



Date: 19 July 2021
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GOVERNANCE & AUDIT COMMITTEE

28 JULY 2021

A meeting of the Governance & Audit Committee will be held at **7.00 pm on Wednesday, 28 July 2021** in the Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Membership:

Councillor Boyd (Chair); Councillors: Dexter (Vice-Chair), Braidwood, Duckworth, Garner, Hopkinson, Kup, Pat Moore, Pugh, Shrubbs, Towing and Whitehead

A G E N D A

Item
No

Subject

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 - 10)
To approve the Minutes of the Governance and Audit Committee meeting held on 3 March 2021, copy attached.
4. **ANNUAL INTERNAL AUDIT REPORT 2020-21** (Pages 11 - 34)
5. **QUARTERLY INTERNAL AUDIT UPDATE REPORT** (Pages 35 - 72)
6. **ANNUAL GOVERNANCE STATEMENT** (Pages 73 - 88)
7. **ANNUAL TREASURY MANAGEMENT REVIEW 2020-21** (Pages 89 - 112)
8. **CORPORATE RISK MANAGEMENT QUARTERLY UPDATE** (Pages 113 - 120)
9. **GOVERNANCE & AUDIT SUBGROUP AND ACCOUNTS UPDATE** (Pages 121 - 126)
10. **EXTERNAL AUDIT PLAN**
11. **EXCLUSION OF THE PUBLIC AND PRESS**
12. **UPDATE ON GRANT THORNTON'S REVIEW OF GOVERNANCE**

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Subject



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 & AUDIT COMMITTEE

Minutes of the meeting held on 3 March 2021 at 5.00 pm by video conference.

Present: Councillor Mike Garner (Chairman); Councillors Dexter, Boyd, Crittenden, Currie, Shrubbs and Towning

In Attendance: Cllr Rattigan

1. APOLOGIES FOR ABSENCE

Apologies were received from Cllr Kup, Cllr Braidwood, Cllr Pat Moore and Cllr Pugh, for whom Cllr Rattigan was a substitute.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF PREVIOUS MEETINGS

Councillor Garner proposed, Councillor Dexter seconded and members agreed the minutes as a correct record of the meetings held on 25 November 2020 and 10 February 2021.

4. QUARTERLY INTERNAL AUDIT UPDATE

Mr Webb, Deputy Head of the East Kent Audit Partnership, introduced the report and made the following comments:

- There were 9 new pieces of audit work undertaken in this quarter, to 31 December 2020.
- Substantial assurance was concluded in 5 areas, there were 2 areas of reasonable assurance. The last 2 pieces of work weren't given an assurance as they were work to ensure processes are followed correctly and to test for fraudulent activity.
- Follow-up is a key part of Internal Audit. The EKAP undertook 2 follow-ups during this quarter, both showing reasonable assurance levels before and after follow up.
- Appendix 3 shows that there are no critical or high-priority recommendations outstanding at the time of follow-up.
- Appendix 4 shows a list of areas that require following up. These are areas with an initial assurance score of 'limited' or 'nil' and will remain on the list until completed.
- Appendix 5 is a balanced score-card of performance indicators for the EKAP. In addition to this, a client satisfaction questionnaire is used at the end of individual audits, and feedback is very encouraging.

In response to questions from members it was noted that:

- The areas covered in Appendix 4 would be concluded as the recommendations fall due, some will be in time to present to the next meeting of the Governance & Audit committee.
- EKAP monitor staff testing positive for Covid-19 or self-isolating but other than that there has been no change to processes as a result of the pandemic.

Councillor Garner proposed, Councillor Dexter seconded and members approved the Quarterly Internal Audit report, with the following actions noted:

- That the changes to the agreed 2020-21 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of the attached report be approved.

5. DRAFT INTERNAL AUDIT PLAN

Christine Parker introduced the report and made the following comments:

- The Governance & Audit Committee is required to review and assess the Internal Audit work plan for the forthcoming year.
- A considerable amount of work has gone to prepare this draft plan, covering all areas of risk management within the authority.
- The plan is concerned with looking inwards at TDC risks and more broadly considers external influences.
- Key risks are considered against the information gathered and timelines for the proposed reviews against the risks are provided.
- There is a rolling cycle of audits, shown in this report across multiple years. Members are only being asked to consult on the work plan for the following 12 months.
- The level of audit provision, averaging 400 days, compares well against the average in Kent.

During discussion it was commented that:

- Discussions take place between EKAP and Grant Thornton in order to avoid any duplication of effort in work plans.
- This plan is based on what we know now and it may be required to be flexible according to future pressures as the year unfolds.
- It has been proposed by the management team that external auditors cover some specific risks outlined. This is shown in the report and it is the role of the Governance and Audit Committee to agree that there is assurance that all risks are covered.
- Information management and data protection work is underway and hoping to be completed this year, coming into the plan at a later date.
- The Committee considered that they would like a governance and culture review begun during quarter 1. An error in the published Annex was noted, the 10 day provision against this heading should in fact be against the Cloud Computing/Digital review. It is proposed that Grant Thornton undertake the governance and culture review.
- The effects of the global pandemic on third party risk, specifically the risk of contractor non-performance, is a consideration going forward.

The report author advised that the annex in the agenda pack was an older copy of the Internal Audit Plan 2020-21 than intended, and as such was missing some information. An overview of the updates was shared with members. The correct version is attached to these minutes.

Councillor Garner proposed, Councillor Dexter seconded and members agreed that the report be approved with the amendment that:

- Progress of a Governance and Culture review, undertaken by Grant Thornton, is assessed at the next meeting of the Governance & Audit Committee.

6. **CORPORATE RISK MANAGEMENT - QUARTERLY UPDATE**

Mr Blundell, Director of Finance, introduced the report.

During consideration of the item it was noted that:

- There has been no change to risk scores since November.
- The risk related to EKH performance and transition is no longer considered a key risk, but will continue to be monitored by officers.
- Clarification was given on the political stewardship risk; that it is purely about the issue of no overall political control in the council and the associated difficulties in decision making etc. It is not connected to member and officer relations, as they do not currently present issues.

Councillor Garner proposed, Councillor Dexter seconded and members approved the review of corporate risks.

7. **21/22 ACCOUNTING POLICIES**

Chris Blundell introduced the report and made the following comments:

- There are no significant changes to accounting policies from the 2019-20 report.
- The housing debt write-off policy is being reviewed and there may be a subsequent amendment brought to the committee in due course.

Councillor Garner proposed, Councillor Dexter seconded and the committee agreed the following:

1. That the committee agrees the policies as set out in Annex 1 of this report;
2. That the committee notes the proposed changes to the statutory audit deadlines for 2020-21.

8. **AUDIT FINDINGS REPORT**

Officers explained that items 8, 9 & 10 had been deferred from the November meeting of the Governance & Audit Committee, making the following points:

- Due to accounting issues in relation to the sale of Dreamland, that arose very late in the process, the accounts couldn't be signed off at the meeting in November.
- At the end of 2019/2020, the sale of Dreamland was uncertain and the settlement of the Compulsory Purchase Order was ongoing.
- During the process the figure connected to the CPO fluctuated considerably, based on advice from external lawyers.
- They are now confirmed and we can finalise the accounts based on reliable figures.
- The Council issued a report on these matters, which can be viewed on the website: <https://www.thanet.gov.uk/sale-of-dreamland-achieved/>

Ms Ironmonger, Director - Grant Thornton, introduced the report and highlighted the following:

- Grant Thornton is intending to issue an 'unqualified opinion' and an 'emphasis of matter' paragraph. This is not a qualification, but highlights the disclosure in the

accounts relating to the material uncertainty issued by property valuers in March 2020.

