

Public Document Pack

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GOVERNANCE AND AUDIT COMMITTEE

25 SEPTEMBER 2019

A meeting of the Governance and Audit Committee will be held at **7.00 pm on Wednesday, 25 September 2019** in the Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Membership:

Councillor Day (Chairman); Councillors: Boyd, Campbell, Crittenden, Dexter (Vice-Chairman), Farrance, Garner, Kup, Pat Moore, S Piper, Scott, Shrubbs and Yates

A G E N D A

Item No

1. **APOLOGIES FOR ABSENCE**
2. **DECLARATIONS OF INTEREST** (Pages 3 - 4)
To receive any declarations of interest. Members are advised to consider the advice contained within the Declaration of Interest advice attached to this Agenda. If a Member declares an interest, they should complete the [Declaration of Interest Form](#).
3. **MINUTES OF PREVIOUS MEETING** (Pages 5 - 8)
To approve the Minutes of the Governance and Audit Committee meeting held on 24 July 2019, copy attached.
4. **INTERNAL AUDIT QUARTERLY UPDATE** (Pages 9 - 32)
5. **CORPORATE RISK MANAGEMENT QUARTERLY UPDATE** (Pages 33 - 38)
6. **EXTERNAL AUDIT ANNUAL AUDIT LETTER** (Pages 39 - 54)



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Do I have a Disclosable Pecuniary Interest and if so what action should I take?

Your Disclosable Pecuniary Interests (DPI) are those interests that are, or should be, listed on your Register of Interest Form.

If you are at a meeting and the subject relating to one of your DPIs is to be discussed, in so far as you are aware of the DPI, you **must** declare the existence **and** explain the nature of the DPI during the declarations of interest agenda item, at the commencement of the item under discussion, or when the interest has become apparent

Once you have declared that you have a DPI (unless you have been granted a dispensation by the Standards Committee or the Monitoring Officer, for which you will have applied to the Monitoring Officer prior to the meeting) you **must**:-

1. Not speak or vote on the matter;
2. Withdraw from the meeting room during the consideration of the matter;
3. Not seek to improperly influence the decision on the matter.

Do I have a significant interest and if so what action should I take?

A significant interest is an interest (other than a DPI or an interest in an Authority Function) which:

1. Affects the financial position of yourself and/or an associated person; or
Relates to the determination of your application for any approval, consent, licence, permission or registration made by, or on your behalf of, you and/or an associated person;
2. And which, in either case, a member of the public with knowledge of the relevant facts would reasonably regard as being so significant that it is likely to prejudice your judgment of the public interest.

An associated person is defined as:

- A family member or any other person with whom you have a close association, including your spouse, civil partner, or somebody with whom you are living as a husband or wife, or as if you are civil partners; or
- Any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors; or
- Any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000;
- Any body of which you are in a position of general control or management and to which you are appointed or nominated by the Authority; or
- any body in respect of which you are in a position of general control or management and which:
 - exercises functions of a public nature; or
 - is directed to charitable purposes; or
 - has as its principal purpose or one of its principal purposes the influence of public opinion or policy (including any political party or trade union)

An Authority Function is defined as: -

- Housing - where you are a tenant of the Council provided that those functions do not relate particularly to your tenancy or lease; or
- Any allowance, payment or indemnity given to members of the Council;
- Any ceremonial honour given to members of the Council
- Setting the Council Tax or a precept under the Local Government Finance Act 1992

If you are at a meeting and you think that you have a significant interest then you **must** declare the existence **and** nature of the significant interest at the commencement of the matter, or when the interest has become apparent, or the declarations of interest agenda item.

Once you have declared that you have a significant interest (unless you have been granted a dispensation by the Standards Committee or the Monitoring Officer, for which you will have applied to the Monitoring Officer prior to the meeting) you **must**:-

1. Not speak or vote (unless the public have speaking rights, or you are present to make representations, answer questions or to give evidence relating to the business being discussed in which case you can speak only)
2. Withdraw from the meeting during consideration of the matter or immediately after speaking.
3. Not seek to improperly influence the decision.

Gifts, Benefits and Hospitality

Councillors must declare at meetings any gift, benefit or hospitality with an estimated value (or cumulative value if a series of gifts etc.) of £25 or more. You **must**, at the commencement of the meeting or when the interest becomes apparent, disclose the existence and nature of the gift, benefit or hospitality, the identity of the donor and how the business under consideration relates to that person or body. However you can stay in the meeting unless it constitutes a significant interest, in which case it should be declared as outlined above.

What if I am unsure?

If you are in any doubt, Members are strongly advised to seek advice from the Monitoring Officer or the Committee Services Manager well in advance of the meeting.

If you need to declare an interest then please complete the declaration of [interest form](#).

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 24 July 2019 at 7.00 pm in Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Present: Councillor Simon Day (Chairman); Councillors Boyd, Crittenden, Dexter, Garner, Scott, Shrubbs and Yates

1. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Campbell, Councillor Farrance for whom Councillor Currie was present as a substitute, Councillor Kup, Councillor Pat Moore and Councillor S Piper.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF PREVIOUS MEETING

Councillor Day proposed, Councillor Dexter seconded and Members agreed the minutes of the meeting held on 6 March 2019.

4. INTERNAL AUDIT QUARTERLY UPDATE REPORT

Mr Webb, Deputy Head of the East Kent Audit Partnership (EKAP), introduced the report noting that there had been seven internal audit assignments completed since the last committee meeting; two achieved substantial assurance, three concluded reasonable assurance, one achieved a mixture of reasonable/limited and substantial assurance, and one did not require an assurance rating. Six follow up reviews had also been completed.

During consideration of the item, it was noted that:

- Housing benefit was audited more than other services. This was because a significant amount of money went through that department's systems.
- Six follow up reviews were detailed in the table at paragraph 3.1 of annex 1. The table displayed the original assurance level and the revised level after follow up review.
- There was one high priority recommendation outstanding after follow up review that related to garden waste.

Members agreed to note the report, and agreed that changes to the 2019-20 internal audit plan, resulting from changes in perceived risk, detailed at paragraph 5.0 in Annex 1 of the report be approved.

5. INTERNAL AUDIT ANNUAL REPORT

Mr Webb introduced the report which provided Members with a summary of the impact of the work of the EKAP for the year up to 31 March 2019.

During consideration of the item, it was noted that:

- This was a summary of the four previous quarterly reports. The report detailed the number of recommendations made and a breakdown of the number of audits by assurance level achieved.
- 64% of audits achieved either reasonable or substantial assurance.

- The number of planned days had reduced since 2008-09 because some services were no longer carried out by the Council. If the days allocated to these lost services were removed, then the number of planned days for the Council would remain largely unchanged since 2008-09.
- In summary the EKAP assessed the overall system of internal control in operation throughout 2018-19 as providing reasonable assurance.

Members noted the report.

6. ANNUAL GOVERNANCE STATEMENT 2018-2019

Mr Howes, Director of Corporate Governance and Monitoring Officer introduced the report which presented the draft Annual Governance Statement 2018/19 for consideration by the Committee.

During consideration of the item it was noted that:

- The statement was backward looking up to 31 March 2019.
- The following amendments to the statement were noted:
 - On page two it should refer to the 'Accounts and Audit (England) Regulations 2015'.
 - On page two the in place governance arrangements were for the year ending 31 March 2019.
 - On page ten a paragraph should be included about the failure of the Council to declare a vacancy in the office of Councillor under the heading Significant Governance Issues.
 - On page 11 'Areas for Improvement' should be added as a heading.

Subject to these amendments it was proposed by Councillor Dexter, seconded by Councillor Day and Members agreed the draft Annual Governance Statement 2018/19 which would be shared with the external auditors for amendment (if necessary) prior to publication.

