangements in place for financial resilience but as with other councils there are significant challenges to be resolved. The Council's current MTFP shows a budget gap for 2021/22 reduced from £1.3 to £0.5m and future years will be further impacted by the duration and severity of the lockdown / tiered restrictions, the speed of economic recovery, the net cost to the Council of the expanded Port Health Function and the costs to DDC of the changes in the flow and any disruptions in cross channel trade. Taken together, these factors represent a considerable challenge for the Council given the savings it has had to make in recent years.

# Value for Money 2018/19

## Key findings

| Significant risk  | Findings  |
|---|---|
| <b>Management of the contract with East Kent Homes– Sustainable Resource Deployment</b> | <p>East Kent Housing was set up in 2011 as an Arms Length Management Organisation (“ALMO”) in order to manage and maintain the housing stock of 17,000 dwellings for four east Kent councils including Dover DC. ALMOs were created to allow for a dedicated housing focus to meet the needs of tenants and leaseholders rather than it being one of a number of corporate priorities for individual councils. The Council retains ownership of the stock and the ultimate responsibility for providing safe, secure housing that meets the needs of stakeholders and complies with relevant legislation. The Regulator of Social Housing wrote to all councils following the Grenfell Tower fire to remind them of their obligations for tenants’ safety, even where housing is outsourced. In terms of contract management, the responsibilities are clear. East Kent Housing (‘EKH’) should be responsible for day to day monitoring of contracts, with the Council exercising appropriate overview and scrutiny of its contract with EKH for management of the stock which costs the Council circa £2-2.5m per annum. During 2018/19 it emerged that a contract with P and R Installation Services (‘P and R’) was not operating effectively. There were allegations of overcharging and non performance from the contractor. More significantly, failures to ensure that legal requirements were met in respect of completing gas safety inspections were identified towards the end of the financial year. The Monitoring Officer reported the Council’s breach of law to Cabinet and the councils self- reported the breach to the Housing Regulator. The Council’s internal audit provider, East Kent Audit Partnership issued a number of reports on contract management . The report of Heating and Installation resulted in a “ no assurance “ conclusion on a contract which costs the four councils some £4m per annum. ‘No assurance’ ratings are extremely rare in Internal Audit work in our experience. It indicates very clearly that insufficient arrangements were in place to monitor the P and R contract by EKH.</p> <p>The fact that P and R gave notice on their contract at the end of March 2019 suggests very strongly that the overall relationship was not effective. This leads us to the clear outcome that because of the seriousness of the matters emerging from the management of this contract, the Council’s value for money arrangements in this regard were not adequate in 2018/19. There were strong claims and counter claims between the Councils and P and R which suggests a combination of poor data, poor management of the contract and an understandable desire on the part of the Councils to change contractors.</p> <p>Given the lack of assurance in respect of gas safety and general concerns over EKH performance, the four east kent councils requested internal audit review the compliance against other health and safety requirements. Internal audit concluded no assurance for fire safety, electrical safety, lift safety and legionella. The Regulator of Social Housing issued a regulatory notice in September 2019 against the Council for breaching the Home Standard.</p> <p>The Councils commissioned an independent review of EKH which reported in December 2019. This identified systemic weaknesses in arrangements in the health and safety compliance service highlighting amongst others, weaknesses in data management, IT capability and record keeping, under the umbrella of poor leadership and governance within EKH and a ‘dysfunctional relationship between EKH and the councils’. The Councils accept their overview of the performance of EKH was not sufficiently robust.</p> <p>The arrangements the Council had in place to ensure EKH met their operational contract management obligations were not sufficient in 2018/19.</p> |

# Value for Money 2018/19

## Key findings

### Significant risk

#### Management of the contract with East Kent Homes– Sustainable Resource Deployment

### Findings

As soon as the P and R issue emerged in 2019, the Councils took robust action to strengthen EKH's arrangements for contract management by instituting enhanced weekly monitoring of the contract. A new procurement took place to replace the P and R contract and the appointment of a new contractor was approved by the Councils' cabinet in July 2019. The new contractor met the specified quality arrangements put in place by the Councils, although reports to Committee note that the chosen contractor was both the cheapest and had no existing contracts in the area. The Councils have however put in place robust arrangements for monitoring of the new contractor including clear termination arrangements should contractual requirement not be met. It will remain fundamental that robust monitoring of this contract is not a new measure that falls away but something embedded in the culture of the organization. Internal Audit are planning to review progress as part of their process as part of their 20/21 plan.

A detailed action plan arising from the commissioned review into EKH has been prepared and is being used to monitor improvements against the identified deficiencies and to provide assurance to the Regulator for Social Housing. We have seen progress reports prepared for late 2020 and note that progress is being made.

