



# The Audit Findings for Dover District Council

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Year ended 31 March 2020

Updated final position : November 2022



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

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# Headlines

This table summarises the key findings and other matters arising from the statutory audits of Dover District Council ('the Council') for the year ended 31 March 2020 for those charged with governance. Much of the content of this report was presented to members in July 2021. Commentary updating the reported July position is underlined to assist and focus members' attention on the areas of change.

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

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

<p><b>Financial statements Progress update continued</b></p>	<p><u>Completion of the audit was also delayed due to the finance team's capacity to respond to outstanding audit queries alongside other work commitments.</u></p> <p><u>Our audit work did not identify any changes to the reported Comprehensive income and expenditure year end position nor any changes to the balance sheet reported position. We did identify one non trivial error, the omission of £74k of cash from the balance sheet that management have decided not to adjust the accounts for on the grounds of materiality.</u></p> <p><u>We did agree a number of disclosure changes to the accounts and these are set out in Appendix A.</u></p> <p><u>We have reviewed the final version 4 of the statement of accounts and are satisfied that all agreed amendments have been made.</u></p> <p><u>We have completed all audit work on the Council's financial statements and are in a position to issue an unqualified audit opinion. Our audit opinion will include an Emphasis of Matter paragraph, highlighting material uncertainties around the valuation of land and buildings and investment properties and your share of Kent pension fund assets attributable to the Council as at 31 March 2020 due to the Covid-19 pandemic.</u></p>
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# Headlines

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

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

## Acknowledgements

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

# Audit approach

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management.

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

## Audit approach

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

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

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

## Conclusion

We have completed our audit of your financial statements and intend to issue an unqualified audit opinion.

## Our approach to materiality

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

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

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

# Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid- 19	<p>We:</p> <ul style="list-style-type: none"> <li>• worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported;</li> <li>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert;</li> <li>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;</li> <li>• evaluated whether sufficient audit evidence could be obtained through remote technology;</li> <li>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations;</li> <li>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;</li> <li>• discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.</li> </ul> <p><u>As a result of the Covid-19 pandemic, the property market was uncertain in 2019/20. Consequently, material uncertainties have been declared by professional valuers relating to land and buildings, and also by investment managers for pooled property investments held by the pension fund administrator underlying the net pension liability.</u></p> <p><u>We have discussed this with management to agree disclosure of these uncertainties in Note 2 Assumptions Made About The Future And Other Sources Major Sources of Estimation Uncertainty. Where such disclosures are included within financial statements auditors consider the need to include an 'emphasis of matter' paragraph within their audit report. An emphasis of matter is not a qualification or modification of the auditor's report, but is used to draw the reader's attention to a matter that has been appropriately presented or disclosed in the financial statements and which, in the auditor's judgement, is of such importance that it is fundamental to the users' understanding of the financial statements.</u></p> <p><u>We have concluded that our audit opinion on the Council's 2019/20 financial statements should include an Emphasis of Matter drawing attention to the material valuation uncertainties disclosed.</u></p>
<b>The revenue cycle includes fraudulent transactions (rebutted)</b>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Dover District Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Dover District Council.</li> </ul>

# Significant audit risks

## Risks identified in our Audit Plan

### Management override of controls

## Auditor commentary

We have:

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

Our work was delayed due to being provided with an incomplete journal population to test. We worked with the Council to resolve this. Ensuring that a complete journal population is provided at the beginning of the audit review period in future will help assist the timely completion of the annual audit.

Our audit work did not identify any issues in respect of management override of controls.

### Valuation of land and buildings, council dwellings and investment properties

We have:

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

Auditors' challenge of management's valuation experts has increased in recent years to respond to increased quality standards set by the regulators of auditors. This area of review at the Council took more audit time than was planned for, due in part, to obtaining appropriate evidence from the Council to support its annual valuation of assets. We have discussed with management how its evidence for audit can be improved. This includes supporting the valuers' judgement of yields used in valuing assets, providing evidence of rental income, retaining building cost indices used for assets valued under the depreciated replacement cost (DRC) and providing gross internal floor areas for DRC valued assets.



