



# Annual Audit Letter

*Year ending 31 March 2018*

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**Dover District Council**

30 August 2018



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Dover District Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Governance Committee as those charged with governance in our Audit Findings Report on 30 July 2018.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £1,584,000, which is 2% of the Council's gross cost of services expenditure..
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 31 July 2018.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2018.
<b>Certification of Grants</b>	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Governance Committee in our Annual Certification Letter.
<b>Certificate</b>	We certify that we have completed the audit of the accounts of Dover District Council in accordance with the requirements of the Code of Audit Practice.

## Respective responsibilities

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

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

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

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# Audit of the Accounts

## Our audit approach

### Materiality

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

We determined materiality for the audit of the Council's accounts to be £1,584,000, which is 2% of the Council's gross cost of services expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for cash and cash equivalents of £500,000.

We set a lower threshold of £79,000, above which we reported errors to the Governance Committee in our Audit Findings Report.

### The scope of our audit

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

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

We also read the remainder of the Statement of Accounts and the governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Accounts

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>You face external scrutiny of your spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We undertook the following procedures in relation to this risk:</p> <ul style="list-style-type: none"> <li>– gained an understanding of the significant accounting estimates, judgements applied and decisions made by management and consider their reasonableness;</li> <li>– obtained a full listing of journal entries, identified and then tested unusual journal entries for appropriateness; and</li> <li>– evaluated the rationale for any changes in accounting policies or significant unusual transactions that came to out attention during the course of the audit.</li> </ul>	<p>Our audit work did not identify any issues in respect of this risk.</p>
<p><b>Valuation of pension fund net liability</b></p> <p>Your pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration and a key audit matter for the audit.</p>	<p>We undertook the following procedures in relation to this risk:</p> <ul style="list-style-type: none"> <li>– identified the controls put in place by management to ensure that the pension fund liability is not materially misstated and assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement;</li> <li>– evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation;</li> <li>– gained an understanding of the basis on which the valuation was carried out;</li> <li>– undertook procedures to confirm the reasonableness of the actuarial assumptions made; and</li> <li>– checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary, Barnett Waddingham.</li> </ul>	<p>Our audit work did not identify any issues in respect of this risk.</p>

# Audit of the Accounts

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of property, plant and equipment</b>            You revalue your land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration and a key audit matter for the audit.</p>	<p>We undertook the following procedures in relation to this risk:</p> <ul style="list-style-type: none"> <li>– reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>– considered the competence, expertise and objectivity of valuation experts used by management;</li> <li>– discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions;</li> <li>– reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding;</li> <li>– tested revaluations made during the year to ensure they have been input correctly into your asset register; and</li> <li>– evaluated the assumptions made by management for those assets not revalued during the year to verify how management have satisfied themselves that these are not materially different to their current value.</li> </ul>	<p>Our audit work did not identify any issues in respect of this risk.</p>

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# Audit of the Accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in advance of the national deadline.

## **Preparation of the accounts**

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

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

We reported the key issues from our audit to the Council's Governance Committee on 30 July 2018.

We raised two recommendations for management as a result of our audit work, which are set out in Appendix B.

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

We are required to review the Council's Annual Governance Statement and Narrative Report. It published the Narrative Report within the Statement of Accounts and the Annual Governance Statement on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Certificate of closure of the audit**

We are also required to certify that we have completed the audit of the accounts of Dover District Council in accordance with the requirements of the Code of Audit Practice. We confirm that the audit is now complete.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.*

## Key findings

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

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

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

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# Value for Money conclusion

## Key Value for Money Risks

### Significant risk

#### **Budget position and medium term financial planning**

The national local government settlement has placed further pressure on the Council's finances and its medium financial plan includes the need for significant savings over the next few years. There is therefore a risk that the Council will not be able to achieve the forecast savings and continue to deliver a balanced budget over the medium term horizon.

We reviewed recent performance against the budget and considered the reasonableness of the assumptions upon which the Council's medium term financial planning has been based. We also reviewed the Council's plans to deliver savings over the period covered by the medium term financial plan.

### Findings

#### **Outturn for 2017/18**

Despite the challenging funding settlement for local authorities nationally, the Council continued its good track record of delivery of services within budget and attainment of planned savings and income generation targets, delivering an outturn position for 2017/18 of a small deficit of £6k. The Council also reported a surplus of on the Housing Revenue Account (HRA) for the year, which has enabled the achievement of a £2.2m increase in HRA and earmarked HRA reserves. This is a healthy outturn position and demonstrates that the Council has applied appropriate budget management during 2017/18. The outturn position also reflects an improvement in performance from the forecast deficit for 2017/18 of £61k that was projected within the original 2017/18 budget

A major area of budget pressure in 2017/18 has been a £569k overspend due to increased costs of emergency accommodation for the homeless, which has been offset by savings elsewhere in the Council and in particular from its treasury management activities..

#### **2018/19 budget and medium term financial sustainability**

The Medium Term Financial Plan (MTFP) approved by the Council in February 2018 covers the four year period to 2021/22. The MTFP reflects an anticipated loss in Revenue Support Grant funding available to the Council of £1.3m by 2020/21 compared to 2017/18 levels, on top of significant funding reductions that the Council has already faced in recent years. The Council plans to offset these challenges through growth in the Council Tax base and rate, anticipated increases in business rates funding, additional revenues from commercial property regeneration initiatives and via savings realised through the externalisation of revenues and benefits and customer services to Civica.

