The Audit Findings for Dover District Council

Year ended 31 March 2019

September 2019

Contents

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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 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements: • give a true and fair view of the financial position of the Council and income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during August and September. Our findings are summarised on pages 5 to 15. We have identified no adjustment to the financial statements that has resulted in an amendment to the Council's Comprehensive Income and Expenditure Statement. All audit adjustments are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix C) or material changes to the financial statements, subject to the following outstanding matters; - final quality review of the audit file; - receipt of management representation letter; - review of the final set of financial statements; and - review of post-balance sheet events. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unmodified.

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 2019 for those charged with governance.

Value for Money arrangements	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').	We have completed our risk based review of the Council's value for money arrangements. We have received an objection at other East Kent districts that relate to contract management by East Kent Housing on behalf o the East Kent districts. This objection has the potential to impact on our value for money conclusion which considers the arrangements to achieve economy, efficiency and effectiveness in the use of Council's resources. We cannot issue the VFM conclusion to any of the East Kent districts who are part of this arrangement until we have considered the objection.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	The audit cannot be certified as closed until the VFM conclusion is issued.

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

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with 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; and
- 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 not had to alter or change our audit plan, as communicated to you in March 2019. However, we did identify a new significant risk in relation to the adoption of IFRS9 financial instruments accounting standard on receipt of the draft financial statements.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance Committee meeting on 26 September 2019, as detailed in Appendix D. These outstanding items are as listed on page 3.

Our approach to materiality

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

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

	Council Amount (£)
Materiality for the financial statements	1,584,000
Performance materiality	1,188,000
Trivial matters	79,000

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**The revenue cycle includes fraudulent transactions** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** During our audit risk assessment ahead of issuing the Audit Plan, we considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, 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 did not consider this to be a significant risk for Dover District Council. Through our ongoing risk assessment and performance of audit work, we have made no changes to the our assessment reported in the Audit Plan.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** Our audit work included: • evaluating the design effectiveness of management controls over journals • analysing the journals listing and determine the criteria for selecting high risk unusual journals • testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of property, plant and equipment** The valuation of land and buildings is a key accounting estimate which is sensitive to changes in assumptions and market conditions. The Council revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.	**Auditor commentary** Our audit work included: • evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluating the competence, capabilities and objectivity of the valuation expert • discussing with the valuer the basis on which the valuation was carried out • challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding • testing revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluating 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. We have identified disclosure amendments to the PPE note in the financial statements. Our work did not identify any findings in relation to the valuation of assets.
4	**Valuation of pension fund net liability** The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** Our audit work included: • updating our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluating the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessing the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • testing 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; and • undertaking procedures to confirm the reasonableness of the actuarial assumptions made. In the 'Significant findings – other issues' on page 9 we set out the potential impact of the McCloud judgement on the pension fund net liability. We are satisfied that this has not resulted in a material difference in the 2018/19 accounts and the narrative disclosure in Note 19 has been updated to reflect the latest position. Our audit work has not identified any other issues in respect of the valuation of the pension fund net liability.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
5	*New risk identified following receipt of the draft financial statements* **Fair value of financial assets and liabilities** The Council has reviewed the fair value of the finance assets as part of the IFRS 9 assessment in preparing the draft accounts. There is a risk that the council has not classified the financial instruments correctly in line with the new accounting requirements of IFRS 9.	**Auditor commentary** We have: • assessed the council's policy undertaken in regard to the new accounting standard and ensured all financial assets and liabilities are subsequently categorised correctly • challenged management about the disclosure of the assets valued as fair value through other comprehensive income • engaged with our internal technical expert to review the legal advice obtained by the council to support their accounting treatment. **Findings** Our audit work identified that the Council had not followed the accounting treatment required in the new accounting standard. The draft accounts disclosed long term financial assets (pooled investment vehicles) as fair value through other comprehensive income whilst CIPFA and our view is that these investments are valued as fair value through profit and loss. The material disclosure error and other amendments to the accounts are set out in Appendix B. MHCLG has issued councils with a five year statutory override to ensure that the unrealised gains or losses do not impact on the taxpayer.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	Auditor view
1	**Potential impact of the McCloud judgement**		
	The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.	Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £817k, and an increase in service costs for the 2019/20 year of £74k, creating a total potential misstatement of £891k. Management's view is that the impact of the ruling is not material for Dover District Council, and will be considered for future years' actuarial valuations.	We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable. Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability. We have included this as an uncertainty within Appendix B.

