The Audit Findings for Canterbury City Council

Year ended 31 March 2022

March 2023

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit fieldwork process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

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. Its contents have been discussed with management and the Audit Committee.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Canterbury City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements 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.

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.

Our audit work was completed remotely during July to September. Our findings are summarised on pages 7 to 18. We have identified number of presentational adjustments to the financial statements. We have not identified any adjustments to the financial statements that result in adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A.

Our fieldwork is complete and there are no matters of which we are aware that would require modification of our audit opinion (refer to separate Committee paper), subject to the completion of the following outstanding areas;

- Review of the final set of financial statements
- Receipt of management representation letter

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit opinion will be unqualified.

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1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix E to this report. We expect to issue our Auditor's Annual in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Currently we have no findings which indicate a significant weakness is present.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our 2021.22 Auditor's Annual Report.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

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2. Financial Statements

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 and the Audit Committee.

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 business and is risk-based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- 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 analytical procedures for Canterbury Environment Company were required, which was completed by GT.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

Our audit of your financial statements is complete. We anticipate issuing an unqualified audit opinion, subject to completion of the outstanding areas of work detailed on page 3.

Acknowledgements

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

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2. Financial Statements

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan

	Group amount (£m)	Council amount (£m)
Materiality for the financial statements	£2.59	£2.47
Trivial matters	£0.129	£0.124
Materiality for senior officer remuneration disclosures	£0.1	£0.1

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2. Financial Statements – Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for both the Group and Council, which was one of the most significant assessed risks of material misstatement.	To address this risk we: • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determined the criteria for selecting high risk or unusual journals. • Identified and tested high risk and unusual journals for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our testing did not identify any issues in respect of the risk identified.

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2. Financial Statements – Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings, including investment properties and council dwellings The Council revalues its land and buildings on a rolling five-yearly basis to ensure that carrying value is not materially different from fair value. This valuation represents a significant estimate by management in the financial statements due to the size of numbers involved and the sensitivity of the estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2022 in the Council's financial statements is not materially different from the current value, or the fair value for investment properties, at the financial statements date, where a rolling programme is used. We therefore identified valuation of land & buildings and investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	To address this risk we: • Evaluated management's processes and assumptions for the calculation of the estimate, including the instructions issued to the Council's external valuer and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Confirmed with the valuer the basis on which the valuation was carried out. • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. • Tested, on a sample basis, revaluations made during the year to ensure they had been input correctly into the Council's asset register and financial statements; • Assessed the value of a sample of assets in relation to markets rates for comparable properties. • Evaluated assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to the current value at year end. We found issues with the valuation of land for three items sampled. The combined isolated error is above triviality but below our headline materiality. Management have decided not to adjust for this error – refer to page 14 for detail. Whitefriars Shopping Centre – We used our own valuer, as an audit expert, to assess instructions to the Council's valuer, the valuer's report and the assumptions that underpin the valuation in relation to that asset. Our work did not identified any other issues in respect of the risk identified.
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in the Council's balance sheet as the net defined liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£88m) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	To address this risk we: • Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated, and evaluated the design of the associated controls. • Evaluated the instructions issued by management to the 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 Council's pension fund valuation. • Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • Tested the consistency of the pension fund asset and liability, and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. • Obtained assurances from the auditor of Kent 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 and in the pension fund financial statements We did not identify any issues in relation to the risk identified.

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2. Financial Statements - Other risks