7. HOMES ENGLAND AUDIT 2017/18

Mr Willis, Deputy Chief Executive and Section 151 Officer introduced the report which provided Members with a summary of the audit results.

During consideration of the item, it was noted that:

- No breaches had been identified and the Council had met all its contractual requirements.

Members noted the report.

8. CORPORATE RISK REVIEW - QUARTERLY UPDATE

Mr Blundell, Head of Financial Services, introduced the report which provided a quarterly update of progress since the last meeting.

During consideration of the item it was noted that:

- This was a standard quarterly report that Committee would receive at each meeting.
- There were four main corporate risks.
- There was no change to the political stewardship risk which had the highest possible rating.
- Limited resources had reduced from 16 to 12.

- East Kent Housing Health and Safety had been identified as a new risk and had the highest possible rating.
- The Brexit risk was ongoing and remained unchanged.

Members noted the report.

9. ANNUAL TREASURY MANAGEMENT REVIEW 2018-19

Mr Blundell introduced the report that provided a summary of the treasury management activity and prudential/treasury indicators for 2018/19.

During consideration of the item it was noted that:

- The Committee will be given some treasury management training during the year.
- This was a backward look and showed that the Council had operated within the parameters agreed in treasury management strategy.

It was proposed by Councillor Dexter, seconded by Councillor Day and Members agreed:

That the Governance and Audit Committee:

- Notes the actual 2018-19 prudential and treasury indicators in this report.
- Approves the Annual Treasury Management report for 2018-19.
- Recommends this report to Council.

10. EXTERNAL AUDIT - AUDIT FINDINGS REPORT

Mr Wells, Grant Thornton UK LLP (GT) provided Members with a brief summary of the External Audit Findings report, he noted that GT expected to be able offer an unqualified opinion on the Council's financial statements and an unqualified opinion on the Council's value for money conclusion.

During consideration of the item it was noted that:

- The report summarised the work to date.
- The quality of the draft accounts presented the GT was good, and GT's work was substantially completed. The valuation of housing assets was to be finalised.
- Four objections had been received from the public which would be investigated before GT could formally conclude the audit and issue an audit certificate. This was expected to be done in December 2019.

Members noted the report.

11. AUDIT COMMITTEE ASSURANCE STATEMENT

Mr Blundell introduced the report which included a draft response to the questions posed by the external auditors, Grant Thornton UK LLP.

It was proposed by Councillor Currie, seconded by Councillor Day and Members agreed to note and approve the responses to the letter from Grant Thornton as set out in Annex 2 of the report.

12. FINAL STATEMENT OF ACCOUNTS 2018-19 AND MANAGEMENT'S LETTER OF REPRESENTATION

Mr Blundell, introduced the item noting that the report was before the Committee in accordance with the Accounts and Audit Regulations 2015.

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During consideration of the item it was noted that:

- The audit of the statement of accounts would be complete once the valuation of the housing stock had been finalised and agreed with GT.
- A couple of minor amendments had been made to the statement of accounts since the draft accounts had been produced.

It was proposed by Councillor Dexter, seconded by Councillor Day and Members agreed that the approval of the 2018/19 statement of accounts be delegated to the Section 151 Officer, or their deputy, in consultation with the Chair, or Vice Chair, of the Governance and Audit Committee.

Meeting concluded : 7.50 pm

QUARTERLY INTERNAL AUDIT UPDATE REPORT

Governance & Audit Committee **25th September 2019**

Report Author **Head of the Audit Partnership: Christine Parker**

Portfolio Holder **Cllr David Saunders; Cabinet Member for Financial Services & Estates**

Status **For Information**

Classification: **Unrestricted**

Key Decision **No**

Executive Summary:

This report provides Members with a summary of the internal audit work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 30th June 2019.

Recommendation(s):

That the report be received by Members.

That any changes to the agreed 2018-19 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of Annex 1 of the attached report be approved.

CORPORATE IMPLICATIONS

Financial and Value for Money	There are no financial implications arising directly from this report. The costs of the audit work are being met from the Financial Services 2018-19 budgets.
Legal	The Council is required by statute (under the Accounts and Audit Regulations and section 151 of the Local Government Act 1972) to have an adequate and effective internal audit function.
Corporate	Under the Local Code of Corporate Governance the Council is committed to comply with requirements for the independent review of the financial and operational reporting processes, through the external audit and inspection processes, and satisfactory arrangements for internal audit.
Equalities Act 2010 & Public Sector Equality Duty	Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it. Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

	Please indicate which aim is relevant to the report.	
	Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,	
	Advance equality of opportunity between people who share a protected characteristic and people who do not share it	
	Foster good relations between people who share a protected characteristic and people who do not share it.	
<i>There are no equity or equalities issues arising from this report.</i>		

CORPORATE PRIORITIES (tick those relevant) ✓	
A clean and welcoming Environment	
Promoting inward investment and job creation	
Supporting neighbourhoods	

CORPORATE VALUES (tick those relevant) ✓	
Delivering value for money	X
Supporting the Workforce	
Promoting open communications	X

1.0 Introduction and Background

- 1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 30th June 2019.

- 1.2 For each audit review, management has agreed a report, and where appropriate, an Action Plan detailing proposed actions and implementation dates relating to each recommendation. Reports continue to be issued in full to the relevant member of Senior Management Team, as well as the manager for the service reviewed.

- 1.3 Follow-up reviews are performed at an appropriate time, according to the priority of the recommendations, timescales for implementation of any agreed actions, and the risk to the Council.

- 1.4 An Assurance Statement is given to each area reviewed. The assurance statements are linked to the potential level of risk, as currently portrayed in the Council's risk assessment process. The assurance rating given may be Substantial, Reasonable, Limited or No assurance.

- 1.5 Those services with either Limited or No Assurance are monitored, and brought back to Committee until a subsequent review shows sufficient improvement has been made to raise the level of Assurance to either Reasonable or Substantial. A list of those services currently with such levels of assurance is attached as Appendix 2 to the EKAP report.

- 1.6 The purpose of the Council's Governance and Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

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- 1.7 To assist the Committee meet its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit reports and follow-up reviews since the report submitted to the last meeting of this Committee.

2.0 Summary of Work

- 2.1 There have been five internal audit assignments completed during the period.
- 2.2 In addition, four follow-up reviews have been completed during the period.

3.0 Options

- 3.1 That Members consider and note the internal audit update report.
- 3.2 That the changes to the agreed 2019-20 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of the attached report be approved.
- 3.3 That Members consider (where appropriate) requesting an update from the relevant Director/s to the next meeting of the Committee in respect of any areas identified as still having either limited or no assurance after follow-up.
- 3.4 That Members consider registering their concerns with Cabinet in respect of any areas of the Council's corporate governance, control framework or risk management arrangements in respect of which they have on-going concerns after the completion of internal audit follow-up reviews and update presentations from the relevant Director.

Contact Officer:	Christine Parker, Head of the Audit Partnership, Ext. 7190 Simon Webb, Deputy Head of Audit, Ext 7189
Reporting to:	Chris Blundell; Head of Financial Services (Deputy S151 Officer)

Annex List

<i>Annex 1</i>	East Kent Audit Partnership Update Report – 25-09-2019
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Background Papers

Title	Details of where to access copy
<i>Internal Audit Annual Plan 2019-20</i>	Previously presented to and approved in March 2020 at Governance and Audit Committee meeting
<i>Internal Audit working papers</i>	Held by the East Kent Audit Partnership

Corporate Consultation

Finance	Chris Blundell; Head of Financial Services (Deputy S151 Officer)
Legal	Tim Howes, Director of Corporate Governance

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QUARTERLY INTERNAL AUDIT UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP

1.0 INTRODUCTION AND BACKGROUND

1.1 This report provides Members with an update of the work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 30th June 2019.

