

The Audit Findings for Folkestone and Hythe District Council

Year ended 31 March 2020

30 September 2020



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

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Headlines

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

Covid-19	<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>Offices have been closed, and finance staff have been involved in reprofiling the 2020 budget and the Medium-Term Financial Plan to take into consideration potential lost revenues and additional expenditure incurred as a result of the pandemic. We have reviewed this within our Value for Money work (see page 21)</p> <p>All staff in the finance team have been able to work from home and access systems in the same way as before, with no key staff taking sickness absence. The Council has provided IT and system support to those who have need (such as second screens and system access). There has been no change in the control environment following lockdown and the switch to working from home</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit 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 in April 2020. 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 7.</p> <p>Restrictions for non-essential travel has meant both Council and audit staff have had to utilise remote access working arrangements including video calling and the use of screensharing applications in order to gain sufficient and appropriate audit evidence; for example, the audit team have observed re-running of system reports and bank statements to gain assurance over the completeness accuracy of information produced by the entity ('IPE').</p> <p>The financial statements were provided to audit on 18 June 2020 and the audit commenced on 30 June 2020.</p>
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Headlines

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

Financial Statements	<p>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 group and Council's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the group and Council and the group and Council's 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. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), 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>Our audit work was completed remotely during July-September. Our findings are summarised on pages 6 to 16. We have not identified any adjustments to the financial statements that have resulted in adjustments to the Council's Comprehensive Income and Expenditure Statement. Disclosure adjustments are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix D] or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> • receipt of some third party confirmations for borrowings and investments; • testing of other interest payments; • agreement of immaterial disclosure notes to working papers; • completion of final management and engagement lead review of the audit file; • receipt of management representation letter (provided as a separate committee item); and • review of the final set of financial statements. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. The financial statements we have audited is up until 31 March 2020 which was prior to the outbreak of the Covid-19 coronavirus pandemic.</p> <p>Our anticipated audit opinion for the Council will be unmodified. It will include an Emphasis of Matter, highlighting material uncertainties around the valuation of land and buildings, investment properties and the valuation of the net pension liability as at 31 March 2020</p>
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Headlines

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

Value for Money arrangements – 2019/20	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 Folkestone and Hythe District Council has proper arrangements in place 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, moreover and enhancement of the existing significant risks that we had identified.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed on pages, once the 2018/19 Value for Money position has been concluded. Our findings are summarised on pages 20 to 25</p>
Value for Money arrangements – 2018/19	<p>An objection was made to the 18/19 accounts which requested that the auditor report in the public interest and make a declaration under section 28 of the Local Audit & Accountability Act (2014) that an item of expenditure incurred by the Council was unlawful.</p> <p>The objection related to a significant risk for the 2018/19 Value for Money audit (management of the contract with East Kent Homes), and resulted in additional work which meant our Value for Money conclusion was not issued in 2018/19.</p>	<p>We have now reviewed the arrangements in place during 20/18/19 and concluded that they were not adequate. To that effect we are proposing a qualified "except for" conclusion in respect of 2018/19. However, given the new arrangements put in place by the Council, this qualification does not apply to 2019/20.</p> <p>Our findings are summarised on pages 26 to 28.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> • 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. 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration 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 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 group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls; and
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that targeted audit procedures were required for asset balances of Oportunitas Ltd.

Audit approach (continued)

- 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 in April 2020, to reflect our response to the Covid-19 pandemic. We identified a new financial statement level risk for Covid-19 and reviewed materiality levels determined for the audit. We also enhanced our existing significant Value for Money risks.

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 Audit and Governance Committee meeting on 30 September 2020, as detailed in Appendix D. The outstanding items are detailed on page 4.

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.

We have revised materiality levels from those communicated in the Audit Plan to reflect the decrease in gross expenditure in the net cost of services. Materiality for the group has been reduced from £1.75m to £1.68m, and materiality for the Council has been reduced from £1.7m to £1.65m.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,680,000	1,650,000	This represents approximately 2% of the gross expenditure of the group and council authority for the financial year, which is within the acceptable range for this benchmark according to GT guidance. The authority will prepare a expenditure based budget for the year, with its primary objective to provide services for its local community and therefore gross expenditure was deemed the most appropriate benchmark.
Performance materiality	1,260,000	1,237,500	The audit of the 2018-19 financial statements did not identify any significant deficiencies in the control environment, and no other sensitivities were identified that would require materiality to be reduced. The performance materiality percentage has therefore been maintained at 75% of headline materiality.
Trivial matters	84,000	82,500	Set at 5% of headline materiality
Materiality for specific classes of transactions, accounts balances, or disclosures	£100,000	£100,000	This materiality level has been set for audit fees, related party transactions, senior management remuneration disclosures and exit packages . These balances are considered to be sensitive to the readers of the accounts, and therefore specific lower balances have been set.

Significant audit risks

Risks identified in our Audit Plan

Covid – 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have:

- worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

In the valuation reports prepared by the valuer, they have confirmed that as a result of covid-19 less weight can be attached to market evidence for comparison purposes to inform opinions of value. At the balance sheet date, the valuer was faced with an unprecedented set of circumstances on which to base a judgement and as such the valuations have been reported on the basis of 'material valuation uncertainty.'

In addition, the fund managers for Kent Pension Fund's pooled, leasehold and freehold property investments have declared material valuation uncertainties around the valuation of these investments on the same basis. Given that the Council owns a share of these assets, this impacts upon the valuation of the net defined benefit liability in the Council's balance sheet.