Risks identified in our Audit Plan	Commentary
Valuation of infrastructure assets and presentation of gross cost and accumulated depreciation in PPE note Infrastructure assets includes roads, highways, streetlighting and coastal assets. In 2020.21 the Council spent £28m on Infrastructure capital additions. As at 31 March 2021, the net book value of infrastructure assets was £228m which is over 8 times audit materiality. In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address: 1. The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. 2. The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of infrastructure assets is overstated. It will be overstated if management do not derecognise components of infrastructure when they are replaced. We have reviewed the prior years' property, Plant and Equipment notes and although there have been £422k additions to infrastructure over the last 3 year, the Council has not derecognised any infrastructure assets during this period. We are not assessing these risks as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response.	To address this risk we: • Reconciled the fixed assets register to the financial statements. • Using our point estimate, considered the reasonableness of depreciation charge to infrastructure assets. • Obtained assurance that the UELs applied to infrastructure assets are reasonable. • Documented our understanding of management's process for derecognising infrastructure assets on replacement,, and obtained assurance that the disclosure in PPE note is not materially misstated. We have completed our work over infrastructure assets and the correct disclosure changes have been made in Council's financial statements. We are satisfied that infrastructure assets are correctly disclosed.
First year of group accounts On 1 February 2021 the Council's waste and street cleansing service became the responsibility of Canterbury Environment Company, which is a company wholly owned by the Council. Canterbury Environment Company also took on the grounds maintenance and associated works contract from 1 December 2021. The Council's Chief Executive, Deputy Chief Executive and Director of Commissioned Services served on the company's board of directors initially, with this changing during 2021.22 to the Deputy Chief Executive, the Director of People and Place, and the Deputy Director of People. 2021.22 will be the first year of the Council preparing group accounts which consolidate the financial statements of Canterbury Environment Company.	To address this risk we: • Documented our understanding of the process and controls put in place by management to consolidate the subsidiary accounts into group financial statements. • Audit group financial statements as part of the 2021.22 year end statutory audit work. We did not identify any issues in relation to the risk identified.

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2. Financial Statements - Other risks

Risks identified in our Audit Plan	Commentary
Error in expenditure recognition As most public bodies are net spending bodies, the risk of material misstatement due to fraud relating to expenditure may be greater than the risk of fraud relating to revenue. There is a risk that the Council may manipulate its expenditure to that budgeted. Management could defer recognition of non-pay expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end, or not record expenses accurately to improve financial results. Having considered the risk factors related to this risk and nature of the Council's expenditure streams we have determined that the risk of fraud arising from expenditure can be rebutted because: • There is little incentive to manipulate expenditure recognition; • Opportunities to manipulate expenditure recognition are very limited • The culture and ethical frameworks of local authorities, including Canterbury City Council, mean that all forms of fraud are seen as unacceptable. However we have identified that the due to the level of estimation involved in the manual accruals of expenditure, and the potential volume of accruals at year end, there is an on increased risk of error in expenditure recognition.	To address this risk we: • Inspected transactions around the end of the financial year to assess whether they had been included in the correct accounting period. • Inspected a sample of accruals made at year end for expenditure not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year. • Investigated manual journals posted as part of the year end accounts preparation that reduces expenditure, to assess whether there is appropriate supporting evidence for the transaction. We did not identify any issues in relation to the risk identified.
Accounting for grants revenues and expenditure correctly The Council (similar to all other local authorities) has been the recipient of significant increased grant revenues in 2021.22 relating to Covid-19 funding. Some of these grants relate to the Council and others are grants which should be passed on to other entities. The Council will need to consider, for each type of grant, whether it is acting as agent or principal and, depending on that decision, how the grant income and amount paid out should be accounted for.	To address this risk we: • Discussed with management and understand the different types of material grants received during 2021.22, and what the conditions are per grant agreements. • Understood the conditions for payment out to other entities. • Tested material grant revenues to understand whether the Council should be acting as agent or principal for accounting purposes for specific grants, and ensure correct accounting treatment. We did not identify any issues in relation to the risk identified.

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2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Valuations of land and buildings, including investment properties and council dwellings	The Council carries out a rolling programme of revaluations that ensures that all property, infrastructure assets, plant and equipment required to be measured at current value is re-valued at least every five years. Investment properties, surplus properties and assets held for sale are re-valued every year, as are all assets with a capital value of over £400,000. Revaluations for 2021.22 were carried out internally with the exception of Whitefriars Shopping Centre, which was valued by Knight Frank, and council dwellings/garages were valued by Savills. The remaining assets are valued at depreciated replacement cost (DRC) and are based on the cost of a modern equivalent asset delivering the same service provision. All assets are assessed annually for evidence of impairment.	We considered and completed the following in the course of our testing: • assessment of management's expert, the internal valuer, Savills and Knight Frank; • completeness and accuracy of the underlying information used to determine the estimate; • impact of any changes to valuation method; • consistency of estimate against Gerard Eve report; • reasonableness of increase in estimate overall; and • adequacy of disclosure of estimate in the financial statements. We have completed our work over this area and have found no material issues to report – refer to page 14 for issue identified in relation to land values.	● Light purple