# Significant audit risks

## Risks identified in our Audit Plan

## Auditor commentary

### Valuation of pension fund net liability

We have:

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



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

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

# new issues and risks

Issue	Commentary	Auditor view
<p><b>Valuation of Infrastructure Assets</b></p> <ul style="list-style-type: none"> <li>The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. In addition, the Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. The Council has material infrastructure assets, at a gross and net value basis, there is therefore a potential risk of material misstatement related to the infrastructure balance.</li> </ul>	<p>We have carried out audit inquiries to understand the control environment around the recognition and derecognition of infrastructure assets. In common with most other authorities there is not a clear mechanism by which existing infrastructure assets which still have a net book value on the balance sheet being depreciated are derecognised when the asset is replaced. There is therefore a risk that the infrastructure assets (both the gross assets and accumulated depreciation) could be materially misstated – the council's system for derecognising these assets does not sufficiently mitigate this risk, relying on the useful economic lives being an accurate lifetime for the assets so they would be depreciated in full at approximately their replacement cycle.</p> <p>In 2019/20 infrastructure assets are shown as £15,724k (gross book value) and £7,667K net book value. This comprises mostly of coastal defence assets - £12.7m. The remainder of £3m is made up of environmental improvements; permanent ways; water &amp; drainage; street furniture.</p>	<p>This is a national issue effecting all local government audits. CIPFA are in the process of implementing a statutory override in this area of the accounts. This is expected to be introduced by the end of December 2022.</p> <p>Notwithstanding the above, we have carried out work to assess the risk of misstatement of incorrectly accounting for infrastructure. We pinpointed the risk to coastal defences.</p> <p>Spend recorded on infrastructure in the fixed asset register (FAR) is analysed to a specific asset (typically geographical and year). Coastal defences are analysed over 32 assets. Whilst the description of assets on the FAR could be more tightly defined, overall, we consider the recognition and recording of infrastructure to be appropriate.</p> <p>The accounts from 2009/10 to 2019/20 do not show any impairment charges for infrastructure assets. There is evidence that beach shingle replacement is undertaken as and when needed, but no evidence that the UEL of the beach shingle as an infrastructure asset and a write out of a 'replaced' asset is undertaken. However, having considered the level of expenditure involved on beach shingle replacement, we do not consider this is a significant risk of material misstatement.</p>


# Significant findings – key estimates and judgements

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

## Assessment

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


# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Land and Buildings – Other - £98.61m.</b>	<p>Other land and buildings comprises specialised assets such as the leisure centres, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.</p>	<p>We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.</p> <p>There have been no changes to the valuation method this year.</p>	 <b>Green</b>
<b>Investment properties- £23.9m.</b>	<p>The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUUV) at year end. The Council has engaged its internal valuer to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis.</p> <p>The valuation of properties valued by the valuer has resulted in a net decrease of £2.9m from £101.5m at 31 March 2019 to £98.6m at 31 March 2020. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 April 2019, based on the market review provided by the valuer as at 31 March 2020, to determine whether there has been a material change in the total value of these properties.</p> <p>Investment properties consist of 32 assets of which two assets total £21.5m, 90% of the total investment properties.</p>	<p>We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert.</p> <p>We have considered the completeness and accuracy of the underlying information used to determine the estimate, and have not noted any non-trivial issues to date.</p>	

## 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
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# Significant findings – key estimates and judgements

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

**Assessment**

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

# Significant findings – going concern

## Our responsibility

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

## Going concern disclosures

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

## Going concern commentary

### Management's assessment process

- Cash flow periods
- Judgements and assumptions taken

## Auditor commentary

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

## Work performed

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

## Concluding comments

We are satisfied from the work performed that:

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

## Other matters for communication

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

Issue	Auditor commentary
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
<b>Written representations</b>	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Audit Committee papers.
<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to financial institutions with whom the Council holds cash and investment balances. This permission was granted and the requests were sent. All of the confirmation requests were returned with positive confirmation.
<b>Disclosures</b>	Our review found some omissions in the financial statements. These have been raised with management as set out in <a href="#">appendix C</a> .
<b>Audit evidence and explanations/significant difficulties</b>	All information and explanations requested from management was provided. Your finance team continued to work with the audit team to provide us with the required information and embraced the new ways of working to ensure we were able to obtain the required audit evidence. There are elements of the audit that take longer due to remote working and we are considering the impact on our fee.