2.0 SUMMARY OF REPORTS

Service / Topic		Assurance level	No. of Recs.	
2.1	EKS/Civica - Housing Benefit Appeals	Substantial	C H M L	0 0 0 1
2.2	Street Scene Enforcement	Reasonable	C H M L	0 0 0 0
2.3	Business Continuity & Emergency Planning	Reasonable	C H M L	0 10 3 0
2.4	East Kent Housing - Tenant Health & Safety	Limited/No	C H M L	7 9 0 0
2.5	Ramsgate Harbour Accounts	Not Applicable		

2.1 EKS/Civica; Housing Benefit Appeals - Substantial Assurance:

2.1.1 Audit Scope

To ensure that the processes and procedures undertaken by CIVICA are sufficient to provide the level of service required by the partner Councils and these incorporate relevant internal controls to ensure that appeals by members of the public against their Housing Benefit awards are conducted in a fair and consistent manner and are in line with Housing Benefit guidance from the DWP.

2.1.2 Summary of Findings

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The Housing Benefit (Decision and Appeals) Regulations 2001 state that any 'person affected' by a relevant decision can ask the Council to revise its decision. It also states that a person affected can appeal against the decision of a Local Authority to an independent appeal tribunal (the First-tier Tribunal).

The processes in place for dealing with the appeals received by CIVICA were found to comply with the relevant procedures.

The primary findings giving rise to this Substantial Assurance opinion are as follows:

- A central record is maintained to track the status of all appeals received.
- Suitably detailed information is made available to claimants to inform them of their rights to appeal any decision made in respect of their Housing Benefits claim.
- There are effective controls in place to ensure that appeals are dealt on a consistent basis.
- All claimants are being kept informed on the status of their appeal.
- CIVICA have allocated specific officers to undertake the appeals process. Those officers are not involved in the original Housing Benefit decision.

A number of appeals selected for testing were found to be awaiting a hearing date or decision from the Tribunals Service. Discussions with officers established that some appeals are taking up to six months to be heard by the Tribunals Service. This not only causes difficulties for staff as they have to try and refresh their memory on the facts surrounding the appeal before going to the hearing. It also means that recovery of any overpayment subject to an appeal will remain suspended until the decision has been received from the Tribunals Service. This means that delays from the Tribunal Service in hearing appeals creates extra work for Appeals and Recovery officers.

Scope for improvement was identified around the monitoring and reporting of performance of the appeals function.

2.2 Street Scene Enforcement – Reasonable Assurance:

2.2.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council has effective street scene enforcement arrangements for graffiti, fly-tipping etc.

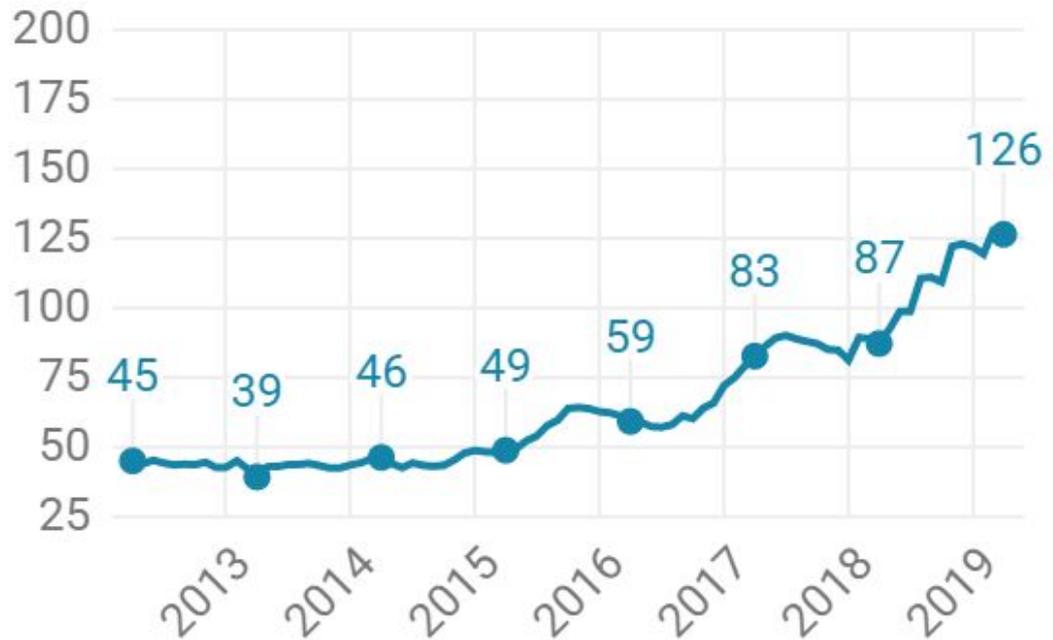
2.2.2 Summary of Findings

The Environmental Protection Act 1990 and the Anti-social Behaviour, Crime and Policing Act 2014 gives local authorities powers to tackle problems such as waste crime and graffiti. The Council is working hard to prevent and deal with such crimes and regularly publicises successful enforcement cases.

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The table below shows the monthly average number of Street Scene enforcement legal actions each year, from 2012/13 to 2018/19:



The increase in the number of incidents is partly due to greater utilisation of powers and because it is now easier for the public to report an incident. In 2018/19, 1,515 direct enforcement actions were carried out, from the circa 4,500 reports received. These enforcement actions include community protection warnings, fixed penalty notices, section 46 notices and prosecutions as examples.

The primary findings giving rise to the Reasonable Assurance opinion in this area are as follows:

- A new Street Scene Enforcement Policy has been drafted and will soon be available on the Council's website;
- Enforcement statistics are recorded and included in the quarterly performance reports to CMT and Cabinet;
- Street Scene information, including methods for reporting offenses, is published on the Council's website along with successful prosecution cases;
- Investment is being made in a new investigation and case management system (Crimson); and,
- New processes are being developed to streamline and accurately record FPNs issued and to monitor and recover income due.

Scope for improvement was however identified in the following area:

- Improvements regarding the recording of issued FPNs and monitoring of payments were identified during the audit; these were discussed with relevant officers and processes have been developed and changed. As

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these changes need time to embed along with the implementation of a new investigation and case management system (Crimson), the Assurance level is Reasonable at this time.

2.3 Business Continuity & Emergency Planning – Reasonable Assurance:

2.3.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council has adequate arrangements to enable it to continue providing core services in the event of a loss of data and/or facilities (ICT provision, telephony and accommodation etc) at the main Cecil Street Offices and to fulfil its statutory obligations under the Civil Contingencies Act 2004 in planning for and responding to emergencies.

2.3.2 Summary of Findings

Thanet Council have clear legal obligation and duty of care to provide effective, robust and demonstrable emergency arrangements to mobilise resources to deal with a broad range of Emergencies. Emergencies can occur which require special measures to be taken. Such events are defined under the Civil Contingencies Act 2004 as:

- An event or situation which threatens serious damage to human welfare in the United Kingdom or in a Part or region;
- An event or situation which threatens serious damage to the environment of the United Kingdom or of a Part or region; or
- War, or terrorism, which threatens serious damage to the security of the United Kingdom.

Two members of staff have been appointed with the responsibility of managing and maintaining the systems and processes involved with both Emergency Planning and Business Continuity. To assist these officers there is a Partnership Agreement in place between the Council and Kent Resilience Forum (KRF) which aims to support the Council in delivering the requirements of the Civil Contingencies Act (2004) placed upon them as category 1 responders, as well as those additional duties placed upon Local Authorities to provide business continuity advice and assistance to businesses and the voluntary sector.