Assessment

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

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2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Valuations of Net pension liability – LGPS	The Council recognises and discloses the retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'. At 31 March 2022 the Council has a net pension liability of £88.2m (2020.21 £91.6m) relating to the Local Government Pension Scheme as administered by Kent Pension Fund. Canterbury City Council uses an external actuary Barnett Waddingham to provide an actuarial valuation estimate of the Council's assets and liabilities deriving from these schemes. A full valuation is required every three years. The latest full actuarial valuation was completed in 2018/19 for the LGPS. A roll forward approach is used in intervening periods. The valuations are based on key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability small changes in assumptions can result in significant valuation movements.	• We assessed management's actuarial expert and concluded they are clearly competent, capable and objective in producing the estimate. • We carried out analytical procedures to conclude on whether the Council's share of LGPS pension assets and liabilities was reasonable. We concluded the Council's share of assets and liabilities was analytically in line with our expectations. • We engaged an auditor's actuary expert to challenge the reasonableness of the estimation method used and the approach taken by the actuary to verity the completeness and accuracy of information used. We were satisfied that the actuary was provided with complete and accurate information about the workforce, and that the method applied was reasonable. • The auditors' expert provided us with indicative ranges for assumptions by which we have assessed the assumptions made by management's expert. As set out below all assumptions were within the expected range and were therefore considered:	● Light purple

Assumption	Actuary Value	PWC range	Assessment
Discount rate	2.60%	2.55- 2.60%	●
Pension increase rate	3.30%	3.05 – 3.45%	●
Salary growth	4.30%	4.05 – 4.45%	●
Life expectancy – Males currently, aged 45 Future pensioners	21.6 23.7	20.5 – 23.1 21.9 – 24.4	●
Life expectancy – Females currently aged 45 Future pensioners	23.0 25.1	23.3 - 25.0 24.9 – 26.4	●

Assessment

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

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2. Financial Statements – Internal control

Assessment	Issue and Risk	
●	**Super user access** – Our review of the journals process identified that a member of the finance team has been granted administrative super user access – this is consistent with prior year practices at the Council. We performed testing over journals posted by the super user and also performed a reasonability test on journals posted by users created by the super user. We have not identified any issues. The combination of operational/financial responsibilities with the ability to administer end user security is considered a segregation of duty conflict. It creates a risk that system-enforced internal controls could be bypassed, leading to unauthorised changes being made to user accounts and logging mechanisms.	**Recommendation** We recommend that the management review the list of users with administrative access and confirm if it aligns with their roles and responsibility. **Management response** The super user in question is leaving the authority in November, alternative arrangements will need to be put in place and administrative access will be reviewed to address this issue.
●	**Grant register** – The Council does not maintain a grant register which details grant categories, date of receipt, or description of applicable conditions. We appreciate that in recent times there has been a large volume of Covid-related grants, with grant funds credited to the Council with little notice or explanation. Going forward the volume of Covid-related grants will reduce and a well-managed grant register will enable the Council to improve its grant keeping records, ensuring robust controls for both internal and external monitoring.	**Recommendation** Clear roles and responsibility should be established for creating, managing and updating the Council's grant register with details of grant categories, date of receipt, or description of applicable conditions. **Management response** This has already been put in place for 2022.23 in light of the continued plethora of grants provided to the council from government departments.
●	**Expert data** – Our other land and building revaluation work identified a £2.36m difference between the fixed asset register (FAR) and the internal valuer's revaluation spreadsheet workings – the FAR showed the correct value which was £2.36m lower than the valuer's workings. The internal valuer's workings were subsequently corrected. Not performing key reviews over expert data, typically involving material estimates can result in critical data inputs being incorrect.	**Recommendation** Management should document review and challenge of data coming from its experts, with reconciliations between expert data and Council data performed to provide assurance over completeness. **Management response** Management does a thorough review and challenge of data coming from experts, however documenting those discussions has not been prioritised. Meeting notes will be recorded in future to provide evidence of challenges and any further reconciliations actioned.