# Other responsibilities under the Code

Issue	Commentary
<b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. <u>We reported to management that in the Narrative Report the Code requires an assessment of performance. Financial performance was reported in the draft statement of accounts presented for audit, but overall corporate performance was not. Management have amended for this in the final version of the statement of accounts.</u></p> <p>We will issue an unmodified opinion in this respect.</p>
<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that work is not required as the Council does not exceed the threshold.</p>
<b>Certification of the closure of the audit</b>	<p><u>We intend to certify the closure of the 2019/20 audit of Dover District Council in the audit report.</u></p>



# Value for Money

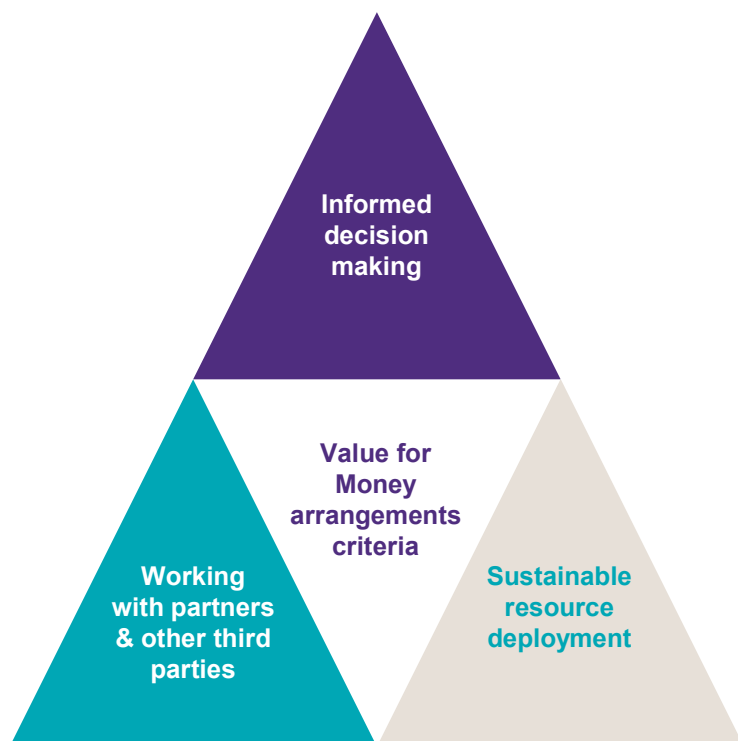
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



## Risk assessment

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

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

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

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## Our work

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

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

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

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

## Overall conclusion

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

## Significant difficulties in undertaking our work

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

## Significant matters discussed with management

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

## 2018/19 Value for Money

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

## Conclusion

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

# Value for Money

## Key findings

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

### Significant risk

#### Financial Sustainability

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

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

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

### Findings and conclusion

Due to the Covid-19 crisis, the Council took a Contingency Revised budget for 2020/21 to Council on 1 June 2020.

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

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

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

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

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

# Value for Money 2018/19

## Key findings

### Significant risk

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

### Findings

East Kent Housing was set up in 2011 as an Arms Length Management Organisation (“ALMO”) in order to manage and maintain the housing stock of 17,000 dwellings for four east Kent councils including Dover DC. ALMOs were created to allow for a dedicated housing focus to meet the needs of tenants and leaseholders rather than it being one of a number of corporate priorities for individual councils. The Council retains ownership of the stock and the ultimate responsibility for providing safe, secure housing that meets the needs of stakeholders and complies with relevant legislation. The Regulator of Social Housing wrote to all councils following the Grenfell Tower fire to remind them of their obligations for tenants’ safety, even where housing is outsourced. In terms of contract management, the responsibilities are clear. East Kent Homes (‘EKH’) should be responsible for day to day monitoring of contracts, with the Council exercising appropriate overview and scrutiny of its contract with EKH for management of the stock which costs the Council circa £2-2.5m per annum. During 2018/19 it emerged that a contract with P and R Installation Services (‘P and R’) was not operating effectively. There were allegations of overcharging and non performance from the contractor. More significantly, failures to ensure that legal requirements were met in respect of completing gas safety inspections were identified towards the end of the financial year. The Monitoring Officer reported the Council’s breach of law to Cabinet and the councils self- reported the breach to the Housing Regulator. The Council’s internal audit provider, East Kent Audit Partnership issued a number of reports on contract management . The report of Heating and Installation resulted in a “ no assurance “ conclusion on a contract which costs the four councils some £4m per annum. ‘No assurance’ ratings are extremely rare in Internal Audit work in our experience. It indicates very clearly that insufficient arrangements were in place to monitor the P and R contract by EKH.