The challenges around EKH led all the councils to consider the future strategic direction of their housing functions. A consultation took place in later 2019 which proposed taking back the Housing function into Council hands. The consultation responses suggest an overwhelming desire for tenants and leaseholders to bring the service back in house. Dover's Cabinet agreed this proposal in February 2020 and put transformation arrangements in place. The service was brought back in house on 1 October 2020.

#### **Conclusion**

In our view, appropriate arrangements for the management of key contracts were not sufficiently robust in 2018/19.

# 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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

# Independence and ethics

## 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 which were charged from the beginning of the financial year to July 2021, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

|   | Planning |   |  |
|---|----------|---|--|
|   | Fees £   | Threats identified                              | Safeguards   |
| <b>Audit related</b>                            |          |   |  |
| Certification of Housing Benefit Claim          | 20,500   | 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 not significant in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. These factors mitigate the perceived self-interest threat to an acceptable level. |
| Certification of Housing capital receipts grant | 5,000    | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is not significant in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. These factors mitigate the perceived self-interest threat to an acceptable level. |

# 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

We have no adjusted misstatements to report to you at this stage.

## Misclassification and disclosure changes

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

| Disclosure omission  | Auditor recommendations  | Adjusted?   |
|--|--|---|
| We proposed a number of minor changes and narrative amendments to improve the presentation in the accounts | Management to agree the disclosure note would be amended on the final version of the financial statements  | Agreed, to be actioned  |
| Note 2 Assumptions Made About the Future and Other Major sources of estimation uncertainty                 | <p>Royal Institute of Chartered Surveyors (RICS) issued a valuation practice alert, last updated 10 July 2020, informing valuers and bodies being valued of the expectation that the Covid-19 pandemic would cause potential material uncertainty within the valuations being provided in relation to property due to a shortage of market evidence in relation to the impact of the pandemic. We note that your valuer included a declaration of this material uncertainty within their valuation reports. However in the draft accounts no reference is made to this uncertainty.</p> <p>The inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the declaration has been included to ensure transparency of the fact that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case</p> | Agreed, to be actioned  |
| Note 1(x) Critical Judgements in applying accounting policies  | <p>Under IAS 1, Presentation of Financial Statements, entities must disclose the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. When considering if a judgement has been made we consider whether there were other legitimate options the Council could have chosen in applying the accounting policy.</p> <p>There are several judgements disclosed within the note which do not meet the definition of a judgement per IAS1, further details are provided overleaf.</p>   | <p>We would recommend that these are removed from the Note to ensure compliance with the Code and IAS1.</p> <p>Agreed, to be actioned</p> |

# Audit adjustments

| Disclosure omission   | Auditor recommendations  | Adjusted?              |
|---|--|------------------------|
| <ul style="list-style-type: none"> <li>The Council continues to face a significant financial challenge brought about by, in the main, the Government's budget deficit reduction programme and the economic climate, as well as some specific government led initiatives that will impact on the Council's finances. The impact of these pressures is not considered to require any impairment in the valuation of the Council's assets;</li> <li>The result of the EU referendum was a vote to leave the European Union. This decision could have an impact on the Council's future financial position but at this stage it is not possible to assess what that impact might be however it is not considered necessary to require any change in the financial position reported.</li> </ul> |  |                        |
| Note 5 Property, Plant and Equipment valuation  | The Code of audit Practice requires a disclosure of the value of assets revalued over the years to show compliance with the short duration (5years) requirement. | Agreed, to be actioned |

# Fees

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

| <b>Audit fees</b>                       | <b>Proposed fee</b> | <b>Final fee</b> |
|---|---------------------|------------------|
| Council Audit                           | £48,837             | TBC              |
| <b>Total audit fees (excluding VAT)</b> | <b>£48,837</b>      | <b>TBC</b>       |

The fees reconcile to the financial statements.

| <b>Non-audit fees for other services</b>     | <b>Proposed fee</b> | <b>Final fee</b> |
|--|---------------------|------------------|
| Audit Related Services E.g. Grant Claims     | £20,500             | TBC              |
| <b>Total non- audit fees (excluding VAT)</b> | <b>£20,500</b>      | <b>TBC</b>       |

**DRAFT AUDIT OPINION****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 2020 which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Financial Statements, Housing Revenue Account notes and Notes to the Collection Fund Statement. 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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.

**The impact of macro-economic uncertainties on our audit**

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Financial Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

**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 Strategic Director's (Corporate Resources) use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Strategic Director's (Corporate Resources) 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.

In our evaluation of the Strategic Director's (Corporate Resources) conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

### **Emphasis of Matter – effects of Covid-19 on the valuation of Council land and buildings, dwellings and investment properties and the valuation of property investments within the pension fund assets**

We draw attention to Note x and Note x of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings as at 31 March 2020 and Note x which describes the effects of the valuation of the pension fund's property investments held within the pension fund assets as at 31 March 2020. As at the valuation date, the current response to Covid-19 means that there is an unprecedented set of circumstances on which to base a judgement. Valuations are therefore reported on the basis of 'material valuation uncertainty'. Consequently, less certainty – and a higher degree of caution – should be attached to the valuations than would normally be the case. Our opinion is not modified in respect of this matter.