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals - £685k	The Council are responsible for repaying a proportion of successful rateable value appeals. Management calculate the level of provision required themselves. Management's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Due to a reduction in outstanding appeals, the provision has decreased by £17k in 2018/19.	We assessed management's provision for NNDR appeals by considering: • the appropriateness of the underlying information used to determine the estimate • the impact of any changes to valuation method • the consistency of estimate against peers • the reasonableness of increase/decrease in estimate • the adequacy of disclosure of estimate in the financial statements We consider management's process is appropriate.	Green
Land and Buildings – Council Housing - £197m	The Council owns 4,298 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. 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 uses an internal valuer to complete the valuation of these properties. The year end valuation of Council Housing was £197m, there was no change in the valuation of council dwellings in the year.	We have assessed management's estimate, considering; • an assessment of management's expert; • the completeness and accuracy of the underlying information used to determine the estimate; • the consistency of estimate against near neighbours and a report produced by our auditors expert, Gerald Eve; • the reasonableness of the assumptions behind the valuations; • the reasonableness of increase in estimate; and • the adequacy of disclosure of estimate in the financial statements. We consider management's process is appropriate.	Green

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 judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £101m	Other land and buildings (£82,039k) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged the internal valuer to complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. Assets individually over £1m are valued on an annual basis. The valuation of properties valued by the valuer has resulted in a small net increase. Management have considered the year end value of non-valued properties, by considering the movements in their other assets to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has concluded that in general terms, there was little evidence of significant local prices changes to the council's remaining property portfolio. The total year end net book valuation of Other land and buildings was £101,509k.	We have assessed management's estimate, considering; • an assessment of management's expert; • the completeness and accuracy of the underlying information used to determine the estimate; • the consistency of estimate against near neighbours and a report produced by our auditors expert, Gerald Eve; • the reasonableness of the assumptions behind the valuations; • the reasonableness of increase in estimate; and • the adequacy of disclosure of estimate in the financial statements. We consider management's process is appropriate.	● Green

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 judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £76m	The Council's net pension liability at 31 March 2019 is £76,157k (2017/18 £81,053k) comprising the Kent County Council Pension Fund Local Government defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £6,315k actuarial loss recognised in the comprehensive income and expenditure statement during 2018/19.	We assessed management's estimate for the net pension liability, considering; • An assessment of management's expert • An assessment of actuary's roll forward approach taken, detail work undertaken to confirm reasonableness of approach • The use of PwC as auditor's expert to assess actuary and assumptions made by actuary	Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.40%	2.35% - 2.45%	●
Pension increase rate	2.45%	2.40% - 2.45%	●
Salary growth	3.95%	3.10% - 4.35% scheme-specific	●
Life expectancy – Males currently aged 45 / 65	45: 23.7 65: 22.0	22.2 – 25.0 20.6 – 23.4	●
Life expectancy – Females currently aged 45 / 65	45: 25.8 65:24.0	25.0 – 26.6 23.3 – 24.8	●

- The completeness and accuracy of the underlying information used to determine the estimate
- The impact of any changes to valuation method
- The reasonableness of the Council's share of LPS pension assets.
- The reasonableness of increase in estimate
- The adequacy of disclosure of estimate in the financial statements
- The materiality of the impact of the McCloud judgement on the council's liabilities

We consider management's process is appropriate.

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

Going concern

Our responsibility

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

Going concern commentary

Management's assessment process	Auditor commentary
The Council’s accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.	We agree with management’s assessment that the Council is a going concern. In common with other public sector bodies, even if a local authority were unable to continue as a business, we would normally expect the accounts to be prepared on a going concern basis. This is because there is a public sector interpretation of IAS 1 that means, unless the services provided by a public sector body are likely to be transferred outside the public sector, the financial statements should be prepared on a going concern basis. A review of the draft financial statements have not identified the existence of going concern events or conditions which cast significant doubt on Dover District Council’s ability to continue as a going concern. There is a significant volume of evidence available to support the conclusion of officers that it is appropriate that the accounts are produced on a going concern basis such as the detailed information on the Council’s Budget for 2019/20 and the MTFS.

Concluding comments	Auditor commentary
	• Based on the audit work performed, we are satisfied that no additional disclosures relating to going concern are required within the Accounts.