The Council have reflected these uncertainties in Note 4 to the financial statements. We will refer to these material valuation uncertainties in our audit report as an emphasis of matter.

Our work to address the points above is substantially complete, and we have not identified any other issues or concerns to report.

Significant audit risks

Risks identified in our Audit Plan

Fraudulent revenue and expenditure recognition

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

Having considered the risk factors set out in ISA240 and the nature of the revenue streams, 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 the Council and Fund, mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk for Folkestone and Hythe District Council.

We have however:

- evaluated the Council's accounting policy for recognition of revenues for appropriateness; and
- performed substantive testing on material revenue streams

Our audit work has not identified any issues in respect of improper revenue recognition.

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.

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.

The main mechanism through which this could occur is through the posting of manual journals amending the reported financial performance. We therefore review the controls established relating to manual journals, including those for authorisation of manual journals.

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 and made 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 audit work has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan

Valuation of property, plant and equipment

The Council re-values land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements (£204.2m).

Management have engaged the services of an expert valuer to estimate the current and fair values as at 31 March 2020.

We identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the 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 valuations were carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- tested, on a sample basis, revaluations of the Council's operational properties, investment properties, and HRA properties during the year to ensure they have been input correctly into the Council's asset register and financial statements;
- evaluated the assumptions made by management for any assets not revalued at 31 March 2020, and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value.

In the valuation reports prepared by the valuer, they have confirmed that as a result of covid-19 less weight can be attached to market evidence for comparison purposes to inform opinions of value. At the balance sheet date, the valuer was faced with an unprecedented set of circumstances on which to base a judgement and as such the valuations have been reported on the basis of 'material valuation uncertainty'.

The Council have reflected this uncertainty in Note 4 to the financial statements. Specific wording has been added in relation to investment properties as a result of audit challenge. We will refer to these material valuation uncertainties in our audit report as an emphasis of matter.

Specific commentary on the valuations of the different classes of property, plant and equipment are given on pages 12 – 14. With respect to other land and buildings our audit work identified a significant increase in valuation from the prior year valuation. We have also noted a potential uncertainty of circa £800k as a result of the assertion that the valuation would not have been materially different had it been carried out as at 31 March 2020, based on review of indices. Refer to page 13 for further detail on these matters.

Significant audit risks

Risks identified in our Audit Plan

Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£63 million in the balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken 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; and
- written to the auditor of Kent County Council 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.

As discussed under 'Covid-19' above, the fund managers for the Pension Fund's pooled, leasehold and freehold property investments reported that valuations of these investments were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic. The value of these assets within the pension fund is £765m, and as circa 1% of the Pension Fund's assets are attributable to the Council (£7.65m) as a scheduled body to the Fund, this material uncertainty impacts in turn upon the valuation of the net defined benefit liability in the Council's balance sheet.

Management have agreed to disclose the uncertainty in Note 4 to the financial statements. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion.

Subject to the resolution of outstanding matters and receipt of the assurance letter with respect to Kent County Council Pension Fund, our audit work has not identified any other issues in respect of the valuation of the Council's pension fund net liability.

Significant audit risks

Risks identified in our Audit Plan

Level 3 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 and concluded that the soft loans for private sector housing improvement purposes and the equity investment in Oportunitas Limited are Level 3.

Fair value hierarchy level 3 financial assets are hard to value as they have unobservable inputs for the assets or liability. By their very nature, level 3 assets require a particularly high degree of judgement.

Auditor commentary

We have:

- gained an understanding of the council's process for valuing hard to value financial assets and evaluate the design of the associated controls
- reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuation provided for the loans to companies and shares in unlisted companies
- considered the competence, expertise and objectivity of any management experts used; and
- challenged management about the disclosure of the level 3 financial assets.

Our audit work has not identified any issues in the valuation of Level 3 financial assets and liabilities.

Significant findings – key estimates and judgements

Land and Buildings – Council Dwellings - £165.2m

The Council owns 3,377 dwellings (including shared ownership properties), 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 last full beacon revaluation for Council dwellings took place in 2015, with the next beacon revaluation in the process of being prepared for 2020/21. In the intermittent years, and for 2019/20, the valuation is indexed by professional valuers.

Accordingly, in 2019/20 the Council engaged BPS Chartered Surveyors, a new valuer, to advise whether the housing stock values need to be updated to reflect price change during the year to 31 March 2020 when compared to the net book value at 31 March 2019, providing explanation and evidence to support assessment. The indexation factor provided by the valuer was 0.38%, calculated through a weighted average uplift based on the composition of the Council's housing stock by type of property based on the underlying market indices from the Land Registry. The indexation provided by the valuer was to be based on a reliable projection of what the valuer expected the assets to be worth at 31 March 2020.

The year end valuation of Council Housing was £165.2m, a net increase of £0.3m from 2018/19 (£164.9m).


- We have assessed management's expert, BPS Chartered Surveyors, to be competent, capable and objective;
- The valuer has correctly prepared the valuation update using the stock valuation guidance issued by MHCLG;
- The correct factor has been applied by the Council when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the accounts. The indexation has been applied to the full HRA portfolio correctly;
- All properties have been indexed to 31 March 2020;
- The valuer's methodology is considered to be reasonable. We have agreed that the housing split provided to the valuer (on which this calculation is based) is in line with the housing system and the information provided to the valuer to inform the valuation.
- We have recalculated the percentage uplift to 31 March 2020 based on the property split and more recent land registry data. Our calculations provide a factor of 1.07%, which gives an overall difference of £1,138k, which is below our performance materiality levels.
- Noting the valuer's comment that their data should be used with caution, the valuer has appropriately reflected the material uncertainty in their report. Given our estimate gives a higher valuation than that of the valuer, we gain further comfort given that Covid-19 is likely to have had a more negative impact on housing markets than that reflected in our data. Our audit opinion will include an emphasis of matter paragraph with respect to the valuation uncertainties disclosed by the Council with respect to Covid-19.