### **Other information**

The Strategic Director (Corporate Resources) is responsible for the other information. The other information comprises the information included in the Statement of Accounts, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements 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 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

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

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

### **Responsibilities of the Authority, the Strategic Director (Corporate Resources) and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities set out on page 89, 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 Chief Financial Officer. The Chief Financial Officer 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 2019/20, for being satisfied that they 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 Chief Financial Officer 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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

### **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](http://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 April 2020, 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 2020.

## 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 April 2020, 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 2020.

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 certify that we have completed the audit of the financial statements of the Dover District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

### Use of our report

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

**[Signature]**

Darren Wells, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor  
London

**[Date]**

## APPENDIX 2



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Our ref: AS/MD/Letters21/GTLLP  
Your ref: N/A  
Date: 26th July 2021

Grant Thornton UK LLP  
30 Finsbury Square,  
London, EC2A 1AG

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION}

Dear Sirs

Dover District Council  
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Dover District Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the

preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Council has been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as [they are immaterial to the results of the Council and its financial position at the year-end OR list reasons]. The financial statements are free of material misstatements, including omissions.<sup>1</sup>
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

#### Information Provided

- xv. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and

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<sup>1</sup> Either para (x) or (xi) will be deleted in the final version to be signed, based on any additional findings in conclusion of the audit process. At present, based on the Audit Findings Report included on the agenda, para (xi) will be deleted as the proposed amendments have been agreed to be amended.

- c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

#### Annual Governance Statement

- xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

#### Narrative Report

- xxv. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

#### Approval

The approval of this letter of representation was minuted by the Council's Governance Committee at its meeting on 26<sup>th</sup> July 2021.

Yours faithfully

Mike Davis  
Strategic Director (Corporate Resources)

# Dover District Council Audit Progress Report and Sector Update

Year ending 31 March 2021

July 2021



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

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# Introduction

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This paper provides the Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk) ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at July 2021

## 2019/20 Audit

We are currently in the process of completing the 2019/20 audit. An Audit Findings Report for 2019/20 is on the Committee's 26<sup>th</sup> July 2021 agenda as a separate item.

## 2020/21 Audit

Planning for the 2020/21 audit will commence upon completion of the 2019/20 audit. We anticipate presenting the audit plan to your 30<sup>th</sup> September Governance Meeting.

The Accounts and Audit (Amendment) Regulations 2021 push back the date by which principal authorities need to publish their draft financial statements to the first working day of August. In 2020 this date was pushed back to 31 August. The Council anticipate producing the 2020/21 accounts in early August. The audit will not commence until October 2021.

The date by which authorities are required to publish audited financial statements is 30 September (30 November in 2019/20).

Given the late start to the 2020/21 audit, we do not anticipate completing the audit until 31 January 2022. For the 2021/22 audit subject to any national changes, we anticipate that the audit timetable will return to its usual cycle.

## Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline is now no more than three months after the date of the opinion on the financial statements.

Please see pages 8 to 10 for further details.

# Progress at July 2021 (cont.)

## Other areas

### Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2019/20 claim is planned to be completed by August 2021, and a report presented to the Governance Committee at its next meeting. The certification work for the 2020/21 claim is due to begin in November. We will report our findings to the Governance Committee in our Certification Letter in January 2022.

We also certify the Authority's annual Pooling of Housing Capital Receipts return in accordance with procedures agreed with the Ministry of Housing, Communities & Local Government. (MHCLG). The certification work for the 2019/20 return is to be completed in August 2021. The certification work for the 2020/21 return is due to begin in October.

### Meetings

We met with Finance Officers in March as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to progress the audits.

### Events

We provide a range of workshops, along with network events for members and publications to support the Authority. The Council's finance team were invited to our annual accounts closedown event in March 2021.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

### Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2020/21 is the third year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 and 2019/20 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed with the Kent Finance Officers Group that audit fees for 2020/21 will increase. We will report our proposed audit fee in the 2020/21 audit plan for the 30<sup>th</sup> September Governance Committee meeting.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

# Audit Deliverables

| 2020/21 Deliverables  | Planned Date   | Status      |
|---|----------------|-------------|
| <p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Governance Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.</p> | September 2021 | Not yet due |
| <p><b>Audit Findings Report</b></p> <p>The Audit Findings Report is planned for 31 January 2022.</p>  | January 2022   | Not yet due |
| <p><b>Auditors Report</b></p> <p>This is the opinion on your financial statements.</p>  | January 2022   | Not yet due |
| <p><b>Auditor's Annual Report</b></p> <p>This Report communicates the key issues arising from our Value for Money work.</p>   | January 2022   | Not yet due |

# Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local government

# The new approach to Value for Money

## The nature of value for money work

Section 20 and 21 of the Local Audit and Accountability Act 2014 (the Act), require auditors to be satisfied that the body “has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources”. The auditor’s work on VFM arrangements is undertaken in accordance with the Code and its supporting statutory guidance. The Comptroller and Auditor General has determined through the 2020 Code and guidance that the key output from local audit work in respect of VFM arrangements is the commentary as reported in the Auditor’s Annual Report. It is therefore not a VFM arrangements ‘conclusion’ or an ‘opinion’ in the same sense as the opinion on the financial statements themselves. The Act and the Code require auditors to consider whether the body has put in place ‘proper arrangements’ for securing VFM. The arrangements that fall within the scope of ‘proper arrangements’ are set out in ‘AGN 03 Auditors’ work on VFM arrangements’, which is issued by the NAO. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria:

## Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services, including how the body:

- ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- plans to bridge its funding gaps and identifies achievable savings;
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;

- ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

## Governance

How the body ensures that it makes informed decisions and properly manages its risks, including how the body:

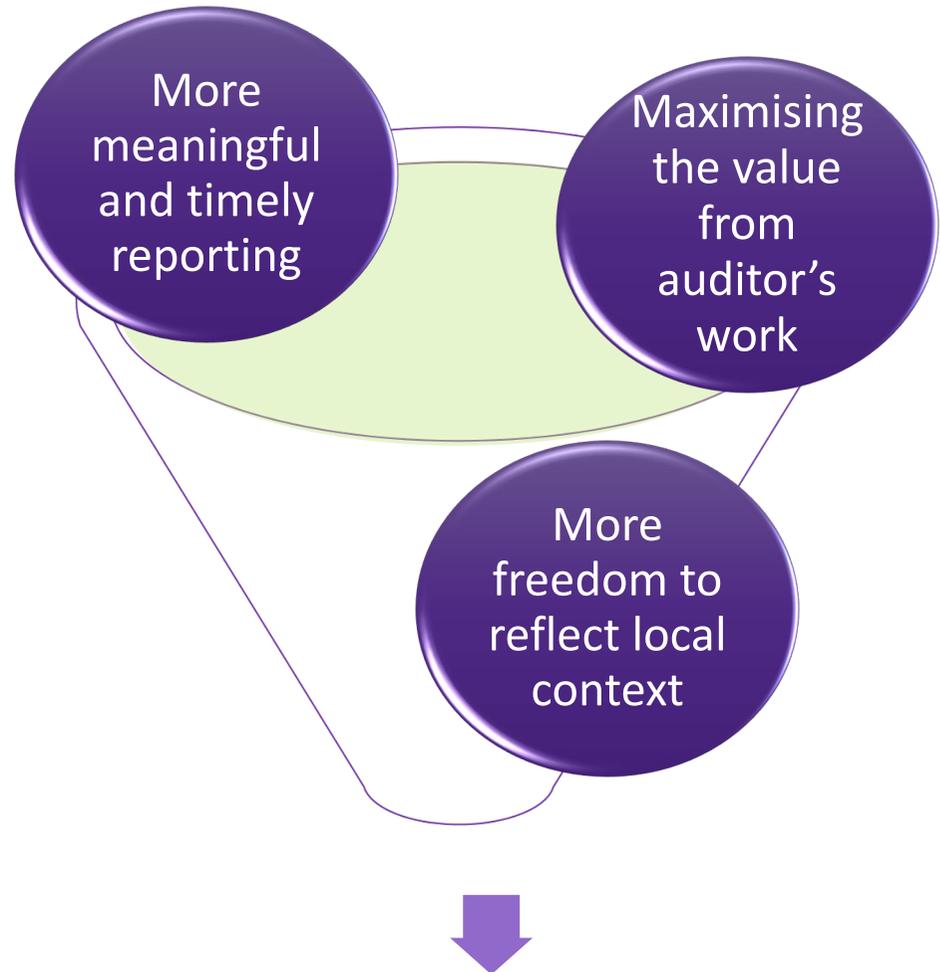
- monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- approaches and carries out its annual budget setting process;
- ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

# The new approach to Value for Money

## Improving economy, efficiency and effectiveness

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

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the body evaluates the services it provides to assess performance and identify areas for improvement;
- how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.