- Grant Thornton is not giving a value for money conclusion for 2020 at the moment. This is due to an unresolved objection to the 2018/19 accounts, which prevented the value for money conclusion being made.
- Ongoing financial sustainability was highlighted as a significant challenge that TDC needs to keep a focus on to ensure we are able to replenish reserves in the future.
- In terms of governance, Grant Thornton are going to specify the terms of reference for areas that they can look at, which don't impact any ongoing enquiries.
- Acting promptly to bring EK Housing back in house when issues were raised has made TDC's arrangements more robust.

During discussion the Committee was advised of the following points:

- GT's responsibility is to review the arrangements TDC has in place to manage issues such as ongoing financial sustainability.
- TDC has very low reserves, however, year on year we are improving our position. Covid will have impacted this, but up to 2020 the balance sheet position has been edging in the right direction.
- It was clarified that the 'unsustainable level of reserve' mentioned is there to note that repeatedly relying on reserves is a risk and should be avoided.
- The Council's existing Medium Term Financial Strategy sets out a policy to begin replenishing our reserves in 2022/23. Officers will consider bringing the draft medium term financial strategy to G&A in the future.
- TDC has already started replenishing the funds identified to address the financial implication of Covid and the situation isn't as bad as first thought. This is due to a combination of action taken in-year to mitigate the effect of Covid and government support given in addition to that.
- The report on objections relating to the port of Ramsgate is nearing a conclusion, a definitive timeframe cannot be given at this stage.
- Grant Thornton will comment on the process of the Investigations and Disciplinary Sub-Committee after it has reached a conclusion.

Members noted the report.

9. AUDIT COMMITTEE ASSURANCE STATEMENT

Chris Blundell introduced the report and make the following comments:

- There are requirements of the external auditor to establish an understanding of management processes and how the Governance & Audit Committee maintains oversight of these processes.
- This is detailed in a letter addressed to the previous Chair and it is required that the response comes from the Chair of the committee, not an officer. Therefore, the committee needs to be assured that the information proposed to be submitted to the external auditor, compiled by officers in collaboration with the Chair, is sufficient.

Councillor Garner proposed, Councillor Dexter seconded and the committee agreed to note and approve the responses to the letter from Grant Thornton as set out in Annex 2.

10. STATEMENT OF ACCOUNTS

Chris Blundell presented the statement of accounts with the following notes:

- This report was initially deferred because of the issues surrounding the sale of Dreamland.
- Therefore the council didn't make the target deadline of 30 November 2020 and subsequently published a statement on the website to explain why.
- More than half of local authorities didn't meet this deadline due to the pandemic.
- The Government is considering recommendations to make accounts more accessible in future.
- The comprehensive income and expenditure statement shows a 42m net cost of services (including a 19.5 million pound valuation change of Dreamland assets). However, the majority of this net expense is adjusted to non-usable reserves and does not impact on our usable reserves.
- Our net usable reserves increased by £678k to £48m.
- There was a 1 million pound increase in the general fund reserves (to 13.5 million), but it should be noted that this was pre-Covid and it is anticipated that we will need to use reserves in this year's accounts also.
- The Council's net worth reduced from £196m to £178m. Mainly due to the reclassification of Dreamland, but there was also an increase in our pension liability.

There were no questions from members. Councillor Garner proposed, Councillor Dexter seconded and the committee agreed the following:

1. That the Committee approves the Statement of Accounts for 2019-20.
2. That the Committee notes the Letter of Representation to Grant Thornton issued by the Deputy Chief Executive and s151 Officer.

Meeting concluded : 6.20 pm

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Annual Internal Audit Report 2020-21

Governance & Audit Committee	28 July 2021
Report Author	Head of Internal Audit
Portfolio Holder	Cllr David Saunders, Cabinet Member for Finance.
Status	For Information
Classification:	Unrestricted
Key Decision	No

Executive Summary:

This report provides a summary of the work undertaken by the East Kent Audit Partnership to support the annual opinion. The report includes the Head of Audit Partnership's opinion on the overall adequacy and effectiveness of the system of governance, risk management and internal control in operation and informs the Annual Governance Statement for 2020-21, together with details of the performance of the EKAP against its targets for the year ending 31st March 2021.

The main points to note from the attached report are that despite the impact of C19, a number of the agreed audits have been completed, the majority of which have given rise to a substantial or reasonable assurance.

Recommendation(s):

That Members note the Opinion of the Head of Audit Partnership.

That Members receive the Annual Report detailing the work of the EKAP and its performance to underpin the 2020-21 opinion.

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 2020-21 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.

Equality 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, sex, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

There are no equity or equalities issues arising from this report.

Corporate Priorities

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities

1.0 Introduction and Background

1.1 The primary objective of Internal Audit is to provide independent assurance to Members, the Chief Executive, Directors and the Section 151 Officer on the adequacy and effectiveness of those systems on which the Authority relies for its internal control. The purpose of bringing forward an annual report to members is to:

- Provide an opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- Present a summary of the internal audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies,
- Draw attention to any issues the Head of the Audit Partnership judges particularly relevant to the preparation of the Annual Governance Statement.
- Compare actual audit activity with that planned, and summarise the performance of Internal Audit against its performance criteria.
- Comment on compliance with the Public Sector Internal Audit Standards (PSIAS), and report the results of the Internal Audit quality assurance programme.
- Confirm annually that EKAP is organisationally independent, whether there have been any resource limitations or instances of restricted access.

1.2 The report attached as Annex A therefore summarises the performance of the East Kent Audit Partnership (EKAP) and the work it has performed over the financial year 2020-21 for Thanet District Council, and provides an overall opinion on the system for governance, risk management and internal control based on the audit work undertaken throughout the year, in accordance with best practice. In providing this opinion, this report supports the Annual Governance Statement.

- 1.3 In March 2020 when the Covid Emergency hit, the EKAP was initially able to continue with work in progress. Soon during April, it became necessary to suspend the audit plan and the staff were made available for redeployment. The staff were all able to utilise their skills in several different ways, spending 154 days over the partnership in roles supporting the Community Hub and business grants processes. Consequently, Quarter One (April, May and June) was impacted and it became clear that a new target of 75% plan completion would be more likely. By Quarter 2, the rhythm of commencing planned reviews, agreeing reports, setting up new briefs and closing progress reports was reinstated. Al be it that this was a new way of working for the team being 100% of their time at home. Excellent ICT and new applications or systems have made it possible to operate effectively relying only on virtual meetings and electronic access to records.
- 1.4 The EKAP delivered 77% of the agreed audit plan days to TDC. The performance figures for the East Kent Audit Partnership as a whole for the year show good performance against the adjusted targets. It is the opinion of the Head of Audit that sufficient work has been undertaken to be able to support an opinion for 2020-21.
- 1.5 No system of control can provide absolute assurance, nor can Internal Audit give that assurance. This opinion is intended to provide assurance that there is an ongoing process for identifying, evaluating and managing the key risks.

2.0 Summary of Work

- 2.1 That Members consider and note the Head of Audit opinion in the internal audit annual report.
- 2.2 That Members consider registering their comments with Cabinet in respect of any areas of the Council's corporate governance, risk management arrangements or internal control framework in respect of which they have on-going comments after considering the work or coverage of internal audit for the year 2020-21.