Other communication requirements

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

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Governance Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• Our audit work identified one related party transaction which has not been disclosed. An amendment has been made to the related party transactions note to include payments of £4,500 to Gazen Salts Nature Reserve during the year.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A letter of representation has been requested from the Council, which is included in the Governance Committee papers.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to banks and investment fund managers. This permission was granted and the requests were sent. These requests were returned with positive confirmation.
6	**Disclosures**	• Our review found no material omissions in the financial statements.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided.

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	• 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. No inconsistencies have been identified/Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to Appendix D.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • 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 • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. • Note that work is not required as the Council does not exceed the threshold.
4	**Certification of the closure of the audit**	We cannot certify the closure of the 2018/19 audit of Dover District Council in the auditor's report, as detailed in Appendix D. This is because we have received an objection to the 2018/19 financial statements at another District Council that relates to a wholly owned subsidiary of the four East Kent districts and our work in respect of objection, and the related value for money risk, is ongoing.

Value for Money

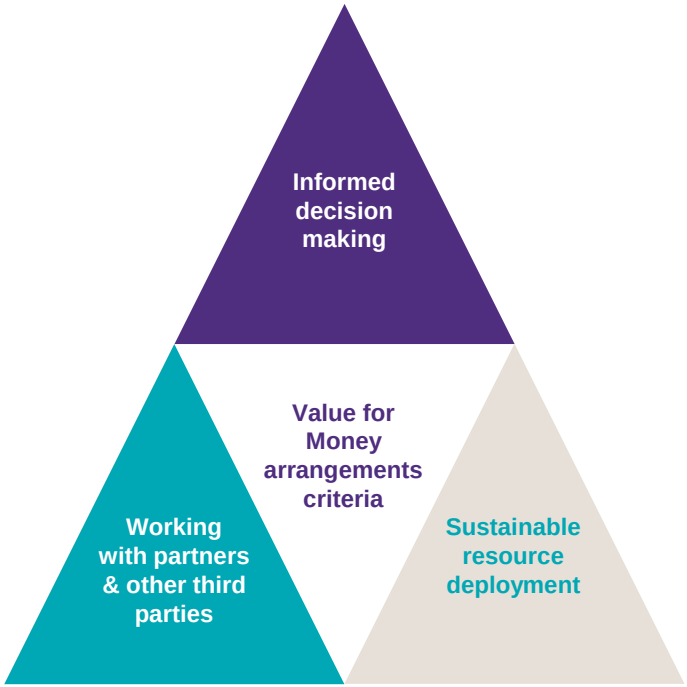
Background to our VFM approach

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 November 2017. 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:



Risk assessment

We carried out an initial risk assessment in November 2019 and identified a number of significant risks 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 February 2019.

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

We carried out further work only in respect of the significant 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 2018/19 financial outturn;
- The robustness of the Council's 2019/20 budget and Medium Term Financial Plan, including savings and income proposals; and
- The Council's response to Brexit.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 19 to 22.

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 for those risks.

However, we cannot conclude on our VFM conclusion work because we have received an objection to the East Kent Housing and P&R Installation Services Ltd at two of the other East Kent districts. The objection has the potential to impact on arrangements to achieve economy, efficiency and effectiveness in the use of Council resources.

We cannot issue the VFM conclusion to any of the four East Kent districts who share EKH Ltd until we have considered this objection.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

1

Significant risk

Budget position and medium term financial planning
Local Government funding continues to be stretched and this has placed pressure on the council's finances and medium term financial plans. 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 will review recent performance against the budget and consider the reasonableness of the assumptions upon which medium term financial planning has been based. We will also review the Council's plans to deliver savings over the period covered by the medium term financial plan.

Findings

Outturn for 2018/19
Despite the challenging funding settlement for local authorities nationally, you have continued your good track record of delivery of services within budget and attainment of planned savings and income generation targets, delivering an outturn position for 2018/19 of a small deficit of £12k against an initial budget surplus of £99k. You also reported a surplus of on the Housing Revenue Account (HRA) for the year, which has enabled you to achieve a £4,731k increase in HRA and earmarked HRA reserves. This is a healthy outturn position and a lack of significant year end variances to budget demonstrates that you have applied appropriate budget management during 2018/19.

2018/19 budget and medium term financial sustainability
The Medium Term Financial Plan (MTFP) approved by the Council in February 2019 covers the four year period to 2022/23. The MTFP reflects an anticipated loss in Revenue Support Grant funding available to you of £1,027k by 2020/21 compared to 2017/18 levels, on top of significant funding reductions that you have already faced in recent years. You plan to offset these challenges through growth in your Council Tax base and rate, anticipated increases in business rates funding, additional revenues from commercial property regeneration initiatives and via savings realised through your externalisation of revenues and benefits and customer services to Civica.