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

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2. Financial Statements – Internal control

Assessment	Issue and Risk	
●	**Heritage assets valuation** – The Council has £12.3mof heritage assets. The Council has not valued heritage assets since 2020. Although valuation of heritage assets do not move as much as land and building or HRA valuations, the Council should review the value of heritage assets annual to ensure that any material changes are reflected in the balance sheet. The most common valuation method for heritage assets is the insurance value. We have performed a stress test on heritage assets based on an average increase in such assets across the Kent region and estimated that a 5% move in insurance values would have an impact of £616k, below our headline materiality but above but above triviality. The Council has decided not to adjust the accounts based on this estimated audit difference.	**Recommendation** Management should review the value of heritage assets annual to ensure that any material changes are reflected in the balance sheet. **Management response** Agreed
●	**Brought forward creditors** – In the creditor balance £2.952m relates to a brought forward balance. We were unable to obtain evidence that three items tested in this balance remained payable at 31 March 2022 – the brought forward annual leave accrual, RPSH agreement and Whitefriars brought forward account balance. The total impact of these three brought forward creditor items is £688k.	**Recommendation** Management should perform a review of carried forward opening creditor balances and ensure to account for only those creditors that still payable at year end. **Management response** Agreed
●	**Land Valuation** – For three items we identified that land values used by the Council did not represent current market value. For Marlow theatre, Royal Museum and Beaney Institute, and land south of Whitstable Harbour land values were different to market value by £261k, -£168k and -£266k respectively, with total net impact of -£173k. We also noted that some evidence to support land values was not retained appropriately by the internal valuer and would recommend a introduction of an information storage process for valuation evidence.	**Recommendation** Management should an information storage process for land valuation evidence. **Management response** Agreed

Assessment

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

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2. Financial Statements – Internal control

Assessment	Issue and Risk	
●	**Assets under construction** – Records for assets under construction are not maintained to reflect the current position of projects.	**Recommendations** Management should introduce a record which is maintained for the exact stage of completion for each ongoing project so it is able to assess ongoing viability, document changes to expected costs and completion date, and assess if any elements of the AUC should be impaired. The record should reflect each project from start to finish. **Management response** Agreed
●	**Derecognition of assets** – In 2021.22 the Council disposed and wrote off £4.52m of assets. While testing the derecognition we have identified that the Council does not consistently approve the write off for fully depreciated asset. This is not a significant issue but is recommended so the Council can follow sector best practices.	c

Assessment

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

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2. Financial Statements - other communication and responsibilities

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with management and the Audit Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
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.
Confirmation requests from third parties	We sought external confirmations from relevant banks and financial institutions to support our review of the Council's year end cash and investment balances. For one confirmation obtained further inquiries were required and an amended confirmation received. We have now received positive confirmations for all balances.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

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2. Financial Statements - other communication requirements

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • The use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities; and • For many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates; • the Council's financial reporting framework; • the Council's system of internal control for identifying events or conditions relevant to going concern; and • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified; and • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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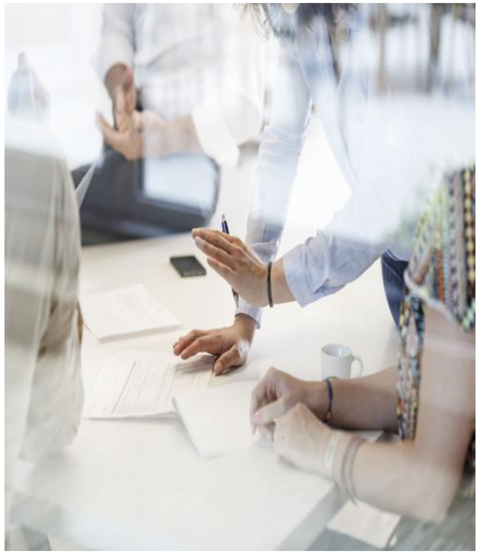
2. Financial Statements – other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our work to date has not identified any inconsistencies. Subject to the completion of all outstanding work we plan to issue an unmodified opinion in this respect, refer to separate Committee paper.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: - If the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit; and - If we have applied any of our statutory powers or duties. We have nothing to report on these matters. - Where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. Our detailed work on Value for Money is not yet complete, refer to Appendix D.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Council does not exceed the threshold specified by NAO.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021.22 audit of Canterbury City Council in the audit report, due to incomplete VFM work.



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3. Value for Money arrangements

Approach to Value for Money work for 2021.22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

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3. VFM – our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix E to this report. We expect to issue our Auditor's Annual Report no later than three months after the date of the opinion on the financial statements. This is in line with the National Audit Office's revised deadline.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our VFM planning work has not identified any risks of significant weakness at this stage.