The primary findings giving rise to the Reasonable Assurance opinion in this area are as follows:

- Evidence of an adopted Policy is in place for Business Continuity and all plans are up to date;
- There is a Major Emergency Plan in place which has been rigorously tested both within controlled and live settings, although this document is out of date it held up well within these environments; and
- ICT services have recognised; prioritised and documented critical systems and service delivery.

Scope for improvement was however identified in the following areas:

- Evidence of managing the agreement between the Council and KRF was lacking which has led to weaknesses within the records being maintained, updating of key documents, delivery of training and identifying key risks.
- The updated Business Continuity plans and the new Major Emergency Plan require testing in accordance with the KRF agreement, furthermore other Council owned sites may need to have their own BC plans.

2.4 East Kent Housing; Tenant Health & Safety – Limited/No Assurance:

2.4.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established by East Kent Housing to ensure the safety of all residents in all properties for which they are responsible for is not compromised.

2.4.2 Summary of Findings

East Kent Housing (EKH) has been appointed by each of the councils in East Kent to undertake the management of all tenanted properties.

Testing undertaken during this review concludes that there are systemic failings in relation to the internal control of health and safety, and a number of the necessary systems of control surrounding fire safety, electrical safety, lifts and Legionella are currently absent.

Assurance levels for each area tested are as follows:

Area	Assurance
Gas Safety	Limited assurance
Fire safety	No assurance
Electrical Safety	No assurance
Lifts	No assurance
Legionella	No assurance

Urgent management intervention is required in all of the key areas tested as part of the review as each Council could be considered to be acting unlawfully in all of the areas tested due to non-compliance with the regulations applicable to each area tested.

It is the following findings which result in a conclusion of No Assurance in these areas.

- At the time of the audit there was a known issue with contractor failure and LGSRs expiring, this was resolved while the audit was underway.

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- It is unlikely that the Councils will have a new permanent contractor for gas servicing and maintenance in place for 03 July when the current contract expires. Instead EKH will be relying on the use of temporary contractors until the new contractor is able to mobilise, and commence work under the newly tendered contract.
- Approximately 4,800 issues identified on fire risk assessments remain outstanding. While work is ongoing to rectify some of the less technical issues, approximately 800 of those are overdue their recommended completion dates.
- No action is being taken to repair emergency lighting identified as faulty as part of the annual emergency lighting testing process. The same emergency lights are being reported as faulty on subsequent tests. Audit testing estimates there to be in the region of around 2,000 faulty emergency lights across a combination of all 4 areas.
- Large parts of some buildings have faulty emergency lighting, and consequently the Council as landlord may be in breach of the Regulatory Reform (Fire Safety) Order 2005 for failing to provide emergency lighting of adequate intensity.
- Action is not being taken to rectify faults identified on Electrical Installation Condition Reports (EICR) where the overall condition is being reported as unsatisfactory. From 830 EICR reports on landlord blocks, around 230 of these are categorised as unsatisfactory.
- Action is not being taken to rectify electrical faults categorised as C1 & C2. A C1 fault is defined as Danger Present - Risk of injury. Immediate remedial action required). Testing identified C1 & C2 issues identified in April 2016 as still not having being rectified.
- Lift servicing is carried out at monthly intervals but lift examinations are not being completed by an independent person on passenger lifts at the 6 monthly intervals required by law, due to the insurance examiner not being able to safely examine the lift for a variety of different reasons. Despite the examinations being incomplete and therefore use of the lifts not being in accordance with the relevant regulations, lifts continue to be left in operation and available for use by tenants. Four lifts were found to be non-compliant with regulations due to a lack of independent examination reports yet still being used for 575, 426, 393 & 91 days.
- Remedial work identified on lift examination reports is not being carried out resulting in the same Category B defects being evident on the next examination six months later.
- Little or no action is being undertaken to address the 1,916 recommendations made on Legionella Risk Assessments, of which 930 have been categorised as high risk and date back to 2016.
- The summary evacuation sheets were out of date at the three of the 4 sites inspected as part of this review.

Management Response - Update on Compliance Issues

We would like to apologise to tenants for any worries caused to them as a result of the internal audit. The Board and management of East Kent Housing take this report extremely seriously, and we have worked very hard since we received it to ensure that we make progress as quickly as possible.

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In their interim update report, we are pleased to see that the auditors say they have seen evidence of significant improvements. Resident health and safety remains our top priority. This reflects the efforts of EKH's staff, and everyone is committed to completing the remaining work as quickly as possible. For all areas where there is outstanding work needed, we have put in place mitigation measures to ensure that any risk to residents is minimised.

Gas Safety

Following the rapid deterioration in the performance of P&R, after they gave notice under the contract, we commissioned an independent review to ensure that we learnt any lessons from this. We are pleased that the performance under the interim contract is at 100%. We have asked internal audit to review this area of assurance.

Fire Safety

All fire risk assessments are, and have been, kept up to date. However there are a number of actions identified in the fire risk assessments as needing to be completed, and the two blocks with a substantial risk level are being prioritised. Until the work is completed, we are carrying out twice daily checks on these blocks, and we have asked the repairs contractor to prioritise any repairs which have a health & safety element to them.

The Council now has a contract in place which commenced on 1st September. They are currently working on a programme and surveying and ordering materials, which have a lead in time.

Water Hygiene

All blocks have a current water hygiene risk assessment, but there are still outstanding actions to be completed. Water hygiene was part of the P&R heating & hot water contract, and the Council has now contracted this separately. All actions are estimated to be complete by December 2019. Until the work is complete, we are carrying out additional checks and tank cleansing to ensure that tanks remain safe.

Electrical Works

All emergency lighting has been inspected and repaired/replaced where needed. Some properties require the electrical installations report to be renewed, and we are working with the Council to identify an appropriate contract for this work activity.

Lifts

There are 13 passenger lifts, and they are all compliant with legislation and have been checked by the Council's insurer.

Deborah Upton, Chief Executive, East Kent Housing

2.5 Ramsgate Harbour Accounts Audit: An Assurance Level is Not Applicable for this work

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We have carried out a review of the Statement of Accounts for Thanet's Port & Harbours Accounts 2018/19, supplied by your Financial Services Department, in order for you to meet the requirements placed upon the Council under Section 42 of the Harbours Act 1964.

The work undertaken has comprised the following –

- A review of the accuracy of the Statement of Accounts dated 31st May 2019, to ensure that this correctly reflects the figures within the Council's financial information system.
- A review of the Statement of Accounts to ensure that this accurately cross casts to the totals detailed.
- A review of the detailed transactions within the Council's cost codes relating specifically to the Port & Harbours, to ensure that these are valid and are correctly related to the purpose of the Port & Harbours.

Under Section 42(5) of the Harbours Act 1964 the Council are required to submit our report along with the copy of the annual statement of accounts relating to harbour activities to the Secretary of State for Transport.

We have no significant matters that we wish to draw to the attention of the Secretary of State in relation to the preparation of the annual statement of accounts relating to the Thanet Ports & Harbours Accounts for the year ending 31st March 2019.

3.0. **FOLLOW UP OF AUDIT REPORT ACTION PLANS:**

3.1 As part of the period's work, four follow up reviews have been completed of those areas previously reported upon to ensure that the recommendations made have been implemented, and the internal control weaknesses leading to those recommendations have been mitigated. Those completed during the period under review are shown in the following table.

Service/ Topic		Original Assurance level	Revised Assurance level	Original Number of Recs		No of Recs. Not yet implemented	
a)	Complaints Monitoring	Limited	Reasonable	C	0	C	0
				H	2	H	0
				M	1	M	0
				L	5	L	0
b)	East Kent Housing - Data Protection and Records Management	Reasonable	Reasonable	C	0	C	0
				H	3	H	0
				M	0	M	0
				L	0	L	0

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c)	East Kent Housing - Risk Management	Reasonable	Reasonable	C	0	C	0
				H	0	H	0
				M	3	M	0
				L	1	L	0
d)	EKS / Civica Discretionary Housing Payment	Reasonable	Substantial	C	0	C	0
				H	1	H	0
				M	3	M	0
				L	0	L	0

3.2 Details of any individual Critical and High priority recommendations still to be implemented at the time of follow-up are included at Appendix 3 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they are now being escalated for the attention of the s.151 officer and Members' of the Governance and Audit Committee.