Contact Officer: Christine Parker, Head of the Audit Partnership, Ext. 42160
Simon Webb, Deputy Head of Audit, Ext 7189

Reporting to: Chris Blundell; Head of Financial Services (Deputy S151 Officer)
Tim Willis; Deputy Chief Executive (S151 Officer)

Annex List

Annex 1: East Kent Audit Partnership Annual Report – 28-07-2021

Background Papers

Internal Audit Annual Plan 2020-21 - Previously presented to and approved in March 2020 at Governance and Audit Committee meeting

Internal Audit working papers - Held by the East Kent Audit Partnership

Corporate Consultation

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Finance: Chris Blundell; Head of Financial Services (Deputy S151 Officer)
Tim Willis (Deputy Chief Executive)

Legal: Estelle Culligan, Director of Law and Democracy (Deputy Monitoring Officer)

Annex 1

Annual Internal Audit Report for Thanet District Council 2020-21

1. Introduction

The Public Sector Internal Audit Standard (PSIAS) defines internal audit as:

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

A more detailed explanation, of the role and responsibilities of internal audit, is set out in the approved Audit Charter. The East Kent Audit Partnership (EKAP) aims to comply with the PSIAS, and to this end has produced evidence to the s.151 and Monitoring Officers to assist the Council’s review of the system of internal control in operation throughout the year.

This report is a summary of the year, a snapshot of the areas at the time they were reviewed and the results of follow up reviews to reflect the actions taken by management to address the control issues identified. The process that the EKAP adopts regarding following up the agreed recommendations will bring any outstanding high-risk areas to the attention of members via the quarterly reports, and through this annual report if there are any issues outstanding at the year-end.

2. Objectives

The majority of reviews undertaken by Internal Audit are designed to provide assurance on the operation of the Council’s internal control environment. At the end of an audit we provide recommendations and agree actions with management that will, if implemented, further enhance the environment of the controls in practice. Other work undertaken includes the provision of specific advice and support to management to enhance the economy, efficiency and effectiveness of the services for which they are responsible. The annual audit plan is informed by special investigations and anti-fraud work carried out as well as the governance processes and risk management framework of the Council.

A key aim of the EKAP is to deliver a professional, cost effective, efficient, internal audit function to the partner organisations. The EKAP aims to have an enabling role in raising the standards of services across the partners through its unique position in assessing the relative standards of services across the partners. The EKAP is also a key element of each councils’ anti-fraud and corruption system by acting as a deterrent to would-be internal perpetrators.

The four partners are all committed to the principles and benefits of a shared internal audit service and have agreed a formal legal document setting out detailed arrangements. The statutory officers from each partner site (the s.151 Officer) together form the Client Officer Group and govern the partnership through annual meetings. The shared arrangement for EKAP also secures organisational independence, which in turn assists EKAP in making conclusions about any resource limitations or ensuring there are no instances of restricted access.

3. Internal Audit Performance Against Targets

The Internal Audit function provided by the EKAP has performed well against its targets for the year. Clearly there have been some adjustments to the original audit plan for the year 2020-21,

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however, this has been an extraordinary year and there are no matters of concern to be raised at this time.

3.1 EKAP Resources

The EKAP has provided the service to the partners based on a FTE of 6.74. Additional audit days have been provided via audit contractors in order to meet the planned workloads.

3.2 Performance against Targets

The EKAP is committed to continuous improvement and has various measures to ensure the service can strive to improve. The performance measures and indicators for the year are shown in the balanced scorecard of performance measures at Appendix 5. The measures themselves were reviewed by the Client Officer Group at their annual meeting and no changes were made.

3.3 Internal Quality Assurance and Performance Management.

All internal audit reports are subject to review, either by the relevant EKAP Deputy Head of Audit or the Head of the Audit Partnership; all of whom are Chartered Internal Auditors. In each case this includes a detailed examination of the working papers, action and review points, at each stage of report. The review process is recorded and evidenced within the working paper index and in a table at the end of each audit report. Detailed work instructions are documented within the Audit Manual. The Head of Audit Partnership collates performance data monthly and, together with the monitoring of the delivery of the agreed audit plan carried out by the relevant Deputy Head of Audit, regular meetings are held with the s.151 Officer. The minutes to these meetings provide additional evidence to the strategic management of the EKAP performance.

3.4 External Quality Assurance

The external auditors, Grant Thornton, conducted a review in February 2021 of the Internal Audit arrangements. They have concluded that, where possible, they can place reliance on the work of the EKAP. See also 3.6.1 below.

3.5 Liaison between Internal Audit and External Audit

Liaison with the audit managers from Grant Thornton for the partner authorities and the EKAP is undertaken largely via email to ensure adequate audit coverage, to agree any complementary work and to avoid any duplication of effort. The EKAP has not met with any other review body during the year in its role as the Internal Auditor to Thanet District Council. Consequently, the assurance, which follows is based on EKAP reviews of Thanet District Council's services.

3.6 Compliance with Professional Standards

3.6.1 The EKAP self-assessment of the level of compliance against the Public Sector Internal Audit Standards shows that some actions are required to achieve full compliance which EKAP will continue to work towards. There is, however, no appetite with the Client Officer Group to pay for an External Quality Assessment of the EKAP's level of compliance, relying on a review by the s.151 officers of the self-assessment. Consequently, the EKAP can say that it partially conforms with PSIAS and this risk is noted in the AGS.

3.6.2 The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

3.6.3 The EKAP as required by the standards has demonstrated that it achieved the Core Principles in three key ways. Firstly, by fulfilling the definition of Internal Auditing which is the statement of fundamental purpose, nature and scope of internal auditing. The definition is authoritative guidance for the internal audit profession (and is shown at paragraph 1 above). Secondly by demonstrating that it has been effective in achieving its mission showing that it; -

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

And thirdly by complying with The Code of Ethics, which is a statement of principles and expectations governing behaviour of individuals and organisations in the conduct of internal auditing. The Rules of Conduct describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Core Principles into practical applications and are intended to guide the ethical conduct of internal auditors. Throughout 2020-21 the EKAP has been able to operate with strong independence, free from any undue influence of either officers or Members.

3.7 Financial Performance

Expenditure and recharges for the year 2020-21 are all in line with the Internal Audit cost centre hosted by Dover District Council. The EKAP was formed to provide a resilient, professional service and therefore achieving financial savings was not the main driver, despite this, efficiencies have been gained through forming the partnership.

4. Overview of Work Done

The original audit plan for 2020-21 included a total of 22 projects. To accommodate losing quarter one to C19 Redeployment, EKAP has communicated closely with the s.151 Officer, CMT and this Committee to ensure the projects undertaken continued to represent the best use of resources. As a result of the redeployment of EKAP staff throughout quarter one, and because of EKH being brought back in house, changes to the plan were agreed during the year. The total number of planned projects undertaken in 2020-21 was 10, eleven projects were pushed back in the overall strategic plan, with 4 being WIP at the year-end to be finalised in April, furthermore there were 10 Responsive projects undertaken, and 2 projects were finalised from the 2019-20 plan.