The MTFP recognises that the Council faces pressures in maintaining a balanced budget for the Housing Revenue Account (HRA) as a result of the Government requirement to reduce rents by 1% per annum for the period 2016/17 to 2019/20, and also due to the impact of increased levels of Right to Buy sales in recent years. These have resulted in reductions in the Council's revenue at a time when the HRA is also facing general inflationary pressure on its expenditure. The Council has also forecast that it will continue to deliver a balanced budget for the HRA over the medium term despite these challenges and we are satisfied that these projections are based on reasonable assumptions.

While attaining budget savings to mitigate reductions in central government funding on the scale forecast within the MTFP will continue to be challenging, we note that the MTFP is based upon reasonable assumptions and that the Council has appropriate arrangements in place for identifying and implementing appropriate savings to allow this plan to be achieved. Savings plans have been developed as part of an incremental process throughout the year and have been subject to detailed member scrutiny and challenge. The Council also has the infrastructure in place to support these savings including regular budget monitoring and through investment in a "Delivering Effective Services" (DES) team to review services to identify efficiencies, savings and alternative delivery models. The Council has spent considerable effort seeking to mitigate the risks to the delivery of its medium term financial plans and, whilst the medium term outlook remains challenging, the Council has demonstrated a history of being able to meet these challenges and in delivering planned financial targets.

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# Value for Money conclusion

## Significant risk

### Budget position and medium term financial planning

Continuation of risk noted on page 9.

## Findings

### Reserves position

As at 31 March 2018, the Council had general fund reserves of £2.5m and earmarked general fund reserves of £25.9m, compared to £2.5m and £24.3m respectively as at 31 March 2017 and £3.0m and £24.1m as at 31 March 2016. This indicates that general fund reserves have remained at a consistent level over the last two years despite the budget pressures the Council has faced. The HRA and earmarked HRA reserves were £15.7m as at 31 March 2018, compared to £13.5m as at 31 March 2017 and £9.4m as at 31 March 2016.

The general fund reserves level as they currently stand provide the Council with a cushion to weather the financial challenges that it faces over the medium term. However, the Council only has finite reserves available and it is important that it continues to maintain appropriate budgetary control going forward.

### Property Investment Strategy.

In November 2016, the Council launched a Property Investment Strategy, which approved investing up to £200m in commercial and residential property. Under this strategy, the Council has acquired a portfolio of property assets to generate an income stream and to increase economic regeneration across Dover. There are risks inherent in this strategy, for example the risk of the properties acquired becoming vacant, and this has been mitigated through the use of professional advisers to support the identification and evaluation of potential purchase opportunities.

During 2017/18, the Council invested £21.7m in the acquisition of new properties, including the purchase of Whitfield Court and the B&Q retail warehouse at the White Cliffs Business Park. The Council's investment property portfolio was valued at £24.0m as at 31 March 2018, compared to £2.6m as at 31 March 2017, and the portfolio generated £1.0m of rental income during the year. This has made a sizeable contribution to supporting the Council's revenue outturn position and supporting the services that it provides.

Overall, we have noted no concerns in relation to the Council's arrangements for supporting the property investment strategy. The Council has undertaken property investments in a reasonable and measured way, with an appropriate due process supporting the acquisition including a clear consider of the risks and appropriate signoff by the Cabinet on all key investment decisions.

### Conclusion

The Council has delivered a balanced budget in 2017/18 and set a Medium Term Financial Plan that indicates that it will continue to deliver a balanced budget through to the end of 2021/22. The Council continues to face financial risk over the medium term, however it has clear plans in place to mitigate this risk.

**We concluded that the risk that we identified in respect of funding pressures was sufficiently mitigated and that the Council has proper arrangements.**

# A. Reports issued and fees

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

## Reports issued

Report	Date issued
Audit Plan	8 March 2018
Audit Findings Report	30 July 2018
Annual Audit Letter	30 August 2018

## Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	53,685	53,685	53,685
Housing Benefit Grant Certification	16,558	TBC	38,224
<b>Total fees</b>	<b>70,243</b>	<b>TBC</b>	<b>86,961</b>

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

Our housing benefit grant certification work is on-going and the final fee will be confirmed on completion of this work.

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	
- Certification of the pooling of housing capital receipts return	1,500
<b>Non-Audit related services</b>	
- None	Nil

## 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 table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to its auditor.

## B. Recommendations

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

Assessment	Issue and risk	Recommendations
<p>1</p> <p>●</p> <p>Low</p>	<ul style="list-style-type: none"> <li>You have a process whereby journal postings to the general ledger are reviewed on a monthly basis to check that they are appropriate. However, no formal documentation is retained to evidence that these reviews have taken place.</li> </ul>	<ul style="list-style-type: none"> <li>You should ensure that the process of review of journal postings on a monthly basis is formally documented.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>We agree the recommended action and will implement this change for 2018/19.</li> </ul>
<p>1</p> <p>●</p> <p>Low</p>	<ul style="list-style-type: none"> <li>Under section 12 of the Audit and Accounts Regulations 2015, the Annual Governance Statement (AGS) should be published on your website from 1<sup>st</sup> June from 2017/18.</li> <li>While your draft AGS was published on your website on 24<sup>th</sup> May within the papers for your Cabinet meeting on 4<sup>th</sup> June, the AGS was not published on the 'Accounts and Budgets' page on your website on 6<sup>th</sup> July.</li> <li>Though you have complied with the legal requirement to publish on your website a draft or approved AGS by 1<sup>st</sup> June, we would advise that going forward you publish the draft AGS on the 'Accounts and Budgets' on your website by 1<sup>st</sup> June to make it easier for a local elector seeking to review the AGS to find it on your website.</li> </ul>	<ul style="list-style-type: none"> <li>You should ensure in future periods that the draft Annual Governance Statement is published on the 'Accounts and Budgets' page on your website by 1<sup>st</sup> June, alongside the draft financial statements.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>We agree the recommended action and will implement this change for 2018/19.</li> </ul>

### Controls

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



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