The purpose of escalating high-priority recommendations which have not been implemented is to try to gain support for any additional resources (if required) to resolve the risk, or to ensure that risk acceptance or tolerance is approved at an appropriate level.

4.0 WORK-IN-PROGRESS:

4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings: Street Cleansing, Printing, Postage and Photocopying, Housing Repairs & Maintenance and Welfare Reform.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

5.1 The 2019-20 internal audit plan was agreed by Members at the meeting of this Committee on 6th March 2019.

5.2 The Head of the Audit Partnership meets on a quarterly basis with the Section 151 Officer or their nominated representative to discuss any amendments to the plan. Members of the Committee will be advised of any significant changes through these regular update reports. Minor amendments have been made to the plan during the course of the year as some high profile projects or high-risk areas have been requested to be prioritised at the expense of putting back or deferring to a future year some lower risk planned reviews. The detailed position regarding when resources have been applied and or changed are shown as Appendix 3.

6.0 FRAUD AND CORRUPTION:

There are no known instances of fraud or corruption being investigated by the EKAP to bring to Members attention at the present time.

7.0 UNPLANNED WORK:

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All responsive assurance / unplanned work is summarised in the table contained at Appendix 3.

8.0 INTERNAL AUDIT PERFORMANCE

- 8.1 For the three month period to 30th June 2019, 70.07 chargeable days were delivered against the revised target of 323.98 days which equates to 21.63% plan completion.
- 8.2 The financial performance of the EKAP is on target at the present time.
- 8.3 As part of its commitment to continuous improvement and following discussions with the s.151 Officer Client Group, the EKAP has established a range of performance indicators which it records and measures.
- 8.4 The EKAP audit maintains an electronic client satisfaction questionnaire which is used across the partnership. The satisfaction questionnaires are sent out at the conclusion of each audit to receive feedback on the quality of the service.

Attachments

- Appendix 1 Progress to 30th June 2019 against the agreed 2019-20 Audit Plan.
- Appendix 2 Definition of Audit Assurance Statements & Recommendation Priorities
- Appendix 3 Summary of Critical and High priority recommendations not implemented at the time of follow-up.
- Appendix 4 Summary of services with Limited / No Assurances.
- Appendix 5 Balanced Scorecard to 30th June 2019.

PROGRESS TO DATE AGAINST THE AGREED 2019-20 AUDIT PLAN – APPENDIX 1

THANET DISTRICT COUNCIL:

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-06-2019	Status and Assurance Level
FINANCIAL SYSTEMS:				
Capital	10	10	0	Quarter 3
Treasury Management	10	10	0	Quarter 3
External Funding Protocol	10	10	0	Quarter 3
Insurance & Inventories of Portable Assets	12	12	0	Quarter 3
RESIDUAL HOUSING SERVICES:				
HRA Business Plan	10	0	0	Postponed to accommodate responsive reviews
GOVERNANCE RELATED:				
GDPR Compliance	13	13	0	Quarter 4
Anti-Fraud & Corruption	2	2	0.24	Work-in-progress
Shared Service Monitoring	10	10	0	Quarter 4
Partnerships	8	8	0	Quarter 4
Risk Management - Review of Mitigation Controls	10	10	0	Quarter 2
Corporate Advice/CMT	2	2	0	Work-in-progress throughout 2019-20
s.151 Officer Meetings and Support	9	9	4.06	Work-in-progress throughout 2019-20
Governance & Audit Committee Meetings and Report Preparation	12	12	4.36	Work-in-progress throughout 2019-20
2020-221 Audit Plan and Preparation Meetings	9	9	0	Quarter 4
CONTRACT AUDITS				
CSO Compliance	12	12	2.17	Work-in-progress
SERVICE LEVEL:				
Environmental Health & Safety at Work	10	10	0	Quarter 2
Grounds Maintenance	12	12	0	Quarter 2
Grants	10	10	0	Quarter 3

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Commercial Properties & Concessions	10	10	0.35	Work-in-progress
Ramsgate Marina	12	12	0.57	Quarter 3
Ramsgate Harbor Accounts	3	3	3.9	Finalised
Planning Applications, Income & s106 Agreements	12	12	1.66	Work-in-progress
Building Control	10	10	0	Work-in-progress
Printing & Post	10	10	5.26	Work-in-progress
Sports & Community Development	10	10	0	Quarter 3
Visitor Information Arrangements	10	0	0	Postponed to accommodate responsive Homelessness review
Waste & Street Cleansing Vehicle Fleet Management	10	10	0	Quarter 4
Climate Change	6	6	0	Quarter 2
OTHER :				
Liaison With External Auditors	1	1	0	Work-in-progress throughout 2019-20
Follow-up Reviews	15	15	2.47	Work-in-progress throughout 2019-20
FINALISATION OF 2018-19 AUDITS:				
Days under delivered in 2018-19	0	38.98	0	Allocated
Income	5	5	0.18	Finalised
Dog Warden & Street Scene Enforcement			11.39	Finalised
Street Cleansing			10.76	Work-in-progress
Business Continuity & Emergency Planning			0	Finalised
Community Safety			0.36	Finalised
RESPONSIVE WORK:				
Homelessness	0	14	14	Draft Report
Electoral Registration	0	6	8.34	Work-in-progress
TOTAL	285	323.98	70.07	21.63% as at 30-06-2019

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EAST KENT HOUSING LIMITED:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-06-2019	Status and Assurance Level
Planned Work:				
CMT/Audit Sub Ctte/EA Liaison	4	4	4.32	Work-in-progress throughout 2019-20
Follow-up Reviews	4	4	1.76	Work-in-progress throughout 2019-20
Rent Accounting, Collectio & Debt Mngmt.	40	40	0.18	Work-in-progress
Rechargeable Works	10	10	0	Quarter 3
Tenant Health & Safety	15	15	17.63	Finalised - Limited/No
Customer Contact	12	12	0	Quarter 4
Improvement Plan	10	10	0	Quarter 3
Estate Management Inspections	15	15	0	Quarter 2
Anti-Social Behaviour	15	15	0	Quarter 4
Employee Health, Safety & Welfare	15	15	0	Quarter 2
Finalisation of 2018-19 Audits:				
Days under delivered in 2018-19	0	19.50	0	Allocated as below
Staff Performance Management	0		4.93	Work-in-progress
Welfare Reform	0		4.53	Work-in-progress
Repairs & Maintenance	0		20.90	Work-in-progress
Service Level Agreements	0		0.97	Finalised
Responsive Work:				
None thus far				
Total	140	159.50	55.22	34.62% at 30-06-2019

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EKS, EKHR & CIVICA:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-06-2019	Status and Assurance Level
EKS & Civica Reviews:				
Housing Benefit Appeals	15	15	10.44	Work-in-progress
Housing Benefit Testing	15	15	0	Work-in-progress throughout 2019-20
Business Rate Reliefs & Credits	15	15	0.08	Quarter 2
Council Tax	20	20	0	Quarter 3
ICT Disaster Recovery	15	15	0	Quarter 4
ICT - Physical & Environment	15	15	7.62	Work-in-progress
KPIs	5	5	0.11	Quarter 3
EKHR Reviews:				
Payroll	15	15	0	Quarter 3
Recruitment	15	15	0.12	Quarter 3
Employee Benefits-in-kind	15	15	0	Quarter 4
Other;				
Corporate/Committee	8	8	3.47	Work-in-progress throughout 2019-20
Follow up	7	7	3.91	Work-in-progress throughout 2019-20
Days under delivered in 2018-19	0	27.26		Allocated as below
Finalisation of 2018/19 Audits:				
Housing Benefit Testing 2018-19	0		8.7	Finalised
Payroll			1.27	Work-in-progress
PCI-DSS Compliance			8.01	Work-in-progress
Total	160	187.26	43.73	23% at 30/06/2019

Definition of Audit Assurance Statements & Recommendation Priorities

Assurance Statements:

Substantial Assurance - From the testing completed during this review a sound system of control is currently being managed and achieved. All of the necessary, key controls of the system are in place. Any errors found were minor and not indicative of system faults. These may however result in a negligible level of risk to the achievement of the system objectives.

