

Public Document Pack



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26 September 2013

Dear Councillor

I am now able to enclose, for consideration at the meeting of the **GOVERNANCE COMMITTEE** on Thursday 26 September 2013 at 6.00 pm, the following reports that have been revised since the agenda was printed.

12 **AUDIT FINDINGS REPORT** (Pages 2 - 35)

To consider the attached report from Grant Thornton.

Yours sincerely

A handwritten signature in black ink, appearing to be "Nicky", written over a white background. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Chief Executive



The Audit Findings for Dover District Council

Year ended 31 March 2013

∞ UPDATED 26 September 2013

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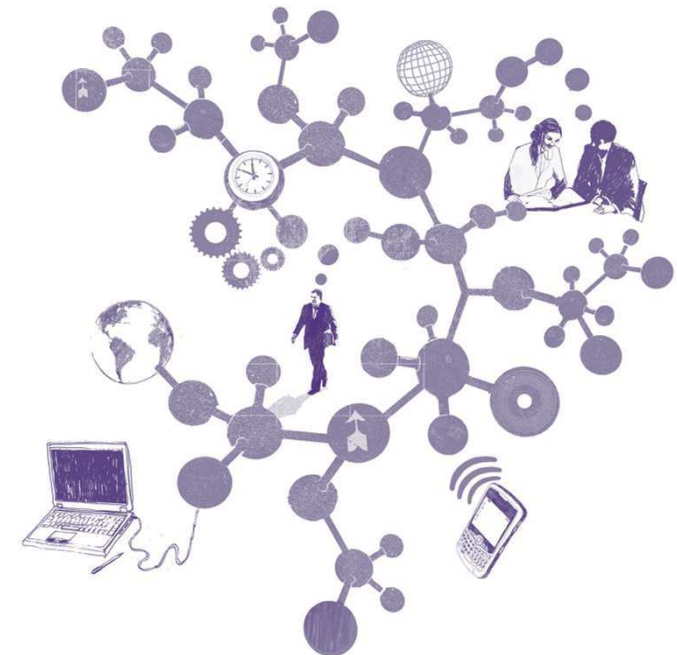
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Dover District Council's (the Council) financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money (VFM) conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan presented to the Governance Committee on 14 March 2013.

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

- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements on 28 June 2013 and accompanying working papers for the start of our audit on 22 July 2013, in accordance with the agreed timetable. Working papers were of a good standard and officers responded promptly to audit queries.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

During the audit we identified a material misstatement in relation to the valuation of the Council's Land and Buildings due to an error by the valuer. This resulted in an overall reduction in the Council's net assets of £21,750k. As a technical accounting adjustment, this has no effect on the resources available to the Council.

In addition, but we have recommended a small number of adjustments to correct misclassification and disclosure errors and other minor presentational issues within the financial statements.

Due to the timing of a proposal to transfer Housing Revenue Account balances to the General Fund we did not have an opportunity to review these proposals before issuing the Audit Findings Report to the Governance Committee and this was flagged as an outstanding issue. We have now reviewed the Council's proposal and adjustments to the financial statements and are not minded to challenge the transfer. We have updated this report to reflect the results of our work.

Further details are set out in section 2 of this report.

Value for Money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further details of our work is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We have completed our work on the Whole of Government Accounts and have no issues which we wish to highlight for your attention.

Controls

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

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

We draw your attention in particular to control issues identified in relation to:

- during the year the Council experienced problems with the E-Commerce system not fully reconciling within the bank reconciliation
- the frequency of changes to network and application passwords.

The way forward

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

Acknowledgment

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

Grant Thornton UK LLP
September 2013

Section 2: *Audit findings*

∞

01. Executive summary

02. **Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we performed and the findings arising from our work in respect of the audit risks identified in our audit plan. We also set out the adjustments to the financial statements and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan presented to the Governance Committee on 14 March 2013 except for the inclusion of our review of the Council's proposal to transfer balance from the Housing Revenue Account to the General Fund. We set out our findings on page 10.