Review of the Internal Control Environment

4.1 Risks

During 2020-21, 74 recommendations were made in the agreed final audit reports to Thanet District Council. These are analysed as being Critical, High, Medium, or Low risk in the following table:

Risk Criticality	No. of Recommendations	Percentage
Critical	3	4%
High	25	34%
Medium	20	27%
Low	26	35%
TOTAL	74	100%

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Naturally, more emphasis is placed on recommendations for improvement regarding high risks. Any high priority recommendations where management has not made progress in implementing the agreed system improvement are brought to management and members' attention through the Internal Audit quarterly update reports. During 2020-21 the EKAP has raised and reported to the quarterly Governance & Audit Committee meetings 74 recommendations, and whilst 38% were in the Critical or High-Risk categories, none are so significant that they need to be escalated at this time.

4.2 Assurances

Internal Audit applies one of four 'assurance opinions' to each review, please see Appendix 1 for the definitions. This provides a level of reliance that management can place on the system of internal control to deliver the goals and objectives covered in that particular review. The conclusions drawn are described as being "a snapshot in time" and the purpose of allocating an assurance level is so that risk is managed effectively, and control improvements can be planned. Consequently, where the assurance level is either 'no' or 'limited', or where critical and high priority recommendations have been identified, a follow up progress review is undertaken and, where appropriate, the assurance level is revised.

The summary of Assurance Levels issued on the twenty pieces of completed work for Thanet District Council, together with the finalisation of the two 2019-20 audits is as follows:

NB: the percentages shown are calculated on finalised reports with an assurance level

Assurance	No.	Percentage of Completed Reviews
Substantial	8	61%
Reasonable	4	31%
Limited	1	8%
No	0	0%
Work in Progress at Year-End	4	-
Not Applicable	9	-

* See list in the table below

NB: 'Not Applicable' is shown against special investigations or work commissioned by management that did not result in an assurance level.

Taken together 92% of the reviews account for substantial or reasonable assurance.

There were ten reviews completed on behalf of EK Services and the assurances for these audits were - 4 Substantial, 2 Reasonable, 1 Limited, 3 Not Applicable, 2 reviews were work in progress at the year-end and 3 were Deferred. Information is provided in Appendix 4.

For each recommendation, an implementation date is agreed with the Manager responsible for implementing it. Understandably, the follow up review is then timed to allow the service manager sufficient time to make progress in implementing the agreed actions against the agreed timescales. Those areas assessed previously as being as either 'limited' or 'no' assurance audit opinion yet to be followed up are detailed in the table at paragraph 4.3, these areas are also recorded as an appendix to the quarterly report until the follow up report is issued, so that they do not get overlooked. The results of any follow up reviews yet to be undertaken will be reported to the Committee at the appropriate time.

4.3 Progress Reports

In agreeing the final Internal Audit Report, management accepts responsibility to take action to resolve all the risks highlighted in that final report. The EKAP carries out a follow up/progress review at an appropriate time after finalising an agreed report to test whether agreed action has in fact taken place and whether it has been effective in reducing risk.

As part of the follow up action, the recommendations under review are either:

- “closed” as they have been successfully implemented, or
- “closed” as the recommendation is yet to be implemented but is on target, or
- (for medium or low risks only) “closed” as management has decided to tolerate the risk, or the circumstances have since changed, or
- (for critical or high risks only) escalated to the audit committee.

At the conclusion of the follow up review the overall assurance level is re-assessed.

The results for the follow up activity for 2020-21 are set out below. The shift to the right in the third column in the table from the original opinion to the revised opinion also measures the positive impact that the EKAP has made on the system of internal control in operation throughout 2020-21.

Total Follow Ups undertaken 4	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
Original Opinion	0	1	2	1
Revised Opinion	0	0	3	1

There was one review with an original limited assurance which was revised to Reasonable after follow up. This means there were no TDC reviews showing a partially limited assurance after follow up that required escalation to the Governance & Audit Committee during the year.

East Kent Housing received a continuation of the detailed follow up work to the 2019 Tenants’ Health and Safety work. The two areas covered in 2020-21 were Lifts and Fire Safety, where the revised assurance levels were No and Limited assurance respectively. These concerns were escalated to the EKH Board at the time, the issues have subsequently been passed on to the Council as the service came back in-house from 01.10.20. Further work regarding Tenants’ Health and Safety is planned for 2021-22.

EK Services received six follow ups; the revised assurances were Substantial for three reviews, Reasonable for one review, one with a partially Limited assurance after follow up (DDC) and one was Not Applicable.

Consequently, the areas with fundamental issues of note arising from the audits and follow up undertaken in 2020-21 have been resolved or escalated.

Reviews previously assessed as providing a Limited Assurance that are yet to be followed up are shown in the table below. The progress reports for these will be reported to the Committee at the meeting following completion of the follow up, although the Committee should note that despite attempts to conclude, three of these are overdue.

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Area Under Review	Original Assurance (Date to Committee)	Progress Report Due
Building Control	Limited – July 2020	Work In Progress- Delayed*
Street Cleansing	Limited - March 2019	Work In Progress- Delayed*
Public Health Burials	Limited - July 2021	Quarter 3 2021
Grounds Maintenance	Limited – November 2020	Work In Progress- Delayed*

** The delay in each case was due to a lack of continuity with management which caused a lack of response to the follow up work. Please note that this was the position at 31st March, and there is further detail contained in the Quarterly Update Report which covers to 30th June 2021.*

4.4 Special Investigations and Fraud Related Work

The prevention and detection of fraud and corruption is ultimately the responsibility of management however, the EKAP is aware of its own responsibility in this area and is alert to the risk of fraud and corruption. Consequently, the EKAP structures its work in such a way as to maximise the probability of detecting any instances of fraud. The EKAP will immediately report to the relevant officer any detected fraud or corruption identified during the course of its work; or any areas where such risks exist.

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. Whilst some responsive work was carried out during the year at the request of management, there were no fraud investigations conducted by the EKAP on behalf of Thanet District Council in 2020-21.

The EKAP is named in the Council's whistleblowing policy as a route to safely raise concerns regarding irregularities, for which EKAP manages the Hotline (24-hour answer machine service) 01304 872198.

An independent review of the Counter Fraud Arrangements was undertaken in 2019 and this led to a joint pilot (with DDC, CCC & F&HDC) with specialist Fraud Investigators from Ashford Borough Council being undertaken in 2020. Whilst this Pilot was limited by the restrictions of Covid-19, a recent progress report following up on the original fraud risks and agreed recommendations has been undertaken and the Council has decided the arrangements with Ashford Borough Council will be extended into a new agreement, initially focusing on Tenancy Fraud and Right to Buy Processes.

The internal audit team will build on its data analytical skills and will continue to develop exploring the opportunity to discover fraud and error by comparing different data sets and matching data via the use of specialist auditing software.

4.5 Completion of Strategic Audit Plan

Appendix 2 shows the planned time for reviews undertaken, against actual time taken, follow up reviews, responsive work and reviews resulting from any special investigations or management requests. 240.40 audit days were completed for Thanet District Council during 2020-21 which represents 77.17% plan completion.

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The EKAP was formed in October 2007; it completes a rolling programme of work to cover a defined number of days each year. As at the 31st March each year there is undoubtedly some “work in progress” at each of the partner sites; some naturally being slightly ahead and some being slightly behind in any given year.

Appendix 3 shows the planned time for reviews undertaken, against actual time taken for the follow up reviews and finalising audits for East Kent Housing Ltd. which ceased 30.09.20. From 2021-22 all Housing Reviews feature as part of the TDC Audit Plan.