(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 estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £26.7m	<p>Other land and buildings comprise specialised assets such as swimming pools and cemeteries, 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. The remainder of other land and building assets that are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council engaged BPS Chartered Surveyors, a new valuer, to revalue the whole other land and building portfolio as at 01 April 2019, and to then provide a year end review of these assets at the end of the financial year to account for any impairment and general price changes (increases or decreases) to the portfolio.</p> <p>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in their update report as to the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4.</p> <p>At the 01 April 2019, the valuation other land and buildings resulted in an increase in value of £10.0m.</p> <p>The valuer provided the update report as at 31 March 2020 and ascertained that there was no material change in value to the balance sheet date; the total year end valuation of other land and buildings was £26.7m, a net increase of £9.4m from 2018/19 (£17.3m). This net increase arises from the valuation process in combination with additions to and depreciation of property assets during the year.</p>	<ul style="list-style-type: none"> We have assessed management's expert, BPS Chartered Surveyors, to be competent capable and objective; The valuer has correctly prepared the valuation using DRC on a modern equivalent asset basis for specialised properties, and EUV for non-specialised properties; We have agreed the valuation reports provided by management's expert to the fixed asset register and to the financial statements; As at the 01 April 2019, £6.7m of the £10m valuation increase (67%) relates to car-park assets. The increase has largely resulted from a change in valuation methods applied by the new valuer for the 2019/20 valuations. The valuer has based the car park valuations on projected income yields based on three years worth of data, with a 50% deduction from annual income to account for management and maintenance. The assumptions are in line with evidence of the expenditure for car parks in another Kent based Local Authority. We have reconciled the income data provided to the valuer to audited accounting records, noting only trivial differences. We are therefore satisfied with the valuation given this year. Our review of prior year valuations did not flag any specific issues with regard to the valuation method for car-parks, and the valuation was assessed to be Code compliant. We have therefore assessed that the increase constitutes a change in accounting estimate; this does not require the restatement of earlier periods, nor the retrospective adjustment of account balances. The Council are to update the disclosure in the accounts to make this clearer to readers. The valuer's assessment that no material change had occurred to the balance sheet date is caveated by their material valuation uncertainty disclosure; we will refer to the material valuation uncertainty in our audit opinion in an emphasis of matter paragraph. We have, nevertheless, audited the valuer's assessment with reference to Local Government indices provided by our auditor's expert, Gerald Eve. On this basis, we have calculated that a potential uncertainty of circa £802k exists as a result of not updating the valuation to the balance sheet date. We have made a recommendation with respect to this in Appendix A. 	 <p>(amber)</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
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

<p>Investment Properties - £82.0m</p>	<p>The Council has made significant investment property acquisitions (£45.3m) in 2019/20, first and foremost relating to the development of the Otterpool Garden Town. The Council acquired Cozumel Ltd's land interests (who owned the former Folkestone Racecourse site and other relevant land interests) for £26m. The Council also purchased the Connect 38 Office building in Ashford for £16.8m for investment purposes.</p> <p>Investment property is required to be valued at fair value at year-end. The Council has engaged BPS Chartered Surveyors to complete the valuation of investment properties as at 31 March 2020.</p> <p>100% of the assets were revalued during 2019/20, and the fair value adjustment on valuation resulted in a decrease of £1.6m across the portfolio.</p>	<p>We have tested the existence and accuracy of material capital additions to investment property assets, including the purchase of land for the Otterpool site and the Connect 38 Office building.</p> <p>We have also assessed management's estimate, considering:</p> <ul style="list-style-type: none"> • an assessment of management's expert; • the completeness and accuracy of the underlying information used to determine the estimate; • the reasonableness of the assumptions behind the valuations; and • the reasonableness of the increase in the estimate <p>In the valuation report, as other land and buildings and Council dwellings, the valuer have confirmed that as a result of covid-19 less weight can be attached to market evidence for comparison purposes to inform opinions of value. This is particularly relevant to investment properties, whose valuation is typically based on income yields. The Council have reflected this uncertainty in Note 4 to the financial statements. Specific wording has been added in relation to investment properties as a result of audit challenge. We will refer to these material valuation uncertainties in our audit report as an emphasis of matter.</p>	 (green)
<p>Surplus Assets - £12.3m</p>	<p>Surplus assets are not specialised in nature and have been valued at fair value under IFRS13, estimated at highest and best use from a market participant's perspective. The Council has engaged BPS Chartered Surveyors to complete the valuation of assets as at 31 March 2020. This class contains land at Princes Parade and Recreation Ground.</p> <p>The year end valuation of surplus assets was £12.3m, a net increase of £1.6m from 2018/19 (£10.7m). This was primarily due to the increase in the value of Princes Parade following the successful grant of planning permission and the submission of updated accommodation schedules for the site to the valuer.</p>	<p>We have assessed management's estimate, considering:</p> <ul style="list-style-type: none"> • An assessment of management's expert; • The completeness and accuracy of the underlying information used to determine the estimate; • The reasonableness of the assumptions behind the valuations; and • The reasonableness of the increase in the estimate <p>We consider management's process is appropriate.</p>	 (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 estimates and judgements

IFRS 16 implementation has been delayed by one year

Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.