Audit opinion

We anticipate we will provide the Council with an unqualified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

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

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

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	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>
3.	<p>Transfer of balances from HRA to General Fund Reserves</p> <p>The Council has transferred £12.5m from the Housing Revenue Account to the General Fund. This is highly material and an unusual , non-routine transaction .</p>	<ul style="list-style-type: none"> • consider the legality of the transaction, including the advice obtained by the Council • consider the governance arrangements around approval and due process • tested transactions in the financial statements to the approved Council decision 	<p>We have set out fully our consideration of this transfers on the following page.</p>

Transfer from the Housing Revenue Account to the General Fund

The Local Government and Housing Act 1989 (the Act) requires local authorities to maintain a statutory, ring-fenced Housing Revenue Account (HRA). The ring-fence continues to be required following the move to self-financing in England and is controlled by Schedule 4 of the Act. Its purpose is to ensure that council taxpayers do not subsidise services specifically for the benefit of tenants and that rent is not used to subsidise functions which are for the benefit of the wider local community.

Until it is amended on 1 October 2013, Schedule 4, Part III, paragraph 2 of the Act appears, in certain circumstances, to permit local authorities to transfer balances from the HRA to the General Fund. However, in our view, the legal position is not clear cut and the transfer could be seen to be contrary to the intention of the Act to protect tenants. Furthermore, this provision will be amended with effect from 1 October 2013 so that it will only apply to Wales. From 1 October 2013, transfers between the HRA and General Fund in England will only be permitted following a relevant determination by the Secretary of State.

As a result of the uncertainty detailed above we expect local authorities to fully consider the major legal reputational and financial risks before taking any action including:

- obtaining legal advice on the powers to make the transfer and that it is exercising its discretion reasonably
- considering the governance issues and ensuring due process is followed
- assessing the impact on the financial resilience of the HRA
- considering the impact on the 2012/13 financial statements.

⇒ We reviewed the Council's proposal, held discussions with the Section 151 officer and the Council Solicitor and corresponded with officers on points of detail with regards to the transfer. As a result of this work, we are satisfied that the Council has taken legal advice to assure itself that it has the power to make the proposed transfer.

The amendment to the Act, coming into force on 1 October 2013, has meant that the usual timescales for the decision making process have been compressed. However, the issue has been considered by Cabinet and Scrutiny prior to the full Council decision. As this is outside the current budget and policy framework this is appropriate given the significant implications. We note that the Council has not consulted on the proposals. The Council's view is that there is no impact upon tenants and therefore this would not be practical or proportionate.

The Council report includes financial modelling of the HRA balances over the 30 year business plan and concludes that "*options are sustainable in the short, medium and long term*". This is based on the Council's expectation that it will generate surpluses each year as a result of self-financing. We have discussed the assumptions used in the modelling with officers and the Council believes that its modelling is prudent and that future surpluses will begin to rebuild reserves. The Council report sets out a revised budget for 2013/14 which takes into account known risks and changes for 2013/14 and includes additional provision for costs such as structural repairs. This predicts an in year surplus of £1.1m in 2013/14 which seeks to mitigate this risk.

The Council is of the view that the transfer should be recorded in the 2012/13 financial statements. We have reviewed the suggested amendments and the effect included on page 16 and are satisfied that the transfer has been recorded appropriately.

As a result of our work, we are satisfied that the Council has obtained its own legal advice and followed due process in approving the proposal and are therefore not minded to challenge the transfer.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

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Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses understated / Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • tested operating expenses including: <ul style="list-style-type: none"> ○ attribute testing on material expense streams ○ cut-off testing ○ compliance with the Service Reporting Code of Practice 	Work completed during the audit did not identify any significant issues in relation to this risk .
Employee remuneration	Remuneration expenses not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • tested employee remuneration including: <ul style="list-style-type: none"> ○ attribute testing on payroll expenses ○ substantive testing of establishment lists ○ testing payroll to HMRC return 	Work completed during the audit did not identify any significant issues in relation to this risk .

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare expenditure	Welfare benefits improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively <p>Testing of welfare expenditure is in progress and includes:</p> <ul style="list-style-type: none"> ○ analytical review procedures ○ reconciling benefit expenditure to the benefit subsidy claim ○ substantive testing of a sample of benefit claims 	Work completed during the audit did not identify any significant issues in relation to this risk .
Housing rent	Revenue transactions not recorded.	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • tested housing rent including: <ul style="list-style-type: none"> ○ attribute testing on housing rent ○ predictive analytical review of housing revenue ○ cut-off testing 	Work completed during the audit did not identify any significant issues in relation to this risk .