Appendix 4 shows the planned time for reviews undertaken, against actual time taken, follow up reviews and unplanned reviews resulting from any special investigations for East Kent Services. Thanet District Council contributed 60 days from its original plan as its share in this three-way arrangement. As EKS is hosted by TDC, the EKS Annual Report in its full format is presented to the TDC - Governance & Audit Committee and is attached as Appendix 4.

5. Overall Opinion 2020-21

It is a requirement of s.151 of the Local Government Act 1974 for the Council to maintain an ‘effective’ internal audit function, when forming my opinion on the Council’s overall system of control, I need to have regard to the amount of work which we have undertaken upon which I am basing my opinion. Despite losing Quarter One, taken together with previous year’s opinions and having completed 77% of the planned days, there is sufficient underpinning evidence meaning that I do not have to limit the scope of the opinion for 2020-21.

5.1 Corporate Governance

Corporate Governance is defined as being the structure of rules, practices and processes that direct and control the Council. To support the Head of Audit Opinion the EKAP will undertake specific reviews aligned to these processes as a part of the Audit Plan. The Audit Plan included two reviews against which the evidence-based opinion would be formed for 2020-21. These reviews were impacted by both the absence of a key member of staff and a vacant post, which highlighted that these key processes often fall to the responsibility of one person. The first was the review of the Local Code of Corporate Governance which could not be concluded before 31st March 2021, (see Quarterly Update Report July 21 for an update) and the second a review of GDPR which was deferred as it was unable to proceed at a critical time with staff being asked to work from home. This is a key review of Information Governance, which when last undertaken in 2018 concluded Limited Assurance and remained a Limited Assurance at follow up in 2019, it is consequently due to be included in the plan for 2021-22.

The Council has been working to resolve matters of Governance raised in 2019, as at 31st March 2021 these were ongoing. Additionally, a Governance Review was agreed to be undertaken by the External Auditors, Grant Thornton. Following changes to statutory reporting requirements, the External Auditors will also provide an Annual Report for the first time in respect of this year, and this too will cover Governance Arrangements.

The Head of Audit Partnership’s opinion is that there are unresolved matters affecting confidence in the Governance Arrangements for the Council, the TOR for the agreed external audit review will be essential to independently confirm where processes are strong and working effectively and where they may need to improve, and this will provide a helpful action plan for the Council. These matters must be brought to a close before I am able to conclude anything other than confidence is low in this area.

5.2 Internal Control

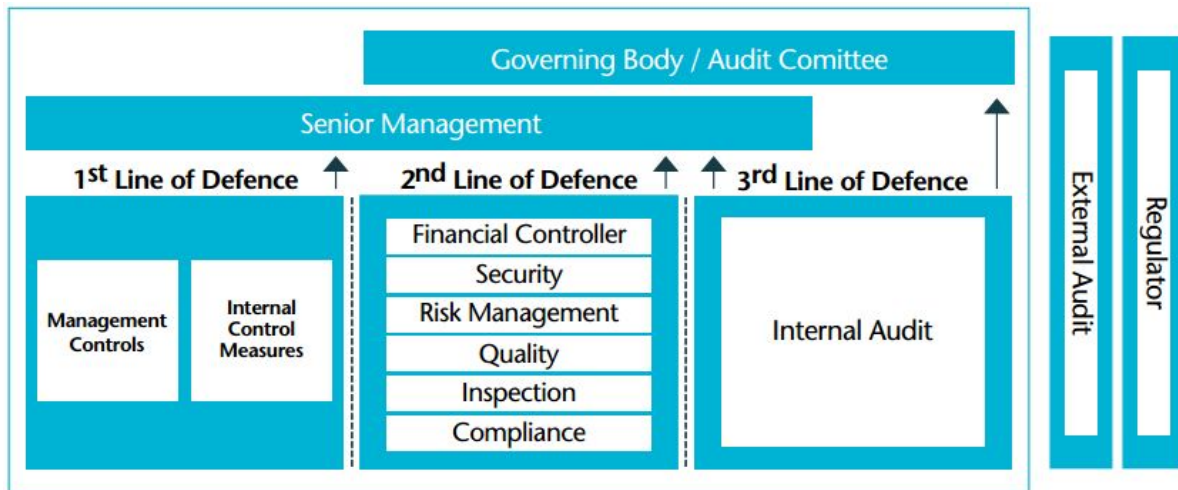
The EKAP is required by professional standards to provide an opinion, the audit plan is designed to provide coverage to enable that opinion to be made, based on the evidence from the reviews completed.

Whilst the results show 92% of the Assurances given during the year provide Substantial and Reasonable Assurance, I would like to draw attention to the Committee that EKAP undertook the audits it was able to carry out in the restricted circumstances. Some of the ten planned audits that were deferred included areas with high inherent risk that may well have attracted a greater range of assurances, for example reviews such as Playgrounds, Refuse Collection and Waste & Street Cleansing Vehicle Fleet Management require site visits which were not practical under the Covid restrictions. These important reviews in key areas will be brought forward in future internal audit plans.

The EKAP has been commissioned to perform only one follow up, in 2020-21 there were no reviews that remained a partially Limited Assurance after follow up, and there were no recommendations that were originally assessed as critical or high risk, which remained a high priority and outstanding after follow up escalated to the Governance & Audit Committee during the year. There are currently four reviews for TDC previously assessed as providing a Limited Assurance that are yet to be followed up. However, (as detailed in paragraph 4.3) for three of these, the Progress Reports have been delayed due to difficulties in gaining responses from management. There are occasions when audit recommendations are not accepted for operational reasons such as a manager's opinion that costs outweigh the risk, or other compensatory controls are to be relied upon. But in these instances, it is a lack of response that has hampered progress. Previous Annual Reports have highlighted the risk of a turnover of staff affecting the continuity of the agreement and implementation of control improvements. It transpires that two areas, which are Corporate Objectives for the Council, are again affected by turnover, and a new interim manager. In accordance with good governance it is hoped that these Progress Reports can be completed, and this Committee should expect to receive the results, or escalate the matter, at its next meeting. *Please Note - This report covers the period of work completed up to 31st March 2021 - since that date (and prior to this report deadline) responses for some of the delayed Progress Reports have been received and are included in the Quarterly Update Report elsewhere on this meeting agenda).*

The Three Lines of Defence Model shown below demonstrates the importance of Internal Controls working at the First and Second Lines, and how they are supported by the independent 3rd line of Defence and the relationship with the Audit Committee and external regulators.

The Head of Audit Partnership notes the difficulties in obtaining responses in some areas during such a difficult year, and is satisfied the Council can place assurance on the aspects of the systems of internal control tested and in operation during 2020/21.



5.3 Risk Management

The Council maintains a corporate risk register. The Governance & Audit Committee are responsible for overseeing the risk management framework. Each quarter the Committee reviews the Corporate Risks and considers the report of the Deputy Chief Executive. The next independent EKAP review of the Risk Management process is scheduled for quarter four of the 2021-22 audit plan. The previous EKAP review concluded in January 2018 with Reasonable Assurance.

The Head of Audit Partnership is satisfied the Council's risk management arrangements are effective.

Definition of Audit Assurance Statements & Recommendation Priorities

Cipfa Recommended Assurance Statement Definitions:

Substantial assurance - A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable assurance - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited assurance - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No assurance - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

EKAP 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, 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.