Management disclosed in Note 2 to the financial statements the title and date of initial application with respect to the deferral of IFRS 16

This disclosure also includes a statement that the Council deems that the standard would not have a material impact upon the information provided in the financial statements.

The statement that the impact of the revised accounting standard is not expected to be material for the Council is reasonable in the context of the Council's general policy of purchasing rather than leasing assets, with nil operating lease commitments disclosed in the financial statements.

For 2020/21, management will need to be in a position to provide a monetary estimate of the impact on assets, liabilities, income, expenditure and reserves of the transition to IFRS 16 to allow for auditor assessment of the adequacy of associated disclosures in the financial statements; IFRS 16 can apply to contracts that are not defined as leases on the surface.


(green)

Other accruals and estimates





The Council continues to apply estimates and judgements in a number of areas, such as:

- accruals of income and expenditure;
- the national non-domestic rates appeals provision; and
- bad debt provisions

- The policies for these items are in line with accounting standards and the requirements of the Code of Practice on Local Authority Accounting.
- Disclosure of the estimates in the financial statements is considered adequate.
- As part of our testing, we have reviewed the judgements applied by the Council relating to these items, and significant balances within these have been discussed with management in detail.
- The Council have considered the impact of Covid-19 on the collectability of debt and assumptions made in bad debt provisions, and I have provided for an additional 10% on their bad debt provisions to account for expected difficulties created by the pandemic, in accordance with IFRS9.
- We have found no material misstatements in the financial statements relating to these balances.


(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
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Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																								
Net pension liability – £62.9m	<p>The Council's total net pension liability at 31 March 2020 is £62.9m (PY £64.9m) comprising the Kent County Council Local Government defined benefit pension scheme obligation. 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.</p> <p>The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £235k net actuarial loss during 2019/20.</p>	<ul style="list-style-type: none"> We have assessed the actuary, Barnett Waddingham, to be competent, capable and objective. We have confirmed the controls and processes over the completeness and accuracy of the underlying information sent to Kent County Council used to determine the estimate. We have requested an assurance letter from the auditor of Kent County Council Pension Fund asking for their assistance in checking source data provided to the actuary from the pension fund's records; We have confirmed there were no significant changes in 2018/19 to the valuation method. We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions: 																									
		<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>2.00%</td> <td>1.85% - 1.95%</td> <td></td> </tr> <tr> <td>Salary growth</td> <td>3.00%</td> <td>1% above CPI</td> <td></td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>45: 23.2 65: 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>45: 25.2 65: 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	2.00%	1.85% - 1.95%		Salary growth	3.00%	1% above CPI		Life expectancy – Males currently aged 45 / 65	45: 23.2 65: 21.8	22.8 – 24.7 / 21.4 – 23.3		Life expectancy – Females currently aged 45 / 65	45: 25.2 65: 23.7	25.2 – 26.2 / 23.7 – 24.7		 (green)
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		<p>The actuary have confirmed that they have updated the assumption using March 2019 triennial valuation data as opposed to using the estimated roll-forward approach from the 2016 triennial valuation, which gives assurance that more recent information has been used. We therefore consider the assumption to be reasonable.</p>																									
		<ul style="list-style-type: none"> Subject to receipt of the assurance letter from Kent County Council Pension Fund, our work confirms that the decrease in the IAS 19 estimate is reasonable 																									

Assessment

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- 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 material uncertainty disclosures

It has been a challenging year due to the Covid-19 pandemic and the impact of this has been administration of grants to businesses, the closure of leisure centres and car parks, with additional challenges of reopening services under new government guidelines; and the need to free up capacity of teams to assist with additional workloads caused by the pandemic in addition to normal responsibilities. In common with all Local Authorities, the Council is facing significant challenges, but has reported a small underspend for 2019/20. Management have undertaken an analysis of the potential financial implications of Covid-19 together with additional funding being provided. As at the 31 March 2020, General Fund reserves stood at £22.7m, with total usable reserves of £51.1m. Although in a strong financial position, it is anticipated that the Council will require use of its financial reserves to pay its expenses in 2020/21.

Going concern commentary

Auditor commentary

Management's assessment process

Management has undertaken their own assessment of going concern, taking into account Paragraph 2.1.2.9 of the Code of Practice on Local Authority Accounting states that “*An authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future*”. Their assertion that if an authority was in financial difficulty the prospects are that either central government would make alternative arrangements for the continuation of the service or provide assistance with the recovery of a deficit over more than one financial year.

Management have also considered the following factors:

- The financial impact of Covid-19;
- The Council's reserves position;
- Budget monitoring reports and projected overspends;
- Cash flow projections through to September 2021; and
- The Medium Term Financial Strategy, currently being updated to model the impact of Covid-19

Work performed

We have viewed the Council's financial assessment of the impact of Covid-19, cash flow forecasts, future financial plans and the Council's level of reserves. Whilst Covid-19 impact has been felt by the Council, but the Council has ample general fund and earmarked reserves to cover the impact of Covid-19 in its worst-case projected scenarios. Management are conscious of the need to remain responsive to emerging circumstances, whilst keeping sight of longer term strategic goals which underpin future investment decisions from use of reserves.

Concluding comments

We are satisfied that the Council's financial statements are appropriately prepared on a going concern basis, and that no further disclosure is required.