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4. Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix C.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk).

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:

Service	Fees £	Threats identified	Safeguards
Audit related			
Housing Benefit Assurance Process	21,880 plus per diem rate for additional work if required	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £21,880 in comparison to the total fee for the audit of £77,005 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

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Appendices

A. Action plan – Audit of financial statements

We have identified eight recommendations 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 2022.23 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	Super user access – Our review of the journals process identified that a member of the finance team has been granted administrative super user access – this is consistent with prior year practices at the Council. We performed testing over journals posted by the super user and also performed a reasonability test on journals posted by users created by the super user. We have not identified any issues. The combination of operational/financial responsibilities with the ability to administer end user security is considered a segregation of duty conflict. It creates a risk that system-enforced internal controls could be bypassed, leading to unauthorised changes being made to user accounts and logging mechanisms.	**Recommendations** We recommend that the management review the list of users with administrative access and confirm if it aligns with their roles and responsibility. **Management response** The super user in question left the Council in November, alternative arrangements will need to be put in place and administrative access will be reviewed to address this issue.
● Medium	Grant register – The Council does not maintain a grant register which details grant categories, date of receipt, or description of applicable conditions. We appreciate that in recent times there has been a large volume of Covid-related grants, with grant funds credited to the Council with little notice or explanation. Going forward the volume of Covid-related grants will reduce and a well-managed grant register will enable the Council to improve its grant keeping records, ensuring robust controls for both internal and external monitoring.	**Recommendations** Clear roles and responsibility should be established for creating, managing and updating the Council's grant register with details of grant categories, date of receipt, or description of applicable conditions. **Management response** This has already been put in place for 2022.23 in light of the continued plethora of grants provided to the council from government departments.
● Medium	Expert data – Our other land and building revaluation work identified a £2.36m difference between the fixed asset register (FAR) and the internal valuer's revaluation spreadsheet workings – the FAR showed the correct value which was £2.36m lower than the valuer's workings. The internal valuer's workings were subsequently corrected. Not performing key reviews over expert data, typically involving material estimates can result in critical data inputs being incorrect.	**Recommendations** Management should document review and challenge of data coming from its experts, with reconciliations between expert data and Council data performed to provide assurance over completeness. **Management response** Management does a thorough review and challenge of data coming from experts, however documenting those discussions has not been prioritised. Meeting notes will be recorded in future to provide evidence of challenges and any further reconciliations actioned.

Key

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

A. Action plan – Audit of financial statements (cont.)

Assessment	Issue and risk	Recommendations
● Medium	**Heritage assets valuation** – The Council has £12.3mof heritage assets. The Council has not valued heritage assets since 2020. Although valuation of heritage assets do not move as much as land and building or HRA valuations, the Council should review the value of heritage assets annual to ensure that any material changes are reflected in the balance sheet. The most common valuation method for heritage assets is the insurance value.	Recommendations Management should review the value of heritage assets annual to ensure that any material changes are reflected in the balance sheet. Management response
● Medium	**Brought forward creditors** – In the creditor balance £2.952m relates to a brought forward balance. We were unable to obtain evidence that three items tested in this balance remained payable at 31 March 2022 – the brought forward annual leave accrual, RPSH agreement and Whitefriars brought forward account balance. The total impact of these three brought forward creditor items is £688k.	Recommendation Management should perform a review of carried forward opening creditor balances and ensure to account for only those creditors that still payable at year end. Management response Agreed
● Medium	**Land Valuation** – For three items we identified that land values used by the Council did not represent current market value. For Marlow theatre, Royal Museum and Beaney Institute, and land south of Whitstable Harbour land values were different to market value by £261k, -£168k and -£266k respectively, with total net impact of -£173k. We also noted that some evidence to support land values was not retained appropriately by the internal valuer and would recommend a introduction of an information storage process for valuation evidence.	Recommendations Management should an information storage process for land valuation evidence. Management response

Key

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

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A. Action plan – Audit of financial statements (cont.)