Accounting policies, estimates & judgements

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

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Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<ul style="list-style-type: none"> • Income of goods and services provided by the end of the financial year are accrued ensuring income is accounted for in the period to which it relates. An exception to this principle is car parking penalty charge notices which are accounted for on the day of receipt. This policy is consistently applied each year and, therefore, does not have a material effect on the year's accounts. • Interest receivable on investments is accounted as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. • Whether paid on account, by instalments or in arrears, Government Grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that: <ul style="list-style-type: none"> – the Authority will comply with the conditions attached to the payments; and – the grants or contributions will be received. 	<ul style="list-style-type: none"> • The policy is consistent with the prior year and the disclosure is in line with the requirements of the CIPFA Code. 	<p style="text-align: center;">● (GREEN)</p>

Assessment

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

Accounting policies, estimates & judgements

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

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Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	<ul style="list-style-type: none"> The contract for waste collection and recycling entered into by the East Kent Waste Partnership, does not include an embedded lease in respect of the assets used to provide the service. Therefore, no assets have been recognised on the balance sheet and all contract payments have been accounted for as supplies and services within the Comprehensive Income and Expenditure Statement; The council has a 25% interest in East Kent Housing which has been classified as a joint venture with three other local authorities. Having due regard to both the quantitative and qualitative aspects of materiality the council has concluded that the preparation of group accounts is not required. Other key estimates and judgements include: <ul style="list-style-type: none"> – revaluation of property – Depreciation of property, plant and equipment – pension fund valuations – impairment of doubtful debts 	<ul style="list-style-type: none"> Our review of other key judgements and estimates has not highlighted any issues which we wish to bring to your attention. 	<p style="text-align: center;">● (GREEN)</p>
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of other accounting policies has not highlighted any issues which we wish to bring to your attention. 	<p style="text-align: center;">● (GREEN)</p>

Assessment

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

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Audit adjustments

As part of our testing of revaluations we identified that the valuer had incorrectly valued three properties (Dover Town Hall, Deal Town Hall and Timeball Tower) overstating the valuations. The table identifies the adjustments required to rectify this.

Our audit work to date has not identified any amendments that are required to the financial statements that have not been adjusted by officers.

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	Detail	Statement of Comprehensive Income £'000	Consolidated Balance Sheet £'000	Movement in Reserves Statement £'000
1	Property Plant and Equipment Reduce the previous valuation	Dr Net Cost of Services	59Dr Revaluation Reserve Cr Property, Plant and Equipment	21,687 21,746
2	Reduce depreciation charged in the year	Cr Net Cost of Services	295Dr Property, Plant and Equipment	295
3	Heritage assets Reduce the previous valuation		Dr Revaluation Reserve Cr Heritage	299 299
	Statutory Capital Accounting Adjustments			
4	Reversing funding depreciation due to current cost		Cr Revaluation Reserve Dr Capital Adjustment Account	295 295
5	Reversing the impact of depreciation on the general fund via Movement in Reserves		Cr Capital Adjustment Account	295 Dr General Fund
6	Reversing the impact of the reversal of the impairment on the General Fund via Movement in Reserves		Dr Capital Adjustment Account	59 Cr General Fund
7	Reversing impact of surplus on revaluation	Dr Surplus arising on revaluation of fixed assets	21,986	Cr General Fund
	Overall impact		21,750	Net assets Reserves 21,750 21,750

Adjusted misstatements

Other adjustments

Towards the end of the audit the Council was considering a transfer of balances from the Housing Revenue Account (HRA) to the General Fund. An Extraordinary Council meeting on 25 September approved the transfer and officers therefore amended the financial statements to reflect this decision.

These adjustments were not as a result of the audit but reflect changes to the draft financial statements presented to audit. Due to the materiality of the amendments made we have noted these below for the Governance Committee attention.

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	Detail	Statement of Comprehensive Income £'000		Consolidated Balance Sheet £'000		Movement in Reserves Statement £'000	
1	Transfer of reserves from HRA to General Fund balances			Dr Housing Initiative Reserve Dr Housing Revenue Account Cr General Fund	£2,500 £10,000 £12,500	Dr Housing Initiative Reserve Dr Housing Revenue Account Cr General Fund	£2,500 £10,000 £12,500
	Overall impact			General Fund Housing Revenue Account	(£12,500) £12,500	General Fund Housing Revenue Account	(£12,500) £12,500

In addition to adjustments recorded in the Consolidated Balance Sheet and Movement in Reserves Statement, additional amendments have been made to the accounts to reflect and disclose the nature of the transfer. A separate note on the transfer has been included as Note 24 General Fund and HRA Balances and HRA Note 4 Transfer of HRA Balance and amendments have been made to Note 25 Earmarked Reserves, Movement in the Housing Revenue Account Statement and HRA Note 5 Other Earmarked Reserves.