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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. No material financial fraud is known to have occurred during 2019/20 financial year. 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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Audit and Governance Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Group's banks and investment and borrowing counterparties. This permission was granted and the requests were sent. Most of these requests were returned with positive confirmation, however a small number of borrowing and investment confirmations have not yet been received. We requested management to send letters to those solicitors who worked with the Group during the year and have received the required responses.
Disclosures	Our review found no material omissions in the financial statements
Audit evidence and explanations /significant difficulties	Information and explanations requested from management have been provided in a timely manner. No significant difficulties have been experienced.

Other responsibilities under the Code

Issue	Commentary
Other information	<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 to date, subject to finalisation of the audit. We plan to issue an unmodified opinion in this respect – refer to appendix D.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • 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 <p>We have nothing to report on these matters</p>
Specified procedures for Whole of Government Accounts	<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>The work is not required as the Council does not exceed the threshold (tbc)</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of Folkestone and Hythe District Council in the audit report, as detailed in Appendix D.</p> <p>We also intend to certify the closure of the 2018/19 audit, which remained open following an objection to the 2018/19 accounts.</p>

Value for Money – 2019/20

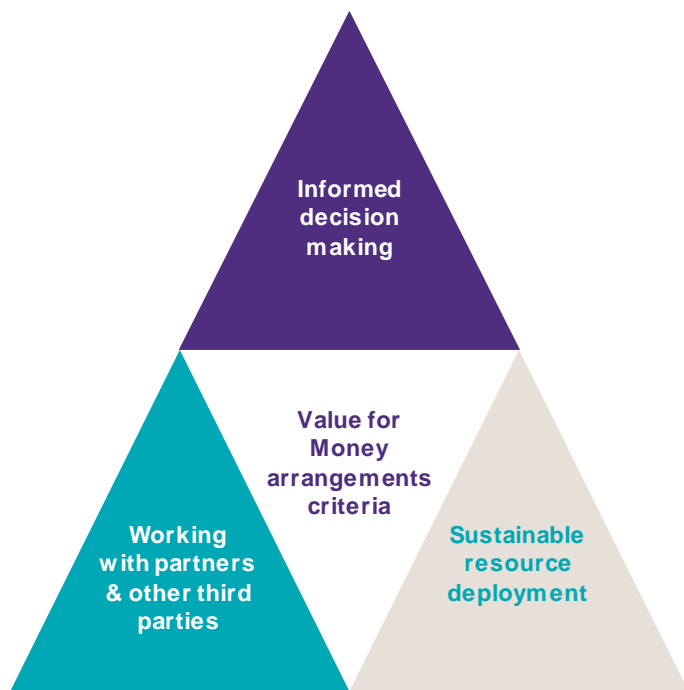
Background to our VFM approach

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 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 in 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 and commented on the potential impact of Covid-19 on the Council's future financial sustainability and capital plans, as part of our work in addressing the previously identified significant VFM risks.

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 – 2019/20

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 Medium Term Financial Strategy;
- The Medium Term Capital Plan;
- The reserves strategy;
- The Core Strategy review
- The 2020/21 budget;
- The 2019/20 outturn;
- Council, cabinet and Otterpool Park Working Group committee packs;
- Discussions with management and officers

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 22 to 26

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.

Value for Money – 2019/20

Significant risk: Medium Term Financial Sustainability

1 Medium Term Financial Sustainability

The Council will need to manage its financial position and savings targets closely during the medium term period to avoid a negative impact on the long term financial stability of the Council. You have savings plans in place including:

- *Service redesign and reviews around the future operating model*
- *Generation of additional revenues through capital investment and Oportunitas Ltd*

We will review your Medium-Term Financial Strategy, including the robustness of assumptions. We will review arrangements in place for monitoring savings plans and revenue generating schemes. Moreover, the United Kingdom has now exited the European Union as at 31 January 2020. This will result in national and local financial implications.

We will also consider the financial impact of ongoing discussions in respect of East Kent Housing.

MTFS

You produced a medium-term financial strategy ('MTFS') in Autumn 2019. You made allowances or gave recognition to assumptions such as council tax requirement, levels of reserves, the business rates retention scheme, the New Homes Bonus and the Local Government Finance Settlement 2020/21. You identified a savings gap of £357k gap to March 2024 and identified initiatives to meet the target. These initiatives include strategic investment through Oportunitas and the Otterpool Garden Town project, as well as the use of reserves. Both the MTFS and budget reports have been subject to review by the Overview and Scrutiny Committee and full Council throughout the budget setting process.

On our review of your Medium-Term financial strategy we conclude that you have set out in a reasonable way for Cabinet and the public estimates of the additional costs/reductions in income for the budgetary challenge through to 2023/24. You have identified the estimated gap using suitable assumptions and estimates which are in line with our expectations and similar Councils. Based on your track record of successfully achieving savings targets, and the reasonableness of the underlying planning process and assumptions, we conclude that you have appropriate planning and monitoring arrangements to achieve the current savings.

East Kent Housing

Your ability to deliver against Corporate Plan and MTFS is partially reliant on other agencies you works with, and those agencies' capacity and financial resilience.

At the February 2020, you decided to withdraw from the EKH arrangement. Officers from across the four councils involved have been instructed to negotiate ending of the agreement with EKH and to make preparations for the housing management service to be brought in-house. Full financial appraisal will need to be undertaken; at this stage it is not possible to make a realistic financial assessment of the potential costs involved or impact on the HRA budget. You have included a sum of £250,000 to support interim transition management costs of bringing the service back in-house, as agreed by Cabinet on 16 October 2019, with the strategy for the transfer of the single system from EKH ongoing and presented to cabinet in May.