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

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

Key findings continued

Findings continued

Reserves position

As at 31 March 2019, you had general fund reserves of £2,539k and earmarked general fund reserves of £30,613k, compared to £2,527k and £25,903k respectively as at 31 March 2018 and £2,533k and £24,274k as at 31 March 2017. This indicates that your general fund reserves have remained at a consistent level over the last two years despite the budget pressures you have faced. Your HRA and earmarked HRA reserves were £15,002k as at 31 March 2019 compared to £15,707k as at 31 March 2018 and £13,546k as at 31 March 2017.

Your general fund reserves level as they currently stand provides you with a cushion to weather the financial challenges that you face over the medium term. However, you only have finite reserves available and it is important that you continue to maintain appropriate budgetary control going forward.

Conclusion

You have delivered a balanced budget in 2018/19 and you have set a Medium Term Financial Plan that indicates that you will continue to deliver a balanced budget through to the end of 2022/23. You continue to face financial risk over the medium term, however you have clear plans in place to mitigate this risk.

On the basis of the work completed we have concluded that the risk that we identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Key findings continued

2 **Significant risk**

Brexit
With the UK due to leave the European Union on 29 March 2019, there will be national and local implications resulting from Brexit that will impact on you, which you will need to plan for and potentially adapt Council working arrangements after the end March.
We will review your arrangements and plans to mitigate any risks on Brexit. Our review will focus on areas such as workforce planning, supply chain analysis, regulatory impact and impacts on finances including investments.

Findings

Dover is Britain's gateway to Europe, with the Port of Dover the largest roll-on/roll-off port in the UK. With over 10,000 freight vehicles passing through the Port of Dover on peak days, and with the Council acting as the Port Health Authority it is on the front line of the potential impacts of Brexit and faces a unique challenge in its approach to preparing for Brexit.

The council's Brexit preparedness planning has been focused on reacting to this potential no-deal scenario and the immediate considerations that would rise from that, applicable to the delivery of Dover District Council services. Central Government has warned that a no-deal scenario could lead to 6 months of disruption.

In June 2018, the Council's first Brexit Taskforce met for the first time. The taskforce's remit was to influence decision making, support preparedness of local services, lobby for increased investment in infrastructure, and seek out any opportunities that Brexit presents, most importantly putting the people of Dover and the wider district first. The Brexit Taskforce included members and officers from the Council, local MPs, and representatives from Kent County Council, the Port of Dover, Calais and the Kent Police and Crime Commissioner. The Taskforce identified the key issues as being:

- Knock-on effects of increased border controls and port dwell times on local roads and communities, including air quality;
- Urgent need for investment in critical road infrastructure
- Identifying opportunities for new technologies to help create a 'frictionless' border;
- Maximising opportunities created by 'Brexit';
- Resource implications for Port Health under a 'hard border';
- Impact of 'Brexit' perception on inward investment and tourism; and
- Maintaining the strong working relationship with local authorities in the Pas-de-Calais.

Brexit Impact Reports were published in June and October 2018 which set out the impact of these issues in further detail.

Traffic and general planning
Working together with the Kent-wide Brexit Taskforce made up of emergency services, the County Council, NHS bodies and other local authorities through the Kent Resilience Forum (KRF), the council has produced a work plan that uses the guidance from the KRF to address the most significant impacts. Dover District Council has identified the main risk arising from a no-deal Brexit would be impact of likely major traffic congestion on Kent motorways and major roads resulting from delays at Kent ports, including the Port of Dover. The 'Freight Traffic Management Plan' designed by the KRF, plan to utilise Operation Fennel, which uses a phased approach to manage the flow of freight and other traffic through Kent's motorways and A-roads. However, experience from Operation Stack in 2015 suggests that even with plans such as these in place, there can still be

Key findings continued

Findings continued

significant disruption of major and local roads throughout the county and particularly around Dover itself. Significant congestion throughout the district such as this could impact the council's ability to deliver key and statutory services as staff may be unable to get to their places of work. The collection of waste could be particularly impacted as the Waste Recycling Centre would become full within two or three days as waste would not be able to be moved on to other depots due to the traffic. We agree that this is the largest and most likely impact on Dover District Council from a no-deal Brexit scenario.