**Performance against the Agreed 2020-21
Thanet District Council Audit Plan**

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31-03-21	Status and Assurance Level
HOUSING SERVICES:				
Homelessness	10	10	0	Deferred
Tenant Health & Safety Compliance	0	10	2.51	Work-in-Progress
Data Quality	0	10	0	Deferred
Leasehold Services	0	10	0	Deferred
GOVERNANCE RELATED:				
GDPR, FOI & Information Management	10	10	1.74	Work-in-Progress
Members' Code of Conduct & Standards Arrangements	10	10	12.10	Finalised - Reasonable
Officers' Code of Conduct & Gifts & Hospitality	10	10	0.18	Deferred
Local Code of Corporate Governance	8	8	11.33	Work-in-Progress
Corporate Advice/CMT	2	2	4.15	Finalised for 2020-21
s.151 Officer Meetings and Support	9	9	14.34	Finalised for 2020-21
Governance & Audit Committee Meetings and Report Preparation	12	12	13.84	Finalised for 2020-21
2021-22 Audit Plan and Preparation Meetings	9	9	15.05	Finalised for 2020-21
CONTRACT AUDITS				
Service Contract Management	10	0	0	Deferred
Procurement	10	10	0.46	Work-in-Progress
SERVICE LEVEL:				
Cemeteries & Crematoria	12	12	13.12	Finalised - Reasonable
HMO Licensing & Selective Licensing	10	10	12.58	Finalised - Substantial
Coastal Management	10	10	6.07	Finalised - Substantial
Public Health Burials	7	7	15.87	Finalised - Limited
Environmental Health & Safety at Work	10	0	0.18	Deferred
Playgrounds	10	10	0.18	Deferred
Disabled Facilities Grants	10	10	9.65	Finalised - Substantial

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Museums	12	12	0	Deferred
Ramsgate Harbour Accounts	5	5	6.31	Finalised - N/A
Members' Allowances & Expenses	10	10	10.74	Finalised - Substantial
Phones, Mobiles & Utilities	8	8	10.29	Finalised - Substantial
Your Leisure	10	0	0	Deferred
Waste & Street Cleansing Vehicle Fleet Management	12	12	0	Deferred
Refuse Collection	10	0	0	Deferred
Climate Change	10	10	9.36	Draft Report - N/A
OTHER :				
Liaison With External Auditors	1	1	0	Finalised for 2020-21
Follow-up Reviews	15	9	8.8	Finalised for 2020-21
FINALISATION OF 2019-20 AUDITS:				
Days over delivered in 2019-20		-3.46		
External Funding Protocol	15	8	2.42	Finalised - Substantial
Capital			5.10	Finalised - Substantial
RESPONSIVE WORK:				
Compliance with FPRs	0	6	8.01	Finalised - Reasonable
COVID-19 Discretionary Grant Scheme	0	15	15.55	Finalised - Reasonable
Creditors Duplicate Testing	0	0	0.81	Finalised - N/A
Governance	0	10	12.39	Finalised - N/A
Incorrect Payment Investigation	0	5	4.73	Finalised - N/A
Grant Funds Fact Finding	0	3	2.43	Finalised - N/A
Heritage Action Zone	0	0	0.81	Finalised - N/A
Land Charges	0	8	7.44	Finalised - Substantial
Investigate Data Leak	0	2	1.79	Finalised - N/A
HRA Properties Data Match	0	0	0.10	Finalised - N/A
TOTAL	285	311.54*	240.40	77.17%
C-19 Redeployments	0	38	38	Finalised - N/A

*30 days added to the revised planned days from the former East Kent Housing audit plan from 1st October 2020.

**Performance against the Agreed 2020-21
East Kent Housing Audit Plan**

Review	Original Planned Days	Revised Planned Days	Actual To 30/09/2020	Status and Assurance Level
Planned Work:				
CMT/Audit Sub Cttee/EA Liaison	4	4	3.09	Finalised for 2020-21
Follow-up Reviews	7	0	0	Finalised for 2020-21
Tenants' Health & Safety	8	8	8.13	Finalised -Various
Finalisation of 2019/20 Work-in-Progress:				
Days over delivered in 2019/20		-7.37		Allocated
Welfare Reform	0	1	0.41	Finalised - Substantial
Employee Health & Safety	1	0.63	1.00	Finalised - Limited
Total	20	12.63	12.63	100% as at 30/09/2020

Annual Internal Audit Report for EK SERVICES 2020-21

1. Introduction/Summary

The main points to note from this report are that the agreed programme of audits has been completed with some projects being finalised as work in progress at 31st March 2021. The majority of reviews have given a substantial or reasonable assurance and there are no major areas of concern that would give rise to a qualified opinion.

The financial management of the Internal Audit cost centre held by Dover District Council has performed well and has delivered a cashable saving against budget.

Overview of Work Done

The original audit plan for 2020-21 included a total of 11 projects. To accommodate losing quarter one to C19 Redeployment, we have communicated closely with the s.151 Officers and the audit committees to ensure the projects undertaken continued to represent the best use of resources. As a result of this liaison some changes to the plan were agreed during the year. The total number of projects undertaken in 2020-21 was 6, with 3 being deferred at management’s request and 2 being WIP at the year-end to be finalised in April. In addition, 4 reviews carried over from 2019-20 were finalised.

2. Review of the Internal Control Environment

2.1 Risks and Assurances

During 2020-21, thirty-seven recommendations were made in the agreed final audit reports for EK Services. These are analysed as being High, Medium or Low risk in the following table, there were no critical risks raised:

Risk Criticality	No. of Recommendations	Percentage
Critical	1	3%
High	18	49%
Medium	12	32%
Low	6	16%
TOTAL	37	100%

Naturally, more emphasis is placed on recommendations for improvement regarding high risks. Any high priority recommendations where management has not made progress in implementing the agreed system improvement are brought to management and Councillors’ attention through Internal Audit’s quarterly update reports. During 2020-21 the EKAP has raised 37 recommendations, and whilst 52% were in the High or Medium Risk categories, none are so significant that they need to be escalated at this time.

Internal Audit applies one of four ‘assurance opinions’ to each review, this provides a level of reliance that management can place on the system of internal control to deliver the goals and objectives covered in that particular review. The conclusions drawn are described as being “a snapshot in time” and the purpose of allocating an assurance level is so that risk is managed effectively, and control improvements can be planned. Consequently, where the assurance level is either ‘no’ or ‘limited’, or where high priority

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recommendations have been identified, a follow up progress review is undertaken and, where appropriate, the assurance level is revised.

The summary of Assurance Levels issued on the 10 pieces of work finalised for EK Services over the course of the year is as follows:

NB: the percentages shown are calculated on finalised reports with an assurance level

Assurance	No.	Percentage of Completed Reviews
Substantial	3	43%
Reasonable	2	29%
Limited	1	14%
No	1	14%
Work in Progress at Year-End	2	-
Not Applicable	3	-

NB: 'Not Applicable' is shown against quarterly benefit checks.

Taken together 72% of the reviews account for substantial or reasonable assurance. There was one review assessed as having a partial No assurance, and this was revised to partially Limited at the time of follow up. And one limited assurance which is to be followed up shortly.

For each recommendation, an implementation date is agreed with the Manager responsible for implementing it. Understandably, the follow up review is then timed to allow the service manager sufficient time to make progress in implementing the agreed actions against the agreed timescales. The results of any follow up reviews yet to be undertaken will therefore be reported to the quarterly committee at the appropriate time:

2.2 Progress Reports

In agreeing the final Internal Audit Report, management accepts responsibility to take action to resolve all the risks highlighted in that final report. The EKAP carries out a follow up progress review at an appropriate time after finalising an agreed report to test whether agreed action has in fact taken place and whether it has been effective in reducing risk.