Value for Money – 2019/20

Significant risk: Medium Term Financial Sustainability... continued

- 1 The Council's decision to bring EKH back in-house was taken with member consultation and a view that the Council will be able to provide better Value for Money operating the service itself. The Council will need to carefully monitor the transfer of EKH's functions in 2020/21 and the associated impact on the HRA budget. Further consideration concerning the Council's governance arrangements in respect of East Kent Housing is included in our delayed value for money conclusion in respect of 2018/19.

Covid-19

Following publication of the MTFS and the 19/20 budget, Covid-19 lockdown came into effect which has made the financial outlook for the Council challenging. An updated Medium-Term Financial Strategy is currently being drawn-up by the Council, and we have reviewed the financial arrangements put in place to allow the Council to plan for a number of scenarios.

In the period since the year-end of the financial year, officers have put in place robust arrangements to ensure that risks and uncertainties are given due consideration in short and medium-term financial planning and the impact is effectively modelled to the best of their ability. Management have updated budgets for a number of income and expenditure scenarios and have updated their cashflow models.

The Council's 'worst-case' projections for lost income and expenditure as a result of Covid-19 are within the level of existing reserve budgets, and as lockdown has been eased, actual lost income and expenditure has transpired to not be as great for the Council as first forecasted. This is, in part due to an earlier end to lockdown than was envisaged in the Council's worst-case modelling, as well as central initiatives such as the government's furlough scheme which has largely supported people through economic hardship, and funding received for lost income. To this date, the Council has received central funding of £31.4m for Covid-19, £28.8m of which is intended as grant support to retail, hospitality and leisure businesses in the District, with the remainder being tranche funding from the MHCLG. The Council must, however, remain alert to the possibility of further lockdown measures. We deem that management's assumptions within their updated cashflow forecast are prudent, assuming reductions in income across most revenue streams.

As a result of these Government Funding and initiatives, prior year underspends and prudent financial planning including setting aside contingencies in the budget-setting process, the Council has sufficient resources in place to meet the expected shortfalls in income and increases in expenditure for 2020/21 arising from the Covid-19 pandemic and is not facing the kinds of challenging decisions in the immediate term around service cuts or Section 114 notices which comparable local authorities could be subject to.

In the medium term, the picture remains far more uncertain as the longer-lasting impact of the pandemic on the economy, in the context of wider financial risks beyond the control of officers or members, remain significant unknowns. Management are conscious of the need to remain responsive to emerging circumstances, whilst keeping sight of longer-term strategic goals which underpin future investment decisions from use of reserves. Savings plans are monitored through budget monitoring processes and management discuss plans which were falling behind and mitigations.

Based on the Council's track record of successfully achieving savings targets, and the reasonableness of the underlying planning process and assumptions in the existing budget and MTFS, we conclude that the Council has appropriate planning and monitoring arrangements in place and is well suited to plan financially for the pandemic.

Value for Money – 2019/20

Significant risk: Delivering the full potential on capital plans

2 Delivering the full potential on capital plans

The development of the Otterpool Park Garden Town, alongside smaller scale capital plans, has the potential to make a long term positive contribution to the finances of the Council as well as a long term impact on the area.

We will review the ongoing governance arrangements and decision making processes around the capital investment plans during 2019/20. We will review the business case process for major projects

Capital Budgeting Process and Medium-Term Capital Plan ('MTCP')

Your MTCP for the five-year period ending 31 March 2025 was considered by the Overview and Scrutiny Committee on 21 January 2020 and Cabinet on 22 January 2020 who approved it to be submitted to full Council. The plan is reviewed annually by members as part of the budgeting process; annual review allowed for revisions for any new schemes, as well as any rephrasing and reprofiling of spend between years. The process allows you to create a profiled capital budget to be set for the coming year. Quarterly Capital Monitoring reports have been produced by finance officers which are presented to members against this profiled budget. Reasons for any variances are explained, which are often slippage or reprofiling between financial years.

The total cost and funding of the General Fund capital programme for 2019/20 was £54.5m, an underspend of £3.9m against the latest 2019/20 budget for £58.4m. Delivery of the 2019/20 capital programme required borrowing of £50.4m with the majority of this to support the Otterpool Park project (£31.3m) and the acquisition of the Connect 38 office building in Ashford (£17.7m). The Council has borrowed in line with CIPFA's Prudential Code for Capital Finance in Local Authorities and has complied with the limits set as part of the approved indicators for 2019/20, ensuring that its capital investment plans are affordable, prudent and sustainable.

As at July 2020, the latest projection for the total cost and funding of the General Fund capital programme for the 2020/21 financial was £22.0m, a decrease of £20.9m compared to the previous 2020/21 position of £42.9m. Variances are attributable to re-profiling from 2020/21 to 2021/22 due to the difficulty in projecting capital spend and outcomes; this is commonly seen in capital budgeting.

Otterpool Park Garden Town

The Otterpool project has gathered pace in 2019-20. You bought out the previous landowner, Cozumel Estates Ltd, and committed a £100m investment draw down to the project for the medium term. You also purchased Westenhager Castle for £3.3m, which will be core to the site. Amongst other initiatives, the site intends to help you meet housing targets for the district, with the site having the potential to bring forward 8,500 – 10,000 houses and flats over the next 30 years.

You have made use of external specialist advisors, namely Arcadis, Farrells, Savills and BNP Paribas, for assistance in financial forecasting and modelling due to the complexity and scale of the project. Models have been produced by PwC to aid the Council's understanding of the potential financial implications and risks of the project in its entirety. You recognise that models will continue to evolve, the scale and very long term nature of this project (30 years) mean this is inevitable.