The fact that P and R gave notice on their contract at the end of March 2019 suggests very strongly that the overall relationship was not effective. This leads us to the clear outcome that because of the seriousness of the matters emerging from the management of this contract, the Council’s value for money arrangements in this regard were not adequate in 2018/19. There were strong claims and counter claims between the Councils and P and R which suggests a combination of poor data, poor management of the contract and an understandable desire on the part of the Councils to change contractors. Canterbury reached a settlement agreement with the Contractor in December 2019.

Given the lack of assurance in respect of gas safety and general concerns over EKH performance, the four east kent councils requested internal audit review the compliance against other health and safety requirements. Internal audit concluded no assurance for fire safety, electrical safety, lift safety and legionella. The Regulator of Social Housing issued a regulatory notice in September 2019 against the Council for breaching the Home Standard.

The Councils commissioned an independent review of EKH which reported in December 2019. This identified systemic weaknesses in arrangements in the health and safety compliance service highlighting amongst others, weaknesses in data management, IT capability and record keeping, under the umbrella of poor leadership and governance within EKH and a ‘dysfunctional relationship between EKH and the councils’. The Councils accept their overview of the performance of EKH was not sufficiently robust.

The arrangements the Council had in place to ensure EKH met their operational contract management obligations were not sufficient in 2018/19.

# Value for Money 2018/19

## Key findings

### Significant risk

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

### Findings

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

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

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

#### **Conclusion**

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

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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

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

Details of fees charged are detailed in Appendix C

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to July 2021, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

### Planning

#### Fees £ Threats identified

#### Safeguards

### Audit related

Certification of Housing Benefit Claim	20,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is not significant in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. These factors mitigate the perceived self-interest threat to an acceptable level.
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# 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 unadjusted misstatements

We have one unadjusted misstatements to report to you.

Detail	Comprehensive income and expenditure statement £000	Statement of financial position £000	Impact on total net expenditure £000	Reason for not adjusting
<u>Cash: We seek bank confirmations to support the balance sheet cash position. Confirmations showed two accounts with a total balance of £74,185 which was not reflected in the balance sheet. Cash was understated.</u>		<u>Cash Dr £74.185</u> <u>Reserves Cr £74.185</u>		<u>management are satisfied that the difference is a timing issue relating to the interface between the bank and the financial management system and so have not amended the balance sheet for a non-material value.</u>

## Impact of adjusted misstatements

We have no adjusted misstatements to report to you.

# 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.

## Misclassification and disclosure changes

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

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



# Audit adjustments

Disclosure omission	Auditor recommendations	Adjusted?
<ul style="list-style-type: none"> <li>The Council continues to face a significant financial challenge brought about by, in the main, the Government's budget deficit reduction programme and the economic climate, as well as some specific government led initiatives that will impact on the Council's finances. The impact of these pressures is not considered to require any impairment in the valuation of the Council's assets;</li> <li>The result of the EU referendum was a vote to leave the European Union. This decision could have an impact on the Council's future financial position but at this stage it is not possible to assess what that impact might be however it is not considered necessary to require any change in the financial position reported.</li> </ul>		
<p><u>Note 4 Income and expenditure analysed by type</u></p>	<p><u>The format of the note did not meet the Code requirement. The purpose of the note is to analyse the income and expenditure in the year by its subjective nature. The note should be completely revised.</u></p>	<p><u>Yes</u></p>
<p>Note 5 Property, Plant and Equipment valuation</p>	<p>The Code of audit Practice requires a disclosure of the value of assets revalued over the years to show compliance with the short duration (5years) requirement. Such a note should be included.</p>	<p><u>Yes</u></p>
<p><u>Note 40 Contingent assets</u>  <u>East Kent Housing Ltd the Council's jointly owned ALMO manage the Council's housing stock acting as contract administrator on the maintenance and improvement of the housing stock. ....In February 2020 all four councils agreed that the management of council stock should be brought back in house.</u></p>	<p><u>The disclosure made does not meet the requirements of a contingent asset. Rather the disclosure should be recognised as a Post balance sheet event.</u></p>	<p><u>Yes</u></p>