As part of the follow up action, the recommendations under review are either:

- “closed” as they are successfully implemented, or
- “closed” as the recommendation is yet to be implemented but is on target, or
- (for medium or low risks only) “closed” as management has decided to tolerate the risk, or the circumstances have since changed.

At the conclusion of the follow up review the overall assurance level is re-assessed. As Internal Audit are tasked to perform one progress report per original audit and bring those findings back, it is at this juncture that any outstanding high risks are escalated to the Governance and Audit Committee via the quarterly update report.

Six follow up reports were carried out for EK Services during the year. The results for the follow up activity for 2020-21 will continue to be reported at the appropriate time. The

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results in the following table show the original opinion and the revised opinion after follow up to measure the impact that the EKAP review process has made on the system of internal control.

Total Follow Ups undertaken 6	N/A	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
Original Opinion	1	1	0	2	2
Revised Opinion	1	0	1	1	3

There are no fundamental issues of note arising from the audits undertaken in the year. The review previously assessed as providing a partial No assurance was revised to partially Limited, and this was escalated to the relevant Audit Committee (DDC) during the year.

2.3 Special Investigations and Fraud Related Work

The prevention and detection of fraud and corruption is ultimately the responsibility of management however, the EKAP is aware of its own responsibility in this area and is alert to the risk of fraud and corruption. Consequently, the EKAP structures its work in such a way as to maximise the probability of detecting any instances of fraud. The EKAP will immediately report to the relevant officer any detected fraud or corruption identified during the course of its work; or any areas where such risks exist.

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. During the year 2020-21 there have been no fraud investigations conducted by the EKAP on behalf of EK Services.

2.4 Completion of Strategic Audit Plan

The EKAP completes a rolling programme of work to cover a defined number of days each year. As at the 31st March each year there is undoubtedly some “work in progress” at each of the partner sites; some naturally being slightly ahead and some being slightly behind in any given year.

In March 2020 when the Covid Emergency hit, the EKAP was initially able to continue with work in progress. Soon during April, it became necessary to suspend the audit plan and the staff were made available for redeployment. The staff were all able to utilise their skills in several different ways, spending 154 days over the partnership in roles supporting the Community Hub and business grants processes. Consequently, Quarter One (April, May and June) was impacted and it became clear that a new target of 75% plan completion would be more likely. By Quarter 2, the rhythm of commencing planned reviews, agreeing reports, setting up new briefs and closing progress reports was reinstated. Al be it that this was a new way of working for the team being 100% of their time at home. Excellent ICT and new applications or systems has made it possible to operate effectively relying only on virtual meetings and electronic access to records.

The EKAP delivered 82% of the agreed audit plan days across the Partnership. The performance figures for the East Kent Audit Partnership as a whole for the year show good performance against the adjusted targets. It is the opinion of the Head of Audit that sufficient work has been undertaken to be able to support an opinion for 2020-21.

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The analysis in Annex A shows the individual reviews that were completed during the year. As at 31st March 2021 delivery was behind plan and EKAP had delivered 146.97 days against 160 required (91.85%). The 30.67 days carried over from 2019-20 adjust this percentage to 77.08% plan days completion. The days deferred will be adjusted in 2021-22 as part of the rolling four-year plan process. Three 15 day reviews were postponed at management's request due to the impact of C19.

3.0 Significant issues arising in 2020-21

From the work undertaken during 2020-21, there were no instances of unsatisfactory responses to key control issues raised in internal audit reports by the end of the year. There are occasions when audit recommendations are not accepted for operational reasons such as a manager's opinion that costs outweigh the risk, but none of these are significant and require reporting or escalation at this time.

The EKAP has been commissioned to perform only one follow up, there is one review (DBS Checks) previously assessed as providing a Limited Assurance that is yet to be followed up (Scheduled for Quarter one 2021-22).

4.0 Overall Conclusion

The work of Internal Audit and this report contribute to the overall internal control environment operating within EK Services, and also assists in providing an audit trail to the statements that must be published annually with the financial accounts for each partner council. It is a requirement of s.151 of the Local Government Act 1974 for the Council to maintain an 'effective' internal audit function, when forming my opinion on the Council's overall system of control, I need to have regard to the amount of work which we have undertaken upon which I am basing my opinion.

Based on the work of the EKAP on behalf of EK Services during 2020-21, the overall opinion is that there are no major areas of concern, which would give rise to a qualified audit statement regarding the systems of internal control concerning either the main financial systems or overall systems of corporate governance. No system of control can provide absolute assurance, nor can Internal Audit give that assurance. This statement is intended to provide assurance that there is an ongoing process for identifying, evaluating, and managing the key risks.

**Performance against the Agreed 2020-21
East Kent Services Audit Plan**

Review	Original Planned Days	Revised Planned Days	Actual days to 31/03/2021	Status and Assurance Level
EKS Reviews;				
Housing Benefits Overpayments	10	15	14.08	Finalised - Substantial
Housing Benefit Testing	30	30	33.64	Finalised – N/A
Housing Benefit Subsidy	10	10	10.08	Finalised - Substantial
Customer Services Gateway	10	0	0	Deferred
ICT – Disaster Recovery	15	15	11.27	Finalised - Reasonable
ICT – Software Licensing	15	15	9.79	Work-in-Progress
KPIs	5	5	4.30	Finalised - Substantial
EKHR Reviews;				
Payroll – Data Testing	15	15	1.19	Work-in-Progress
Employee Allowances (Policy)	8	8	8.02	Finalised N/A
Employee Expenses	7	7	0	Deferred
EK Leavers	15	15	0.66	Deferred
Other;				
Corporate/Committee	5	8	8.24	Finalised for 2020-21
Follow up	5	7	7.35	Finalised for 2020-21
Finalisation of 2019/20 Audits:				
Days underdelivered in 2019/20		30.67	-	Allocated
EKHR Employee Benefits in Kind	10	2	1.19	Finalised – Substantial / No
Housing Benefit Testing 2019/20		11.67	10.82	Finalised - NA
EKHR Payroll		11	10.34	Finalised - Reasonable
EKHR DBS Checks		16	16.00	Finalised - Limited
Total	160	190.67	146.97	77.08%

EKAP Balanced Scorecard – 2020-21

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2020-21 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2020-21 Actual</u>	<u>Original Budget</u>
	Quarter 4		Reported Annually		
Chargeable as % of available days	90%	80%	<ul style="list-style-type: none"> ● Cost per Audit Day 	£339.14	£339.14
Chargeable days as % of planned days			<ul style="list-style-type: none"> ● Direct Costs 	£432,553	£437,130
CCC	99.99%	100%	<ul style="list-style-type: none"> ● + Indirect Costs (Recharges from Host) 	£10,530	£10,530
DDC	72.56%	100%	<ul style="list-style-type: none"> ● - 'Unplanned Income' 	-£4,577	Zero
F&HDC	87.37%	100%			
TDC	77.17%	100%			
EKS	77.07%	100%			
EKH to 30.09.20 End	100%	100%	<ul style="list-style-type: none"> ● = Net EKAP cost (all Partners) 	£447,660	£447,660
C19 Redeployment Days 154.48					
Overall	82.22%	100%			
Follow up/ Progress Reviews;					
<ul style="list-style-type: none"> ● Issued 	41	-			
<ul style="list-style-type: none"> ● Not yet due 	14	-			
<ul style="list-style-type: none"> ● Now due for Follow Up 	32	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Full			

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<u>CUSTOMER PERSPECTIVE:</u>	<u>2020-21 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2020-21 Actual</u>	<u>Target</u>
	Quarter 4		Quarter		
Number of Satisfaction Questionnaires Issued;	64		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	28		Percentage of staff holding a relevant higher level qualification	39%	39%
	= 44%		Percentage of staff studying for a relevant professional qualification	15%	N/A
Percentage of Customers who felt that;			Number of days technical training per FTE	2.97	3.5
<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%	100%	Percentage of staff meeting formal CPD requirements (post qualification)	39%	39%
	100%	90%			
	95%	100%			

Quarterly Internal Audit Update Report

Governance & Audit Committee	28-07 2021
Report Author	Head of Internal Audit
Portfolio Holder	Cllr David Saunders, Cabinet Member for Finance.
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 2021.