In order to mitigate this risk, the council have taken several actions. The actions include redoing its business continuity plans for all departments across the council and the Major Emergency Plan in January 2019 in preparation for the expected March 2019 Brexit; liaising with members of the KRF; purchasing a new server and software licenses to enable staff to work remotely in case of significant traffic congestion so the council can continue to provide services and make payments to customers and suppliers. Officers have upskilled staff to increase flexibility and the amount of human resource available to support the Port Health Authority in case of changes to arrangements in the Port of Dover and at Eurotunnel. These are proportional responses to the implications on Dover of a no-deal Brexit scenario that will help maintain the delivery of key council services to in the case of a no-deal Brexit.

In January 2019, the Ministry of Housing, Communities and Local Government allocated each district council in the country £35,000 over two years to support Brexit preparedness. As Dover has a port, they also received a share of £1.5m set aside by Central Government for local authorities facing immediate impacts from local ports. The council have used their share of this allocation to purchase the new server and software licenses to enable staff to work remotely.

Finance

The March 2019 Treasury Management Strategy Statement 2019/20 has taken Brexit into consideration and its potential impact on interest rates, the value of sterling, European banks and access to credit.

In their impact assessments, the Council have taken into consideration the longer-term impact of Brexit on the local economy and labour market that could impact on services provided by the council and businesses in the area. The Council's website has information to support local businesses and people to prepare for Brexit and has useful links to public information on Brexit.

Governance

The oversight of Brexit planning is carried out by the council's Head of Leadership Support. She has provided regular sessions to members and other officers on the preparations for a no-deal Brexit scenario. These arrangements are sufficient to keep members and senior officers abreast of Brexit planning.

Change in the Brexit deadline

Following an agreement between the UK central government and the European Union, to move the Brexit deadline back from 29th March 2019 to 31 October 2019, since year end, we have continued to consider how the Council is approaching and managing the risks associated with this risk, especially with the prospect of a no deal departure looming larger, and in light of additional allocations for central government funding to the Council in August 2019. However, as our VFM conclusion relates to the same period as the statement of accounts, evidence of actions taken by the Council since the year end in respect to planning for Brexit has not been referred to above.

Conclusion

On this basis we concluded that the risk identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following audit services were identified. No non-audit services were identified which were charged from the beginning of the financial year to July 2019, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits claim	10,500	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 in 2018/19 is £10,500 in comparison to the proposed fee for the audit of £41,337 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing capital receipts grant	1,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £1,500 in comparison to the total fee for the audit of £41,337 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Governance Committee. None of the services provided are subject to contingent fees.

Follow up of prior year recommendations

We identified the following issues in the audit of Dover District Council's 2017/18 financial statements, which resulted in two recommendations being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	**Issue** You have a process whereby journal postings 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. **Recommendation** You should ensure that the process of review of journal postings on a monthly basis is formally documented.	**Management response in 2017/18 Audit Findings Report** We agree the recommended action and will implement this change for 2018/19. **Update for 2018/19** The journals are downloaded on a regular basis and reviewed accordingly.
2	✓	**Issue** Under section 12 of the Audit and Accounts Regulations 2017, the Annual Governance Statement (AGS) should be published on your website from 1st June 2017/18. While your draft AGS was published on your website on 24th May within the papers for your Cabinet meeting on 4th June, the AGS was not published on the 'Accounts and Budgets' page on your website until 6th July. Though you have complied with the legal requirement to publish on your website a draft or approve AGS by 1st June, we would advise that going forward you publish the draft AGS on the 'Accounts and Budget's section on your website by 1st June to make it easier for a local elector seeking to review the AGS to find it on your website. **Recommendation** You should ensure in future periods that the draft Annual Governance Statement is published on the 'Accounts and Budgets' page on your website by 1st June alongside the draft financial statements.	**Management response in 2017/18 Audit Findings Report** We agree the recommended action and will implement this change for 2018/19. **Update for 2018/19** This step has been specifically added to the closing timetable to check it is completed. The officer responsible for producing the AGS is also aware of the requirement to publish.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	**Financial Instruments – pooled investment vehicle assets** The Council adopted an accounting treatment for the pooled investment vehicles that was not in line with the accounting standard and CIPFA Code. This resulted in a number of amendments in the primary statements:			
	DR CIES – interest and investment income	117		
	CR CIES – Deficit on revaluation of available of sale assets	117		
	DR Balance Sheet – Pooled Investment Funds Adjustment Account		677	
	CR Balance Sheet – Available for Sale Reserve		(677)	
	This also resulted in a disclosure amendment to note 14 of the accounts. The long term investments totalling £47,496k have been reclassified from 'fair value through other comprehensive income' to 'fair value through profit and loss'. This amendment has also been made to the 2017/18 investment balance of £25,565k.			
	Overall impact	**£ Nil**	**£ Nil**	**£ Nil**