You presented a skeleton, high level business plan to Cabinet in May 2020. You hope to make a return on investment through the sale of land to developers, with capital receipts from sales intended to cover the initial investment and borrowing in the medium term. You will have a better idea of timescales on the delivery phase of the scheme next year following production of the detailed business case, which is likely to be presented to Council in late 2020 or early 2021.

Value for Money – 2019/20

Significant risk: Delivering the full potential on capital plans... continued

- 2 You have assumed that delivery will be complex, and that delivery of it through the usual decision-making processes would be challenging. As such you have set up an arm's length bod, Otterpool LLP, to manage the project. Cabinet approved the creation of Otterpool LLP on 27 May 2020 as the delivery vehicle for Garden Town development.

Creation of the LLP has put in place a delivery vehicle with a structure such as to enable risk sharing and collaboration and has engaged in specialised advisors for financial modelling purposes. We note that the Council has devoted considerable human and capital resources and is expecting development of the town will evolve over time. Whilst it is not possible to anticipate all of the challenges in the next thirty years, discussions with officers and review of cabinet papers by the auditor suggest that the capital planning process is robust and will allow for deviations and appropriate planning.

Impact of Covid-19 on capital planning

From review of documents and discussions with officers, we have not noted significant impacts on capital planning caused by Covid-19. You are still actively acquiring property, for example. The impact of the pandemic on capital schemes is arguably too early to gauge, with impacts is emerging.

You recognise that the biggest area of impact will be in commercial properties, where the Council collects rents. Commercial tenants impacted financially by lockdown measures and reduced footfall might pose delay to income collection. It is noted that the Connect 38 Office building in Ashford, acquired for £17.7m in 2019/20, has some vacant units where rent guarantees are available to the end of November. It may be harder to let the space in the medium term. The project is nevertheless expected to cover its costs; moreover the impact will be felt on the overall return. The Council has made use of ArlingClose (Treasury advisors) to undertake financial viability assessments of purchasing commercial assets. Within our financial accounts audit work on the bad debt provision, we note that the Council has prudently provided for an additional 10% against all income streams as at 31 March 2020 to allow for the impact of the virus.

Conclusion

The Council's capital planning process and associated governance is considered robust. Members are given opportunity to comment on the quarterly monitoring reports and the capital planning and budgeting process is considered in the medium term. Members have appropriate oversight over the Otterpool and other projects. Given the size of the Council's current capital scheme it is important that budgets are regularly updated and monitored. The Council needs to carry out regular viability studies to ensure that its ambitious capital strategy is financial sustainable in a recessionary environment and that its planned investment in housing, leisure and retail is prudent in an environment which will be shaped by the pandemic for years to come.

Value for Money – 2018/19

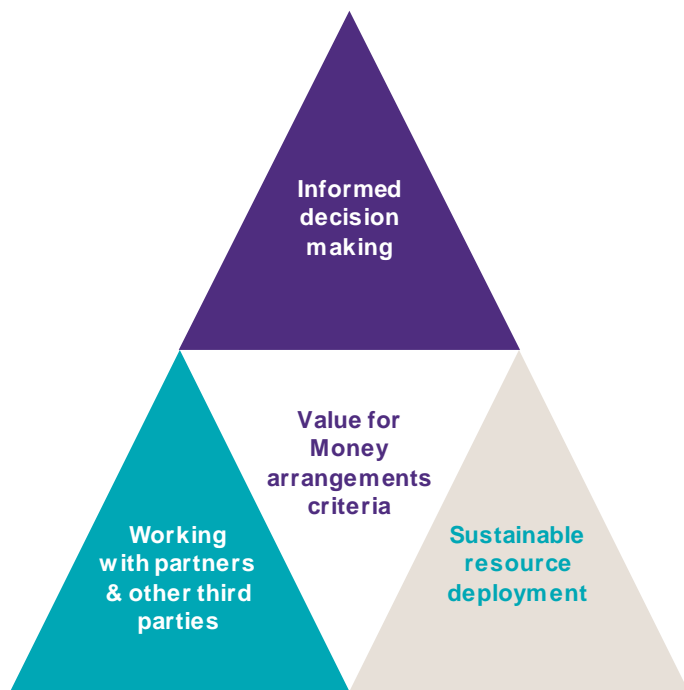
Background to our VFM approach

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

An objection was made to the 18/19 accounts which requested that the auditor report in the public interest and make a declaration under section 28 of the Local Audit & Accountability Act (2014) that an item of expenditure incurred by the Council was unlawful.

We carried out an initial risk assessment in February 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 March 2019. We reported our findings in respect of these risks to the Audit Committee in July 2019 and concluded at the time that these risks had been sufficiently mitigated.

As we were concluding our 2018/19 audit we identified a significant risk in respect of the management of the contract with P&R for the provision of central heating, gas and hot water repairs. The Council has identified weaknesses in the management of the contract with P&R for the provision of central heating, gas and hot water repairs. There have been a number of problems with the contractor during the year and potential overpayments have been made to P&R. These payments relate to the prior financial year. We have the contract management arrangements for P&R as part of the value for money conclusion work and as part of our response to the elector who has raised an objection to the 2018/19 accounts.

Conclusion

We have now reviewed the arrangements in place during 2018/19 and concluded that they were not adequate. To that effect we are proposing a qualified "except for" conclusion in respect of 2018/19. However, given the new arrangements put in place by the Council for both contract monitoring, scrutiny of East Kent Homes and the strategic decision to bring housing services back in house from 1 October 2020, we propose lifting the qualification for 19/20.