**VFM arrangements commentary and recommendations**

# The new approach to Value for Money

The table below details what will be reported in the Auditor's Annual Report:

| Section of report                        | Content  |
|--|--|
| Commentary on arrangements               | An explanation of the VFM work that has been undertaken during the year, including the risk assessment and any further risk-based work. It will also highlight any significant weaknesses that have been identified and brought to the body's attention. The commentary will allow auditors to better reflect local context and draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself. |
| Recommendations                          | Where an auditor concludes that there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement.   |
| Progress in implementing recommendations | Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily.   |
| Use of additional powers                 | Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this should be reported in the auditor's annual report.   |
| Opinion on the financial statements      | The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements.   |

The table below details the three types of recommendations that auditors can make. Auditors may make recommendations at any time during the year.

| Type of recommendation     | Definition   |
|----------------------------|--|
| Statutory recommendation   | Where auditors make written recommendations to the body under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. A recommendation of this type requires the body to discuss and respond publicly to the report. |
| Key recommendation         | Where auditors identify significant weaknesses in a body's arrangements for securing value for money, they have to make recommendations setting out the actions that the body should take to address them                              |
| Improvement recommendation | Where auditors do not identify a significant weakness in the body's arrangements, but still wish to make recommendations about how the body's arrangements can be improved   |

# Revised auditing standard: Auditing Accounting Estimates and Related Disclosures

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

## Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

## Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021 in all areas summarised above for all material accounting estimates that are included in the financial statements.

Based on our knowledge of the Authority we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals
- Valuation of defined benefit net pension fund liabilities

## The Authority's Information systems

In respect of the Authority's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Authority uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Authority (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

### Estimation uncertainty

Under ISA (UK) 540 (Revised December 2018) we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management addresses this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to include:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

### How can you help?

As part of our planning risk assessment procedures we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc. Responses to these enquires are completed by management and confirmed by those charged with governance at an Audit Committee meeting. For our 2020/21 audit we will be making additional enquires on your accounting estimates in a similar way (which will cover the areas highlighted above). We would appreciate a prompt response to these enquires in due course.

### Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

# Insight into accounting for grants in local government financial statements – Grant Thornton

The government has provided a range of financial support packages throughout the COVID-19 pandemic.

We have issued a brief bulletin aimed at helping local government bodies identify the key things they should consider when determining the accounting treatment for these grants in their financial statements for 2020/21.

There are no changes to the accounting treatment for grants as required by the CIPFA Code of Practice on Local Authority Accounting. What has changed, is the extent of additional funding to support the cost of services, to offset other income losses along with grant packages to be paid out to support local business. Local authorities need to consider the nature and terms of the various COVID-19 measures in order to determine whether there is income and expenditure to be recognised in the Comprehensive Income and Expenditure Statement in 2020/21.

The report highlights the factors to consider, including:

- Where the funding is to be transferred to other parties, is the authority acting as principal or as agent?
- Are there grant conditions outstanding?
- Is the grant a specific or non-specific grant?

Our bulletin provides you with links to further information on the various support packages and summarises features that may be relevant to your judgements as you determine the appropriate accounting treatment.

Local authorities need to demonstrate their judgements on the accounting treatment to be reasonable and soundly based and, where these have a significant effect on the accounts, to ensure they include sufficient disclosures to meet the requirements of IAS 1:122.

Please ask your audit manager for the full report:



# What can be learned from Public Interest Reports?—

## Grant Thornton

2020 will be remembered as a tumultuous year in local government, with the pandemic creating unprecedented pressure on the sector. It also saw the appearance of two Public Interest Reports (PIRs), followed by another in January this year – the first to be issued in the sector since 2016. PIRs can be issued by local auditors if there are significant concerns around council activity, such as major failings in finance and governance.

The recent PIRs have made headlines because, up to this point, very few have ever been issued. But, as our latest report “Lessons from recent Public Interest Reports” explores, all three illustrate some of the fundamental issues facing the wider sector and provide a lesson for all local authorities around: weaknesses in financial management; governance and scrutiny practices; and council culture and leadership; which, when combined, can provide fertile ground for the kind of significant issues we might see in a PIR.

The COVID-19 pandemic highlighted four essential factors we probably always knew about local government, have often said, but which are now much better evidenced:

- 1) Local government has provided fantastic support to its communities in working with the NHS and other partners to deal with the multifaceted challenges of the pandemic.
- 2) Britain’s long centralised approach to government has been exposed to some degree in terms of its agility to tailor pandemic responses to regional and local bodies. This is recognised by the current government who continue to pursue the options for devolution of powers to local bodies. Track and Trace delivered centrally has not been as successful as anticipated and, according to government figures, local interventions have had more impact.

- 3) Years of reduced funding from central government have exposed the underlying flaws in the local authority business model, with too much reliance on generating additional income.
- 4) Not all authorities exercise appropriate care with public money; not all authorities exercise appropriate governance; and not all authorities have the capability of managing risk, both short and long term. Optimism bias has been baked into too many councils’ medium-term plans.