# Audit adjustments

Disclosure omission	Auditor recommendations	Adjusted?
<u>Internal consistency of accounts</u>	<p><u>In checking the Movement in Reserves Statement to ensure internal consistency of the statement of accounts we identified a number of issues. These required amendments to the following aspects of the accounts:</u></p> <ul style="list-style-type: none"> <li>- <u>PPE note 5, removal of depreciation written out from gross costs £6.3m; revised entries for revaluations recognised in the revaluation reserve and revaluations in the provision of services; Adjustments were also required for the comparative year</u></li> <li>- <u>HRA statement - repositioning of the revaluation loss (£2348k 19/20) in the HRA statement.</u></li> <li>- <u>Note 10 Capital expenditure and financing: amendments to capital investment analysis for PPE and REFCUS</u></li> </ul>	<u>Yes</u>

## Appendix B

# Fees

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

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Council Audit	£48,837	<u>£69,838</u>
<b>Total audit fees (excluding VAT)</b>	<b>£48,837</b>	<b>£69,838</b>

The proposed fees reconcile to the financial statements. The final fee is analysed overleaf. The increase to the scale fee has to be agreed with the Strategic Director (Corporate Resources) and determined by PSAA Ltd. The additional fee represents additional audit input that was due to factors outside of the audit team's control.

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
Audit Related Services: HB Grant Claim	£20,500	<u>£20,500</u>
<b>Total non- audit fees (excluding VAT)</b>	<b>£20,500</b>	<b>£20,500</b>

# Reports issued and fees continued

## Audit fee variation set out in Audit Plan

As outlined in our Audit Plan, the 2019-20 scale fee published by PSAA (accounts £109,687) this assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Audit area	Financial Accounts	Rationale for fee variation
<b>Scale fee</b>	£41,337	This is the PSAA scale fee and is unchanged from 2018/19
Increased challenge and depth of work	£3,125	<u>The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. This is a standard fee variance across all councils.</u>
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	£2,188	<u>The Financial Reporting Council (FRC) has specifically highlighted that the quality and extent of work around IAS 19 valuations has to increase across local audit. We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting. This is a standard fee variance across all councils.</u>
PPE Valuation – work of experts	£2,188	<u>The Financial Reporting Council (FRC) has specifically highlighted that the quality and extent of work around PPE and Investment Property valuations has to increase across local audit. We have responded by engaging our own audit expert (Gerald Eve) and will increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. This is a standard fee variance across all councils.</u>
Impact of Covid-19	£5,000	<u>Increased work due to COVID-19 which includes:</u> <ul style="list-style-type: none"> <li><u>Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.</u></li> <li><u>Management’s assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management.</u></li> <li><u>Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. This is a standard fee variance across all councils.</u></li> </ul>
<b>Sub total</b>	<b>53,838</b>	

## Appendix B

# Reports issued and fees continued

Audit area	Financial Accounts	Rationale for fee variation
<b>Sub total b/f</b>	<b>£53,838</b>	Per slide 29
Infrastructure review	£2,500	<u>We undertook additional work to understand the impact of the national issue for accounting of infrastructure assets. This is a standard fee variance across all district councils with material infrastructure assets.</u>
Local issues		
Additional fee on 2019/20 audit	£13,500	<u>Additional audit time was required over and above the standard fee uplifts as described above in a number of areas as set out in this report. These include: PPE – obtaining evidence from the council to support its valuation approach; delays and additional work caused by an incomplete journal population; additional audit team associated with delays in response to audit queries; and reviewing four versions of the financial statements.</u>
<b>Final Fee (subject to PSAA approval)</b>	<b>£69,838</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

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Dover District Council (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, the Housing Revenue Account 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

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

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

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

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the

Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

#### Conclusions relating to going concern

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

- the Strategic Director, Corporate Resources' 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.

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

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

#### Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 2 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings, and the Authority's share of pension fund property investments as at 31 March 2020. As disclosed in Note 2 to the financial statements the outbreak of Covid-19 has impacted market activity; valuations are therefore reported on the basis of 'material valuation uncertainty'. Our opinion is not modified in respect of this matter.

#### Other information

The Strategic Director, Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

# Audit opinion

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

## Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts 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 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the financial statements

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

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

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

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

### Responsibilities of the Authority

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

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

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

# Audit opinion

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

## **Report on other legal and regulatory requirements - Certificate**

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

## **Use of our report**

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

[Signature]

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

London

[Date]