Value for Money – 2018/19

Significant risk: Management of the contract with East Kent Homes

1 Management of the contract with East Kent Homes

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 Canterbury CC. 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. In addition, the Councils 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 move.

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

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 investing a further 300k in this process and 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.

Value for Money – 2018/19

Significant risk: Management of the contract with East Kent Homes

1 Management of the contract with East Kent Homes

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.

The challenges around EKH have 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. Folkestone and Hythe's Cabinet voted unanimously for this proposal in February 2020 and have put transformation arrangements in place to bring the service in house on 1 October 2020. The Council have invested in a Transformation Director and committed significant resources to the project. There are of course risks in any insourcing arrangement but the Council has committed resources to ensure a smooth transformation, including the introduction of interims etc. In May and July 2020 Cabinet approved plans to address the development of Housing IT systems appropriate to the new arrangements and committed the appropriate expenditure to ensure this has happened.

Other statutory powers and duties

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

Issue	Commentary
Objection made to the accounts in 2018/19	An objection was made to the 18/19 accounts which requested that the auditor report in the public interest and make a declaration under section 28 of the Local Audit & Accountability Act (2014) that an item of expenditure incurred by the Council was unlawful. We are in on-going discussions with the Council on the matter; work surrounding the objection remains in progress.

Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D.

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, 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 Benefit Claim	12,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £12,000 in comparison to the total fee for the audit of £54,053 and in particular relative to Grant Thornton UK LLPs 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. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing capital receipts grant	2,500	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £2,500 in comparison to the total fee for the audit of £54,053 and in particular relative to Grant Thornton UK LLPs 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. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.


Independence and ethics

Audit and Non-audit services




No non-audit services were identified which were charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Action plan

We have identified 1 of recommendation for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
 Medium	<p>The valuation of other land and buildings was carried out as at 01 April 2019. The valuer provided the update report as at 31 March 2020 and ascertained that there was no material change in value to the balance sheet date. Management accepted this assertion. On review of indices, we have calculated that a potential uncertainty of circa £802k exists as a result of the assertion that the valuation would not have been materially different, based on a review of indices from our auditor's expert, Gerald Eve.</p>	<p>We would recommend that valuations are carried out at 31 March 2020 so that the risk that the fair value of other land and buildings materially differs from the carrying value is reduced.</p> <p>Alternatively, management could consider asking the valuer to quantify any potential increase or decrease in valuation at the balance sheet date (as the valuer's assessment of materiality will differ to that of the auditor).</p> <p>Management response</p> <p>Future valuations will be carried out in line with the five year rolling valuation programme and the valuer will be asked to confirm valuations as at the balance sheet date (31st March). In interim years we will test the top 20 material assets to assess any material changes in valuations.</p>

Controls

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

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.

There were no adjusted or un-adjusted misstatements above triviality levels for the financial statements.

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?
Estimation uncertainty (Note 4)	The disclosure on estimation uncertainty should include uncertainties surrounding the pension liability due to Covid-19	Management should make a disclosure that estimation uncertainty caused by Covid-19 applies to the Pension Liability balance, given uncertainties to be disclosed within the Kent Pension Fund accounts. This uncertainty disclosure will be referred to by us in the audit opinion. Management response Adjusted	✓
Estimation uncertainty (Note 4)	The disclosure on estimation uncertainty with regard to valuations (Note 4) does not reference the items of account to which it relates	Management should make it clear that the estimation uncertainty caused by Covid-19 applies to both property, plant and equipment and the investment property balances in the accounts. This uncertainty disclosure will be referred to by us in the audit opinion. Management response Adjusted	✓
Disclosure only	Various	We have agreed a number of other minor disclosure changes such as typos, formatting and presentation Management response Adjusted	✓

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£54,053	£54,053
Total audit fees (excluding VAT)	£54,053	£54,053

The fees differ slightly to the draft financial statements, given that the figures in the accounts were an estimate as to what the fees would be.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services:		
• Housing benefit subsidy claim	£12,000	TBC
• Pooling housing capital receipts grant	£2,500	TBC
Total non-audit fees (excluding VAT)	£14,500	TBC

Audit opinion - DRAFT

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

Independent auditor's report to the members of Folkestone and Hythe District Council Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Folkestone and Hythe District Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2020 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the notes supporting the movement in reserves statement, the notes supporting the comprehensive income and expenditure statement, the notes supporting the balance sheet, the notes supporting the cash flow statement, other notes, and notes to the group financial statements. 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 group and of the Authority as at 31 March 2020 and of the group's expenditure and income and the Authority's 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 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.

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 group's and 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 group's and 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 Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or 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 Chief Financial Officer's 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 group's and 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 group's and 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.

Audit opinion - DRAFT

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 or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings, investment properties and the pension liability

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid -19 pandemic on the valuation of the Authority's and group's land and buildings and investment properties, and the Authority's pension liability as at 31 March 2020. As disclosed in note 4 to the financial statements, the outbreak of the Novel Coronavirus (Covid-19) has impacted global financial markets. Market activity is being impacted in many sectors and as at the valuation date, less weight can be attached to previous market evidence for comparison purposes, to inform opinions of value.

Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuations. A material valuation uncertainty was therefore disclosed in in both the Authority's property valuation reports and the pension fund's property valuation reports. Our opinion is not modified in respect of this matter.

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the Authority and group 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 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 Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement Accounts set out on page 19, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the group's and 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.

Audit opinion - DRAFT

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

Conclusion

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

Responsibilities of the Authority

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

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

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

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

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

Report on other legal and regulatory requirements – Certificate

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

Use of our report

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

[Signature]

Paul Dossett, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor
London

X September 2020



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