Assessment	Issue and risk	Recommendations
● Medium	**Assets under construction** – Records for assets under construction are not maintained to reflect the current position of projects.	**Recommendations** Management should introduce a record which is maintained for the exact stage of completion for each ongoing project so it is able to assess ongoing viability, document changes to expected costs and completion date, and assess if any elements of the AUC should be impaired. The record should reflect each project from start to finish. **Management response** Agreed
● Low	**Derecognition of assets** – In 2021.22 the Council disposed and wrote off £4.52m of assets. While testing the derecognition we have identified that the Council does not consistently approve the write off for fully depreciated asset. This is not a significant issue but is recommended so the Council can follow sector best practices.	**Derecognition of assets** – In 2021.22 the Council disposed and wrote off £4.52m of assets. While testing the derecognition we have identified that the Council does not consistently approve the write off for fully depreciated asset. This is not a significant issue but is recommended so the Council can follow sector best practices.

Key

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

A. Audit Adjustments

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

Impact of un-adjusted misstatements

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Impact on total net expenditure £m
For three items we identified that land values used by the Council did not represent current market value. For Marlow theatre, Royal Museum and Beaney Institute, and land south of Whitstable Harbour land values were different to market value by £261k, -£168k and -£266k respectively, with total net impact of £173k	(0.173)	(0.173)	(0.173)
In the creditor balance £2.952m relates to a brought forward balance. We were unable to obtain evidence that three items tested in this balance remained payable at 31 March 2022 – the brought forward annual leave accrual, RPSH agreement and Whitefriars brought forward account balance. The total impact of these three brought forward creditor items is £688k.	0.688	0.688	0.688
Overall impact	**£0.515m**	**£0.515m**	**£0.515m**

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B. 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.

Presentation 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	Auditor recommendations	Adjusted?
Grant income – Note 20 Other revenue grants balance of £4.767m in Note 20 should be £4.052m in line with supporting workings.	Note 20 should be amended to reflect the correct value. Management response Agreed to amend.	✓
Operating leases receivable – Note 29 Our work identified that details for the new lease (MKM Building Supplies), entered into in-year but commencing in 2022.23, were not included in Note 29.	Note 29 should be updated to reflect that future minimum lease payments receivable in relation to the MKM Building Supplies lease. Management response Agreed to amend.	✓
Senior officer emoluments – Note 23.1 Senior officers paid more £0.15m should be disclosed by name and job title as per CIPFA 2021.22 Code requirements.	Note 23.1 should disclose the name and job title of any senior officers paid more than £0.15m in the financial year. Management response Agreed to amend.	✓
Capital expenditure & capital financing – Note 11 Minimum revenue provision (MRP) amount is £7.188m as per Note 6 and Note 18.2. MRP is incorrectly stated as £7.512m in Note 11.	Note 11 should be corrected to reflect the correct MRP value. Management response Agreed to amend.	✓
Financial instruments – Note 12 Loan to Canterbury Environment Company of £0.22m, a long term debtor to the Council, is not shown in the financial instruments disclosure.	Note 12 should be corrected to reflect the long-term debtor. Management response Agreed to amend.	✓

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B. 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.

Presentation 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	Auditor recommendations	Adjusted?
Plant, vehicles & equipment (PVE) accounting policy It is the Council's policy that PVE in-year additions are subject to depreciation from the subsequent year. This specification is not reflected in the accounting policy disclosures.	The Council's accounting policies should be updated to reflect this policy choice. **Management response** Agreed to amend.	✓
Infrastructure assets accounting policy The Council has appropriate processes in place for its infrastructure assets to identify any derogation of assets when asset replacement takes place.	The Council's accounting policies should be updated to reflect this policy choice. **Management response** Await details of infrastructure statutory override from CIPFA and required accounting policy revisions in respect of infrastructure assets.	✓

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C. Fees

We set out below our fees charged for the audit.

Audit fees	2020.21	Proposed 2021.22	Final 2021.22
Statutory audit (excluding VAT)	£66,505	£77,005	£TBC

Non-audit services undertaken for the Council are set out in the Independence and ethics section on page 21.

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D. Audit letter in respect of delayed VFM work

Dear Chair of the Audit Committee as TCWG,

Under the 2020 Code of Audit Practice at local authority bodies we are required to issue our Auditor's Annual Report at the same time as our opinion on the financial statements or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than three months after the date of the opinion on the financial statements. This is in line with the National Audit Office's revised deadline.

For the purpose of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for the delay.

Your faithfully

Sophia Brown

Key Audit Partner

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