Reasonable Assurance - From the testing completed during this review most of the necessary controls of the system in place are managed and achieved. There is evidence of non-compliance with some of the key controls resulting in a marginal level of risk to the achievement of the system objectives. Scope for improvement has been identified, strengthening existing controls or recommending new controls.

Limited Assurance - From the testing completed during this review some of the necessary controls of the system are in place, managed and achieved. There is evidence of significant errors or non-compliance with many key controls not operating as intended resulting in a risk to the achievement of the system objectives. Scope for improvement has been identified, improving existing controls or recommending new controls.

No Assurance - From the testing completed during this review a substantial number of the necessary key controls of the system have been identified as absent or weak. There is evidence of substantial errors or non-compliance with many key controls leaving the system open to fundamental error or abuse. The requirement for urgent improvement has been identified, to improve existing controls or new controls should be introduced to reduce the critical risk.

Priority of Recommendations Definitions:

Critical – A finding which significantly impacts upon a corporate risk or seriously impairs the organisation's ability to achieve a corporate priority. Critical recommendations also relate to non-compliance with significant pieces of legislation which the organisation is required to adhere to and which could result in a financial penalty or prosecution. Such recommendations are likely to require immediate remedial action and are actions the Council must take without delay.

High – A finding which significantly impacts upon the operational service objective of the area under review. This would also normally be the priority assigned to recommendations relating to the (actual or potential) breach of a less prominent legal responsibility or significant internal policies; unless the consequences of non-compliance are severe. High priority recommendations are likely to require remedial action at the next available opportunity or as soon as is practical and are recommendations that the Council must take.

Medium – A finding where the Council is in (actual or potential) breach of - or where there is a weakness within - its own policies, procedures or internal control measures,

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but which does not directly impact upon a strategic risk, key priority, or the operational service objective of the area under review. Medium priority recommendations are likely to require remedial action within three to six months and are actions which the Council should take.

Low – A finding where there is little if any risk to the Council or the recommendation is of a business efficiency nature and is therefore advisory in nature. Low priority recommendations are suggested for implementation within six to nine months and generally describe actions the Council could take.

SUMMARY OF CRITICAL & HIGH PRIORITY RECOMMENDATIONS NOT IMPLEMENTED AT THE TIME OF FOLLOW-UP – APPENDIX 3		
Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager’s Comment on Progress Towards Implementation.
<i>None to report this Quarter</i>		

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED – APPENDIX 4

Service	Reported to Committee	Level of Assurance	Follow-up Action Due
Compliance with General Data Protection Regulations	December 2018	Limited	Work-in-Progress
Tenancy & Right to Buy Fraud	March 2019	Limited	Autumn 2019
East Kent Housing - Tenant Health & Safety	September 2019	Limited/No	Work-in-Progress

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2019-20 Actual</u>	<u>Target</u>	FINANCIAL PERSPECTIVE:	2019-20 Actual	<u>Original Budget</u>
	Quarter 1		Reported Annually		
Chargeable as % of available days	88%	80%	· Cost per Audit Day	£	£332.50
Chargeable days as % of planned days			· Direct Costs	£	£428,375
CCC	18.18%	25%	· + Indirect Costs (Recharges from Host)	£	£10,530
DDC	19.34%	25%	· - 'Unplanned Income'	£	Zero
F&HDC	23.68%	25%			
TDC	21.63%	25%			
EKS	23.36%	25%			
EKH	34.61%	25%	· = Net EKAP cost (all Partners)		£438,905
Overall	22.97%	25%			
Follow up/ Progress Reviews;					
· Issued	6	-			
· Not yet due	20	-			
· Now due for Follow Up	25	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Full			

<u>CUSTOMER PERSPECTIVE:</u>	<u>2019-20 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2019-20 Actual</u>	<u>Target</u>
	Quarter 1		Quarter		
Number of Satisfaction Questionnaires Issued;	12		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	6		Percentage of staff holding a relevant higher level qualification	36%	36%
	= 50%		Percentage of staff studying for a relevant professional qualification	14%	N/A
Percentage of Customers who felt that;			Number of days technical training per FTE	0.73	3.5
	100%	100%	Percentage of staff meeting formal CPD requirements (post qualification)	36%	36%
<ul style="list-style-type: none"> · Interviews were conducted in a professional manner · The audit report was 'Good' or better · That the audit was worthwhile. 	100%	90%			
	100%	100%			

CORPORATE RISK MANAGEMENT - QUARTERLY UPDATE

25 September 2019	Governance and Audit Committee
Report Author	Chris Blundell, Head of Financial and Procurement Services
Portfolio Holder	Councillor Pugh, Portfolio Holder for Corporate Governance and Coastal Development
Status	For information
Classification:	Unrestricted
Key Decision	No
Ward:	All

Executive Summary:

This report provides Governance & Audit Committee with a quarterly review of corporate risks.

Recommendation(s):

To note the report.

CORPORATE IMPLICATIONS

Financial and Value for Money	The way in which the council manages risks has a financial impact on the cost of insurance and self-insurance. The council maintains reserves including a risk reserve, the size of which is commensurate with the financial impact of current and future risks. There are no specific financial implications arising from this report.
Legal	Whilst the corporate risk register includes consideration of legal matters in as far as they relate to risks to the council, there are no legal implications for the recommendation required by this report.
Corporate	Governance & Audit Committee approved the Risk Management Strategy on 9 December 2015 which includes a requirement to provide regular corporate risk updates to G&A Committee.
Equalities Act 2010 & Public	Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the

Sector Equality Duty	<p>Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.</p> <p>Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <tr> <td colspan="2" style="padding: 5px;">Please indicate which is aim is relevant to the report</td> </tr> <tr> <td style="padding: 5px;">Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,</td> <td style="width: 10%;"></td> </tr> <tr> <td style="padding: 5px;">Advance equality of opportunity between people who share a protected characteristic and people who do not share it</td> <td style="text-align: center; vertical-align: middle;">✓</td> </tr> <tr> <td style="padding: 5px;">Foster good relations between people who share a protected characteristic and people who do not share it.</td> <td></td> </tr> </table> <p>There are no equity or equalities issues arising from this report. The risk register identifies a number of activities designed to control risks and these will each need to be assessed for equality impact in their own right.</p>	Please indicate which is aim is relevant to the report		Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,		Advance equality of opportunity between people who share a protected characteristic and people who do not share it	✓	Foster good relations between people who share a protected characteristic and people who do not share it.	
Please indicate which is aim is relevant to the report									
Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,									
Advance equality of opportunity between people who share a protected characteristic and people who do not share it	✓								
Foster good relations between people who share a protected characteristic and people who do not share it.									