The PIRs at Nottingham City Council (August 2020), the London Borough of Croydon (October 2020), and Northampton Borough Council (January 2021) are clear illustrations of some of the local government issues identified above. The audit reports are comprehensive and wide-ranging and a lesson for all local authorities. Local authorities have a variety of different governance models. These range from elected mayor to the cabinet and a scrutiny system approach, while others have moved back to committee systems. Arguments can be made both for and against all of these models. However, in the recent PIR cases, and for many other local authorities, it’s less about the system of governance and more about how it operates, who operates it and how willing they are to accept scrutiny and challenge.

There are a number of lessons to be learned from the recent PIR reports and these can be broken down into three key areas which are explored further in our report:

- 1) The context of local government in a COVID-19 world
- 2) Governance, scrutiny, and culture
- 3) Local authority leadership.

The full report is available here:

[Lessons from recent Public Interest Reports | Grant Thornton](#)

# Annual Transparency Report – Grant Thornton

As auditors of several listed entities as well as nearly one hundred major local audits, we are required as a firm to publish an annual transparency report.

The report contains a variety of information which we believe is helpful to audit committees as well as wider stakeholders. The Financial Reporting Council (FRC) in their thematic review of transparency reporting noted that they are keen to see more Audit Committee Chairs actively engaging and challenging their auditors on audit quality based on the information produced in Transparency reports on a regular basis. We agree with the FRC and are keen to share our transparency report and discuss audit quality with you more widely.

The transparency report provides details of our:

- Leadership and governance structures
- Principle risks and Key Performance Indicators
- Quality, risk management and internal control structure
- Independence and ethics processes
- People and culture
- Compliance with the Audit Firm Governance code and EU Audit directive requirements

We have made significant developments in the year as part of our Local Audit Investment Plan to improve our audit quality. We welcome an opportunity to discuss these developments and our transparency report should you wish.



The full report is available here:

[Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

# Local government finance in the pandemic – National Audit Office

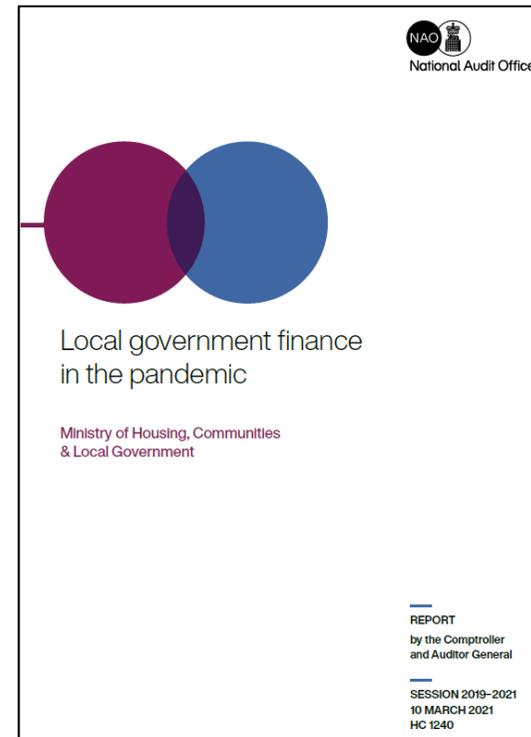
The National Audit Office (NAO) report, published in March, notes “The COVID-19 pandemic has been an unprecedented public health and economic emergency. Local authorities in England have made a major contribution to the national response to the pandemic, working to protect local communities and businesses, while continuing to deliver existing services. The pandemic has in turn placed significant pressure on local authorities’ finances, which in many cases were already under strain going into the pandemic.”

The NAO report examines if the Department’s approach to local government finance in the COVID-19 pandemic enabled it to assess and fund the costs of new services which local authorities have been asked to deliver. It also examines whether the Department fulfilled its responsibilities in securing financial sustainability across the sector.

The NAO report concludes “Steps taken by the government, led by the Department, have supported local authorities in the COVID-19 pandemic response. The Department’s successful monthly collection of data and continued intensive engagement with the sector provided a good evidence base to underpin the financial and other support provided by government. Action by the Department and wider government to support the sector has averted system-wide financial failure at a very challenging time and means that the Department has managed the most severe risks to value for money in the short term.

However, the financial position of local government remains a cause for concern. Many authorities will be relying on reserves to balance their 2020-21 year-end budgets. Despite continuing support into 2021-22 the outlook for next year is uncertain. Many authorities are setting budgets for 2021-22 in which they have limited confidence, and which are balanced through cuts to service budgets and the use of reserves.”

The NAO report found that “the combined impact on spending and non-tax income in 2020-21 is £9.7bn – equivalent to 17.6% of revenue expenditure. So far the government has announced £9.1bn of financial support, leaving a deficit of £605m.”



The full report can be obtained from the NAO website:

[Local government finance in the pandemic - National Audit Office \(NAO\) Report](#)

# Local authority Covid-19 pressures – MHCLG

Outturn figures from the Ministry for Housing, Communities and Local Government (MHCLG) show that local authorities in England reported additional cost pressures of £12.8bn relating to Covid-19 in 2020-21. Overall, local authorities spent £7.2bn responding to the pandemic last year, with the largest share of additional expenditure going on adult social care services at £3.2bn.