Audit Adjustments

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	Detail	Auditor recommendations	Adjusted?
Property, plant and equipment (note 5)	The note included a number of disclosure errors: • Revaluation increases or decreases recognised in the Revaluation Reserve should have been £4,293k instead of £4,712k • Depreciation for HRA was inconsistent in the draft accounts between the PPE note and HRA notes 3 and 5. The correct depreciation for 2018/19 is £2,053k • Narrative has been added to explain the revaluation entries in the note as they mainly relate to the depreciation written off on valuation of the assets in 2018/19 and not the valuation movement in the year	• Amendment has been made	✓
Capital expenditure and financing (note 10)	The total capital investment was correctly stated in the note but the breakdown of the investments were incorrectly classified: • PPE should be £27,950k not £27,272k • Investment property should be £218k not £899k • Private sector housing land should be £386k not £383k	• Amendment has been made	✓
Investments (note 12)	• There is a difference of £69k in the fair value disclosed in the accounts between the direct confirmation received from the investment body and the Council's investment advisers. No amendment is required to the accounts as the		
Pension costs (note 19)	• The rate of inflation for RPI should be 3.35% and not 2.35%	• Amendment has been made	✓
Debtors (note 27)	• The total short term general fund debtors table did not cast correctly. The total should be £12,644k and not £9,377k • The short term Collection Fund debtors were understated by £480k in the note • The long term Loans to Local Authorities debtors were understated by £300k in the note • The correct totals were included in the Balance Sheet for all amendments above so there is no adjustment to the primary statement. Amendments made to the note only.	• Amendment has been made	✓
Various notes	• The Council has made a number of minor disclosure amendments to the narrative and figures reported in the disclosure notes. These do no require reporting to you on an individual basis.	• Amendment has been made	✓

Audit Adjustments

Impact of unadjusted misstatements

We have not identified any unadjusted misstatements in the 2018/19 financial statements.

Impact of unadjusted estimates

We are not proposing an amendment for the below estimate but are bringing to your attention as it was a significant judgement in the accounts.

	Detail	Impact	Reason for not adjusting
McCloud pension liability estimates	Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. This will therefore constitute an unadjusted estimate.	The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £817k, and an increase in service costs for the 2019/20 year of £74k.	Management's view is that the impact of the ruling is not material for Dover District Council, and will be considered for future years' actuarial valuations. We accept this view. Narrative has been added to the Pensions Note to explanation the ruling.

Fees

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

Audit Fees

	Proposed fee (£)	Final fee (£)	2017/18 fee (£)
Council Audit	41,337	TBC	53,685
Total audit fees (excluding VAT)	**41,337**	**TBC**	**70,243**

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

In common with all other councils there will be proposed additional fees related to Mcloud and other regulatory requirements for 2018/19. We are also proposing additional fees for the work undertaken on the pooled investment vehicles classification in the draft financial statements. We have not yet discussed the additional fees with management and will do so once the audit is complete.

Fees in respect of grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

Fees for other services	Fees (£)
Audit related services:	
Certification of the housing benefit grant	10,500
Certification of the pooling of housing capital receipts return	1,500
	12,000

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
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 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund, the Housing Revenue Account (HRA) Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:
- give a true and fair view of the financial position of the Authority as at 31 March 2019 and its expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; 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 group and 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.

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

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, other than the Authority 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 group and 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)' 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.

Audit opinion

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, the other information published together with the financial statements in the Statement of Accounts 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 for the Statement of Accounts set out on page 16, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director (Corporate Resources). The Strategic Director (Corporate Resources) 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director (Corporate Resources) 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 Strategic Director (Corporate Resources) 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 Audit and 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. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit
We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2019 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We are unable to issue our conclusion until we have completed our consideration of matters that come to our attention. We are satisfied that these matters do not have a material effect on the financial statements for the year ended 31 March 2019.

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.

Elizabeth Jackson, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London, DATE