CORPORATE PRIORITIES (tick those relevant) ✓	
A clean and welcoming Environment	
Promoting inward investment and job creation	
Supporting neighbourhoods	

CORPORATE VALUES (tick those relevant) ✓	
Delivering value for money	✓
Supporting the Workforce	
Promoting open communications	

1.0 Introduction and Background

- 1.1 Risk Management is a fundamental element of the council's arrangements for ensuring goals are achieved and opportunities are taken up. To this end the council has established its Risk Management Strategy and Process and has assigned responsibility to councillors and officers to ensure that the council uses its resources effectively, and all that can be reasonably done, is done, to mitigate risk.
- 1.2 Whilst primary member oversight on risk is provided by G&A Committee, Cabinet also has a member Risk Champion (the Portfolio Holder for Corporate Governance and Coastal Development) who promotes risk management and its benefits throughout the council. At staff level, the high-level corporate risk register is regularly considered by Corporate Management Team (CMT). G&A Committee considers changes to the

corporate risk register, the reasons for the changes and the actions being taken to mitigate the likelihood and impact of those risks. A view is also taken regarding the extent to which the risks should be tolerated. Looking beyond the corporate level, Heads of Service are responsible for maintaining service-level risks and project managers are responsible for project risks.

- 1.3 The Risk Strategy requires that there is a high-level review of corporate risk; this report presents the quarterly update of the corporate risk register.

2.0 Corporate risk register

- 2.1 A summary of the highest scoring corporate risks on the register is set out below, together with the comparative scores noted by Governance & Audit Committee on 24 July 2019. The scores are arrived at by multiplying the “likelihood” score by the “impact” score, where the maximum score for each is four, so the maximum total score is sixteen.

Ref	Description	Jun 19 Score	Sep 19 Score	Change
CR-05	Political Stewardship	16	16	No change
CR-10	EKH Health & Safety	16	16	No change
CR-01	Limited Resources	12	12	No change
CR-09	Brexit	12	12	No change

- 2.2 Each corporate risk is the responsibility of a member of CMT and they manage risk mitigation plans with the aim of reducing the likelihood and/or impact of each risk to a manageable level. As time moves on, the external environment changes and this can have an impact on the effectiveness of mitigating actions as well as on the likelihood and impact of a risk: hence the need to maintain vigilance in respect of mitigation plans as well as new and changing risks.
- 2.3 It is more difficult to take action to reduce the impact of a risk occurring, than it is to take action to reduce its likelihood. Hence in some cases, the scores after mitigation will remain relatively high.

3.0 Highest-scoring risks

- 3.1 **Political Stewardship:** This continues to represent a risk to the council, as following the local elections the Council remains in no overall control. It is still evident that there remain ongoing issues which could have a significant effect on the council. The council continues to pursue opportunities to support cross-party working and induction training for new members has taken place post election.
- 3.2 **East Kent Housing Performance:** Deteriorating performance of EKH results in unacceptable risks to TDC tenants and residents. On 15 January 2019 an EKH improvement plan was approved by Cabinet that came into effect on 1 April 2019 and

runs through to 30 September 2020. As a result of the plan, EKH are being closely measured on their key performance indicators.

Recently a lack of gas safety certificates for a high number of properties across Dover, Canterbury, Folkestone and Hythe and Thanet has raised the risk profile of EKHs ability to meet all aspects of the improvement plan and a report to Cabinet was presented by the Council's monitoring officer on 25 July 2019 regarding the breach of regulations.

TDC alongside the other council's are now reviewing the current arrangements with EKH.

- 3.3 **Limited Resources:** The high score for Limited Resources reflects the fact that it is one of the few risks that in extremis could result in the council losing control of its own destiny.

Due to national political uncertainty and an unresolved Brexit, the chancellor has confirmed that Councils will now get a 'one-year roll-over settlement'. This has severe implications for accurate financial planning in the MTFP and any longer term planning.

Due to the government's focus on Brexit, the Fair Funding Review, planned to be implemented in 2020-21 is also at risk of slipping to 2021-22.

Therefore, the likelihood and severity of the impact of the risk becoming manifest (e.g. TDC having to terminate services, make large-scale redundancies and/or be externally governed or managed) remains high, not only now but for the immediate future.

- 3.4 **Brexit** - The UK is now due to leave the European Union on 31 October 2019. UK Government is still continuing to work on arriving at an agreed deal on exit, with the likelihood of a no-deal now more likely than previously.

Significant risk prevails should no deal be agreed within the timescale. Whilst there are national concerns that must be addressed, the council must focus primarily on managing those risks which have a local and regional impact in particular.

The scale of its effect should not be underestimated and the council has identified a lead officer to lead on Brexit related issues and progressed contingency planning for a disorderly Brexit.

The significant issues to consider are those concerning the strategic transport network, funding and the port. In addition, the council has identified a number of issues that could potentially impact on the council's ability to deliver its services.

4.0 Risk management strategy and processes

- 4.1 A report went to G&A on 6 March 2019 detailing proposed changes to the Risk Management Strategy and these are to be implemented over the coming months.

5.0 Recommendation

5.1 To note the report.

Contact Officer:	Chris Blundell, Head of Financial and Procurement Services
Reporting to:	Tim Willis, Deputy Chief Executive and S151 Officer

Annex List

N/A	
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Corporate Consultation

Finance	Chris Blundell, Head of Financial and Procurement Services
Legal	Tim Howes, Director of Corporate Governance

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The Annual Audit Letter for Thanet District Council

Year ended 31 March 2019

13 September 2019



Contents



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Section

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2. Audit of the Financial Statements
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conclusion

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Appendices

- A Reports issued and fees

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Thanet District Council Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Governance and Audit Committee as those charged with governance in our Audit Findings Report on 22 July 2019.

Our work

Materiality

We determined materiality for the audit of the Council's financial statements to be £2.37 million, which is 2% of the Council's gross revenue expenditure.

Financial Statements opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2019.

Use of statutory powers

We are required under the Act to give electors the opportunity to raise questions about the Council's financial statements and we consider the objections received in relation to the financial statements.

Local government electors have raised four objections with us challenging aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. These cover:

- losses made by Ramsgate Port;
- Governance and contract management for housing services overseen for the Council by East Kent Housing;
- the management of parking charges;
- The financial accountability framework covering the awarding, payment and receipt of services.

We cannot conclude on the VFM conclusion until we have dealt with the objections.

Respective responsibilities

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

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

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

Executive Summary

Value for Money arrangements	We have completed our risk based review of the Council's value for money arrangements covering arrangements to ensure financial sustainability and preparations for Brexit. Given we have not yet given a value for money conclusion, we remain alert to matters that develop at the Council that maybe indicative of weaknesses in proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by the end of November 2019. We will report the results of this work to the Governance and Audit Committee separately.
Certificate	We are unable to certify that we have completed the audit of the financial statements of Thanet District Council until we have issued the value for money conclusion and concluded on the objections raised by local government electors.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in July;
- Understanding your operational health – through our value for money conclusion we provided assurance on your arrangements to ensure financial sustainability;
- Sharing our insight – we provided regular audit committee updates covering best practice, including our thought leadership reports.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
September 2019

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the Council's financial statements to be £2.37 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

No specific other materiality levels were set during the course of our audit

The scope of our audit

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

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

We also read the remainder of the financial statements and the narrative report and Annual Governance Statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements.