**Additional expenditure due to COVID-19 by class and service area (£ millions) (2020-21)**

|   | Shire District | Shire County     | Unitary Authority | Metropolitan District | London Borough   | Total            |
|---|----------------|------------------|-------------------|-----------------------|------------------|------------------|
| Adult Social Care – total                                       | 0.473          | 1,254.880        | 848.656           | 663.404               | 413.842          | <b>3,181.254</b> |
| Children's social care - total (excluding SEND)                 | 0.000          | 94.933           | 131.127           | 89.799                | 62.987           | <b>378.846</b>   |
| Housing - total (including homelessness services) excluding HRA | 63.129         | 5.254            | 74.949            | 42.281                | 112.971          | <b>298.584</b>   |
| Environmental and regulatory services - total                   | 33.564         | 68.097           | 67.512            | 66.704                | 63.556           | <b>299.433</b>   |
| Finance & corporate services - total                            | 48.222         | 53.445           | 83.984            | 76.923                | 78.284           | <b>340.858</b>   |
| All other service areas not listed in rows above                | 184.550        | 634.578          | 584.924           | 564.737               | 395.137          | <b>2,363.926</b> |
| <b>Total</b>  | <b>329.937</b> | <b>2,111.187</b> | <b>1,791.153</b>  | <b>1,503.848</b>      | <b>1,126.777</b> | <b>6,862.902</b> |



The figures are available in full here:  
<https://www.gov.uk/government/publications/local-authority-covid-19-financial-impact-monitoring-information>

**Income losses due to COVID-19 by class and source of income (£ millions) (2020-21)**

|                        | Shire District   | Shire County   | Unitary Authority | Metropolitan District | London Borough   | Total            |
|------------------------|------------------|----------------|-------------------|-----------------------|------------------|------------------|
| Business rates         | 276.498          | 0.000          | 194.192           | 207.351               | 537.667          | <b>1,215.708</b> |
| Council tax            | 399.037          | 0.000          | 217.633           | 191.219               | 232.727          | <b>1,040.616</b> |
| Sales fees and charges | 516.426          | 194.923        | 553.907           | 396.745               | 475.728          | <b>2,137.728</b> |
| Commercial income      | 82.448           | 24.159         | 120.629           | 204.211               | 52.154           | <b>483.600</b>   |
| Other                  | 33.494           | 39.947         | 27.163            | 53.664                | 45.166           | <b>199.435</b>   |
| <b>Total</b>           | <b>1,307.903</b> | <b>259.029</b> | <b>1,113.524</b>  | <b>1,053.190</b>      | <b>1,343.441</b> | <b>5,077.087</b> |

# CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "CIPFA's Financial Resilience Index is a comparative analytical tool that may be used by Chief Financial Officers to support good financial management, providing a common understanding within a council of their financial position.

The Index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by extensive financial resilience work undertaken by CIPFA over the past five seven years, public consultation and technical stakeholder engagement.

Section 151 officers may also use the index in their annual report to the council setting out the proposed budget for the year and medium-term financial strategy.

While the impact of COVID-19 resulted in a delay to the publication of the index, it is still able to provide a comprehensive pre-COVID baseline, illustrating the financial resilience of authorities as they entered the pandemic."

CIPFA found that "there was a real-terms reduction of £800m in the level of reserves in 2020 compared with the previous year. At the end of March 2020 council reserves levels stood at £24.6bn, around 3% lower than £25.4bn recorded at the same period in 2019."

CIPFA note "The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index-2021?crdm=0>

# Good practice in annual reporting – National Audit Office

The National Audit Office (NAO) state that the guide, launched in February, “Sets out our good practice principles for good annual reporting and provides illustrative examples taken from public sector organisations who are leading the way in this area.

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance

The NAO also state that the guide “provides further examples where bodies have made their context more understandable to the reader through use of graphics and clear language and signposting.”

However, The NAO observe “Done well, reporting in the public sector enables the public and Parliament to understand – with ease and confidence – an organisation’s strategy and the risks it faces, how much taxpayers’ money has been spent and on what, and what has been achieved as a result.”

Further, the NAO note “The significant impacts of the pandemic emerged in the UK in mid-March 2020. This means that, for many organisations, the reporting impact will be greater in 2020-21 than in the prior year. Transparent annual reporting will help stakeholders understand the impact of COVID-19 on an organisation’s strategy, plans and operational and financial performance.”



The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/good-practice-in-annual-reports-february-2021/>

# Government response to Redmond review – MHCLG

Government has published an update on the Ministry of Housing, Communities & Local Government response to Sir Tony Redmond’s independent review into the effectiveness of external audit and transparency of financial reporting in local authorities.