Misclassifications & 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.

Adjustment type	Value £'000	Reference	Impact on the financial statements
1 Misclassification	588	Comprehensive Income and Expenditure Statement	Capital Grant Contributions has been incorrectly reported as Financing and Investment Income & Expenditure rather than Taxation & Non-specific Grant Income as required by the CIPFA Code of Practice on Local Authority Accounting.
2 Disclosure	765	Note 14 Financial Instruments: Debtors	In adjusting the Debtors figures in the Consolidated Balance sheet to remove prepayments (as these are not classified as Financial Instruments) the Council added rather than subtracted these. The balances are recorded correctly in the Statement of Financial Position, the error relating only to the Financial Instruments disclosure.
3 Disclosure	492	Note 4 Property Plant and Equipment	The Council had included Assets Held for Sale sold in the year within this note incorrectly, this had been correctly disclosed in Note 6 Assets Held for Sale.
4 Disclosure	n/a	Various	Some additional minor changes have been made to the explanatory foreword, the notes to the financial statements and annual governance statement as a result of the audit. These changes relate to correcting textual errors and improving presentation & disclosure.

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Governance Committee on 14 March 2013. We have not been made aware of any other matters in the period since and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none"> Minor disclosure changes were made. Our review found no other material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.



Internal controls

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



Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

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	Assessment	Issue and risk	Recommendations
1.	 (AMBER)	The E-Commerce system is not fully reconciling with the monthly bank statement, meaning the Finance team are having to manually correct these items. We are satisfied that the year-end bank balance has not been materially misstated.	The Council should work on this issue to ensure that the E-Commerce system correctly records successful payments to agree to the payments received by the bank.
2.	 (AMBER)	The network password frequency of change is set at 90 days as are the frequencies of the financial applications we reviewed. We consider this frequency to be longer than good practice guidelines suggest and could lead to access control weakness.	We recommend that the Council review the frequency of network password changes to ensure they are appropriate.

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

Section 3: Value for Money

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Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

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- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Our overall conclusion is that the Council is responding well to the financial challenges it faces. But with continued uncertainty over the future levels of local government funding and need to address a funding gap over the medium term members will need to be prepared for further difficult decisions, to secure the financial resilience of the Council. Further details are set out in our Financial Resilience report.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. Overall appropriate arrangements for challenging economy, efficiency and effectiveness were found to be in place.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Council audit	70,680	70,680
Grant certification	19,200	TBC*
Total audit fees	89,880	TBC*

* To be confirmed at the conclusion of the grant certification work.

Independence and ethics

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

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

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Fees for other services

Service	Actual fees £
None	Nil

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

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

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

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should resolve problems with the E-Commerce system to ensure that it correctly records successful payments to agree to the payments received by the bank.	Medium	The process relating to failed payments reported by the system has been revised to identify and correct errors before the data is transferred into the main accounting system.	Implemented Financial Services Supervisor
2	The Council review the frequency of network password changes to ensure they are appropriate.	Low	The proposal will be reviewed with East Kent Services to consider whether this is appropriate and in-line with PSN requirements.	December 2013 Head of Finance

Appendix B: Audit opinion

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

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

Opinion on the Authority financial statements

We have audited the financial statements of Dover District Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Dover District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

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

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance, Housing and Community; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Dover District Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if :

- in our opinion the annual governance statement does not reflect compliance with ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those 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 2013.

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 form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Dover District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of Dover District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Emily Hill
 Associate Director
 for and on behalf of Grant Thornton UK LLP, Appointed Auditor
 Grant Thornton House , Melton Street, Euston Square, London, NW1 2EP
 Date: 27 September 2013

Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 14 March 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None – to date
Cost of services – Housing revenue	HRA	Other	Housing revenue transactions not recorded	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

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Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	Our audit testing identified that the valuer had incorrectly valued 3 assets, overstating their value.
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	None		No	Our audit testing identified that the valuer had incorrectly valued 2 assets, overstating their value.
Heritage assets & Investment property	Property, Plant & Equipment	None		No	Our audit testing identified that the valuer had incorrectly valued 1 asset, overstating its value.
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

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Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None



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