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

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

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

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Council revalues its land and buildings on an rolling five-year basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>As mentioned in the Audit Plan, the potential impact of Brexit may also have an impact on the valuations included within the Accounts, and the Council will need to work closely with their experts to ensure any impact is reflected within the Accounts.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • considered the competence, expertise and objectivity of any management experts used; • discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions; • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; • tested revaluations made during the year to ensure they are input correctly into the Council's asset register; • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; • checked that it is reasonable for the Council to make prior year adjustments for assets which were valued incorrectly by the Council valuer's in the prior year; • obtained an understanding of how management identified that those assets have been valued incorrectly and how they satisfied themselves that there were no other assets which valued incorrectly. 	<p>We reviewed the reasons for the prior period adjustment made by management and agreed this treatment. The Code of Practice allows a rolling programme of revaluation over a short period, but does place a requirement on management to consider and ensure that assets not revalued in year are not materially misstated. Officers estimate that assets not revalued could be some £2.1 million greater as at 31 March 2019. We reviewed this and considered this assessment as reasonable.</p> <p>The council housing stock was revalued completely in the year and was increased by £12m to £154m as at 31 March 2019. The Council applied a 7.4% uplift (allowing for property movements) to its housing stock. We challenged the reasonableness of this against market data. Following audit enquiries, officers demonstrated and we accepted that its valuation of its housing stock was materially correct.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's Pension Fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£86 million in the Council's Statement of Financial Position) and the sensitivity of the estimate to changes in key assumptions.</p> <p>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.</p>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none"> We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected We evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out. We checked the consistency of the pension fund asset and liability disclosures in notes to the financial statements with the actuarial report from your 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; and obtained assurances from auditors 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. 	<p>During the year two legal cases were heard impacting on pensions and their accounting. The McCloud case relates to the Court of Appeal ruling that there was age discrimination in certain public sector pension schemes where there were transitional protections given to scheme members. Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. The GMP case relates to the High Court ruling that GMPs must be equalised between men and women and that past underpayments must be corrected. The Council's actuary assessed the impact of the GMP matter as immaterial in its year end reporting to the Council.</p> <p>Officers requested an estimate from the actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £1.832k, and an increase in service costs for the 2019/20 year of £114k.</p> <p>The Council concluded the impact was not material to the accounts and no change was required to the draft Annual Financial Report.</p> <p>The audit team reviewed the actuary report and judgements made by management and we concluded that the valuation of the pension fund net liability was not materially misstated.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none"> • We evaluated the design effectiveness of management controls over journals; • We obtained a full listing of journal entries which was then analysed to identify and test high risk unusual journals; • We tested unusual journals recorded during the year and post year end for appropriateness and corroboration; • We considered the reasonableness of significant accounting estimates and critical judgements made by management; • We evaluated the rationale for any changes in accounting policies or significant transactions. 	<p>No issues were identified from the work performed in this area.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2019.

Preparation of the financial statements

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

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Governance and Audit Committee on 24 July 2019.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. These were published on the Council's website in line with the national timetable.

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

We are unable to certify that we have completed the audit of the financial statements of Thanet District Council until we issue the value for money conclusion and conclude on objections received from local electors.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

Key findings

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

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

As part of our Audit Findings report agreed with the Council in July 2019, we agreed recommendations to address our findings.

Overall Value for Money conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council has proper arrangements in place in these areas.

Local government electors have raised four objections challenging aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. These cover:

- losses made by Ramsgate Port;
- Governance and contract management for housing services overseen for the Council by East Kent Housing;
- the management of parking charges;
- The financial accountability framework covering the awarding, payment and receipt of services.

We cannot conclude on the VFM conclusion until we have considered the issues raised in the objections.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p> <p>The Council is continuing to face pressure on its financial budget in a number of areas, including the demand for temporary accommodation and the impact of nil resource to public funds. A budget gap of £1.8m was identified for 2019/20 in the MTFS 2019-23. Budget gaps exist in the following years covered by the MTFS. The Council needs to manage its resources carefully to ensure a sustainable future ahead of the 2020 Funding Settlement. Brexit potentially adds another unknown factor to this challenge.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> • reviewed the 2018-19 outturn, including details of performance against both the Revenue and Capital Budgets; 	<p>The Council delivered against its planned budget in 2018-19. There was a service overspend of approximately £1.54m offset by the one-off windfall of £2.4m from being part of the Kent Business Rates 100% pilot.</p> <p>The Council delivered £9.59m of its Capital Programme, against a revised plan of £14.028m. The Council has deferred the remaining spend into 2018-19 to ensure the planned projects are still delivered</p> <p>The financial position of the Council's reserve strengthened during the year with the General Fund Reserves increasing by £3.7m and total usable reserves increasing by £5.5m. The improved position for the General Fund reserve is largely backed by the one-off windfall from the additional Business Rates income retained in Thanet. A contribution was also made to reserves in 2017/18. The replenishing of reserves is a stated intention, to build flexibility for the future. This is a prudent approach.</p> <p>The Council set a balanced budget for 2019-20, after allowing for £1.35m of savings proposals to bridge the funding gap. The Council has identified budget pressures, target savings, and risks around delivering these savings. Savings totalling £305k have already been secured or delivered as part 2019-20. The budget also assumes a use of reserves (£220k) put in last year as a result of slippage, to assist with this year's budget.</p> <p>The projected General Fund deficit over the medium term is £962k in 2020-21; £1001k in 2021-22; and £1,112k in 2022-23.</p> <p>Last year we recommended that the Council should consider the development of cost savings and income generation in excess of the estimated funding gap to cover the possibility of unforeseen additional financial pressures in year and to build a future pipeline of saving and efficiency opportunities. The Council has since this year built a budgeted contribution to reserves of £150k into its budget and MTFP, such that the savings target has to increase to achieve this. This is a positive step forward. Seeking to build a future pipeline of savings and efficiency opportunities beyond the current year remains a relevant recommendation.</p>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Brexit preparation</p>	<p>As part of our work we have: considered the impact of any financial issues arising as the position over Brexit develops.</p> <p>These included changes in property values, adverse changes to investment and borrowing rates, changes to business rate income, and the impact on the Authority's workforce.</p> <ul style="list-style-type: none"> • . 	<p>In arriving at our conclusion, we recognised that plans to leave the European Union have been delayed a number of times and the exit date is now expected to be by the end of October 2019. The Council along with its partners has continued its preparations.</p> <p>The Council is part of the Kent Resilience Forum and work undertaken to assess the risk/opportunity and prepare for Brexit has involved a multi agency approach. The approach to date has involved considering how a no deal scenario would impact on Kent. This has included:</p> <ul style="list-style-type: none"> • A coordinated approach and risk assessment across the county; • Exercises to test plans related to identified risks such as transport; • The provision of guidance. For example, guidance on the EU Settlement Scheme has been shared with Heads of Service; • The sharing of business continuity plans between the many organisations involved in the Kent Resilience Forum; • Brexit is one of your corporate risks overseen by the Deputy Chief Executive. Your assessment of this risk is informed by your involvement in the Kent Resilience Forum. <p>In our view, appropriate arrangements are in place to support your preparations for Brexit.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and other audit related services. There were no fees for the provision of non audit services.

Reports issued

Report	Date issued
Audit Plan	6 March 2019
Audit Findings Report	22 July 2019
Annual Audit Letter	13 September 2019

Fees

	Planned fees £	Actual fees £	2017/18 fees £
Statutory audit	51,048	57,048	66,296
Housing Benefit Grant Certification	36,000	TBC	31,836
Homes England Audit	3,300	3300	
Total fees	90,348	TBC	98,132

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £51,048 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, leading to additional work as set out in the following table.

This has been agreed with the Deputy s151 Officer and is subject to approval by PSAA.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,600
Pensions – IAS 19	The Financial Reporting Council has concluded that improvements are required in the scope and coverage of work by audit firms on IAS 19 issues across local government audits. We have increased the scope and coverage of our work on IAS 19 issues this year in response to these findings.	1,200
PPE Valuation – work of experts	The Financial Reporting Council has concluded that improvements are required in the scope and coverage of work by audit firms on PPE valuation issues across the sector. We have increased the scope and coverage of our work on PPE valuation issues this year in response to these findings. We also specifically increased audit input to assess the approach to council house valuation.	3,200
Total		6,000

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery

- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections

- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people

- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality

- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support

- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

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