The MHCLG press release states “The Audit, Reporting and Governance Authority (ARGA) – the new regulator being established to replace the Financial Reporting Council (FRC) – will be strengthened with new powers over local government audit, protecting public funds and ensuring councils are best serving taxpayers.

The new regulator, which will contain a standalone local audit unit, will bring all regulatory functions into one place, to better coordinate a new, simplified local audit framework.

ARGA will continue to act as regulator and carry out audit quality reviews as the FRC does now. It will now also provide annual reports on the state of local audit and take over responsibility for the updated Code of Local Audit Practice – the guidelines councils are required to follow.

The government has confirmed that the Public Sector Audit Appointments (PSAA) will continue as the appointing body for local audit, in charge of procurement and contract management for local government auditors.

In the immediate term, MHCLG will set up and chair a Liaison Committee, which will comprise senior stakeholders across the sector that will oversee the governance of the new audit arrangements and ensure they are operating effectively.”

The press release goes on to state the “measures finalise the government’s response to Sir Tony Redmond’s independent review into local audit, carried out last year.

The government has already announced £15 million to support councils with additional costs in audit fees, and recently consulted on the distribution of this funding. Government is also consulting on improving flexibility on audit fee setting and has extended the deadline for when councils must publish their audited accounts.



The press release can be found here:

<https://www.gov.uk/government/news/government-publishes-update-to-audit-review-response>

# 2019/20 audited accounts – Public Sector Audit Appointments

In December 2020 Public Sector Audit Appointments (PSAA) published figures relating to the audit of 2019/20 local authority financial statements.

PSAA report “Audit arrangements in local councils, police, fire and other local government bodies are continuing to exhibit signs of stress and difficulty. In the latest audit round, focusing on 2019/20 financial statements and value for money arrangements, fewer than 50% of bodies’ audits were completed by the revised target of 30 November.

Figures compiled by PSAA, the organisation responsible for appointing auditors to 478 local bodies, reveal that 55% (265) of audit opinions were not issued by 30 November. This is a further deterioration on 2018/19 audits when 43% of opinions (210 out of 486) were delayed beyond the then target timetable of 31 July.”

By 30 November, Grant Thornton had signed 113/208 audits (a 55% completion rate), meaning that only 45% of audit opinions were not signed by 30 November, compared to the 55% all firms average.

PSAA go on to note “This year’s timetable has been deliberately eased by Ministers in recognition of the underlying pressures on the audit process and the significant added complications arising from the Covid-19 pandemic. The pandemic has posed practical challenges for bodies in producing accounts and working papers, and for auditors to carry out their testing. Both sets of staff have had to work remotely throughout the period, and the second national lockdown came at a critical point in the cycle.

Questions and concerns about the potential implications of the pandemic for some bodies have meant that both finance staff and auditors have needed to pay particular attention to the financial position of each entity. Additionally, following a series of increasingly challenging regulatory reviews, auditors have arguably been more focused than ever on their professional duty to give their opinion only when they are satisfied that they have sufficient assurance.”



The news article can be found here:

[News release: 2019/20 audited accounts – PSAA](#)

# Consultation on 2023-24 audit appointments – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) is consulting on the Draft prospectus for 2023 and beyond.

PSAA state “Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework.”

The plans include proposals to adjust the procurement ratio between quality and costs from an equal 50:50 to 80:20, as well as trying to bring new suppliers in to the market.

The consultation on the PSAA’s proposals closes on 8 July.



The news article can be found here:

<https://www.psa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/prospectus-2023-and-beyond/draft-prospectus-for-2023-and-beyond/page/7/>

# Councils given power to build more homes for first time buyers and for social rent – MHCLG

The Ministry of Housing, Communities & Local Government (MHCLG) has announced that councils in England will have more freedom on how they spend the money from homes sold through Right to Buy to help them build the homes needed in their communities.

The MHCLG press release states the “package will make it easier for councils to fund homes using Right to Buy receipts, including homes for social rent, and give them greater flexibility over the types of homes they provide to reflect the needs of their communities.

It will also give councils more time to use receipts and to develop ambitious building programmes. The government wants homes supplied using Right to Buy receipts to be the best value for money, and to add to overall housing supply, to help towards delivering 300,000 new homes a year across England by the mid-2020s.”

The press release goes on to note “New measures include:

- extending the time councils have to spend Right to Buy receipts from 3 years to 5 years
- increased cap on the percentage cost of new homes councils can fund from Right to Buy receipts raised from 30% to 40% per home, making it easier to build replacement homes
- allowing receipts to be used for shared ownership, First Homes, as well as affordable and social housing, to help councils build the homes their communities need
- introducing a cap on the use of Right to Buy receipts for acquisitions to help drive new supply.”



The press release can be found here:

<https://www.gov.uk/government/news/councils-given-power-to-build-more-homes-for-first-time-buyers-and-for-social-rent>



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