Recommendation(s):

That the report be received by Members.

That any changes to the agreed 2021-22 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 2021-22 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.

Equality 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, sex, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

There are no equity or equalities issues arising from this report.

Corporate Priorities

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities

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 31st December 2020.
- 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 the 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.

- 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.
- 1.8 Due to the Covid19 virus the EKAP team were redirected to community work on behalf of the partner councils early in the 2020/21 year. This has impacted upon the amount of internal audit work that can be completed within the year resulting in a revision to the audit plan in appendix 3. At the same time East Kent Housing Limited was taken back in house by the partner councils from 1st October 2020, therefore the plan is further adjusted to bring back in 30 days for 2020/21 in respect of housing reviews.

2.0 Summary of Work

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

3.0 Recommendations

- 3.1 That Members consider and note the internal audit update report.
- 3.2 That the changes to the agreed 2021-22 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)
Tim Willis; Deputy Chief Executive (S151 Officer)

Annex List

Annex 1: East Kent Audit Partnership Update Report – 28-07-2021

Background Papers

Internal Audit Annual Plan 2021-22 - Previously presented to and approved in March 2021 at Governance and Audit Committee meeting

Internal Audit working papers - Held by the East Kent Audit Partnership

Corporate Consultation

Finance: Chris Blundell; Head of Financial Services (Deputy S151 Officer)
Tim Willis (Deputy Chief Executive)

Legal: Estelle Culligan, Director of Law and Democracy

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 31st May 2021.

2.0 SUMMARY OF REPORTS

Service / Topic		Assurance level	No. of Recs.	
2.1	Coastal Management	Substantial	C H M L	0 0 3 3
2.2	Land Charges	Substantial	C H M L	0 0 0 0
2.3	EKS Key Performance Indicators	Substantial	C H M L	0 0 1 1
2.4	EKS ICT Disaster Recovery	Reasonable	C H M L	0 3 5 1
2.5	Local Code of Corporate Governance	Limited	C H M L	0 8 6 2
2.6	Public Health Burials*	Limited	C H M L	0 8 2 3
2.7	HRA Stock Reconciliation	Not Applicable		
2.8	EKS – Housing Benefits Quarterly Testing 2020/21 - Quarters 3 & 4	Not applicable		

* Reasonable after follow-up

2.1 Coastal Management – Substantial Assurance

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the following business objectives are met.

- To reduce the risk to people and the developed and natural environment from flooding and coastal erosion by encouraging the provision of technically, environmentally and economically sound and sustainable defence measures;
- To support the provision of adequate and cost effective flood warning systems.
- To support the provision of adequate, economically, technically and environmentally sound and sustainable flood and coastal defence measures.
- To discourage inappropriate development in areas at risk from flooding and coastal erosion.
- To ensure that appropriate funding is obtained through the Environment Agency's Medium Term Plan in accordance with the Shoreline Management Plan

2.1.2 Summary of Findings

The Engineering and Technical Services Section is responsible for coastal management along Thanet's 16 miles of coastline. 11 miles of this coastline is protected by concrete sea walls which protect the land behind from erosion or flooding by the sea. About 85% of the Thanet coastline is at risk from erosion, but some low lying areas are at risk of flooding such as the Old Town area of Margate.

The maintenance of Thanet's sea walls and promenades is a continuous job particularly in the tidal zone, therefore a programmed work of inspections to monitor the condition of the structures and identify necessary repair work is being carried out.

The inter-tidal zone is an extremely harsh environment for engineered structures to exist in and regular maintenance is vital if the full design life of structures is to be realised and where practical exceeded to maximise their whole life value.

There are currently two responsive repairs contracts in place to cover a maintenance regime for the coastal areas. To manage the coastal works programme, the Technical Services Team has recently invested in an on-line system, this system is google based and can therefore be used and accessed anywhere at any time, providing user access has been granted.

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

- There are up to date policies, strategies and management plans in place;
- Technical Services have invested in an on-line system that covers coastal management inspections, raising works orders, budget and contract management. This system is google based and can be accessed from anywhere, so supports home working and manages on-site visits on a real time basis. User access is limited to those who have been granted permission;
- All assets have been identified and an inspection routine is in place; records are being maintained through a new on-line system;
- There is an inspection and maintenance regime in place which is currently being managed via two responsive repairs contracts;
- Identification of capital works and bids for external funding for these works is working well;
- Horizon scanning and documenting and planning for risks is in place; and
- Effective flood warning systems are in place

Scope for improvement was however identified in the following areas:

- A refresh of the Council's Coastal Management strategy is required due to central government updating their strategic assessment in July 2021 and the Council implementing a new Local Plan in July 2021;
- Functionality of the new on-line system could not be established in its entirety due to permission and user access being denied. The set up of an Audit profile would remedy this in the future;
- A refresh and update regime for internet pages needs to be implemented to ensure information within the public domain remains relevant;
- Any updated policies and strategies should be taken through both the Scrutiny Committee and Cabinet to ensure they are approved and members are kept informed; and
- The reporting of performance indicators needs to be established.

2.2 Land Charges – Substantial 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 maintains an efficient and effective Land Charges function in accordance with prevailing legislation.

2.2.2 Summary of Findings

The Council has a statutory duty under the Local Land Charges Act 1975 to maintain an accurate and up-to-date Register of Local Land Charges affecting land and property. The two main functions of the Land Charges Service are to maintain the register and to provide search information for paying customers.

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

- There are clear procedures on what information can be disclosed as part of a land search.
- Items are only added or deleted from the Register where there is appropriate authority to do so along with supporting appropriate authorised documentation.
- Application forms should be cross referenced to the corresponding receipt number in respect of the accompanying payment.
- A record is maintained to show exactly what information was supplied under the search, the date provided and to whom.
- Information supplied is supported by documentary evidence from the appropriate department.
- All applications are assigned a unique reference number upon receipt and all appropriate computer records are updated to show all applications received and the current status of the enquiry.
- Applications are only accepted where they are completed in full, signed and accompanied by the appropriate fee.
- Performance indicators are in place to monitor the service being provided.
- The fees and charges used are appropriately approved.
- Fees and charges are clearly documented and details made available on request.
- Fees and charges for additional information (i.e. outside the scope of the standard enquiry) are dealt with in accordance with an agreed formula and clearly documented.
- There is a complete and accurate record maintained of all income collected and banked.
- An annual statement is published that sets out the estimates the Council has made of total costs and estimates of the numbers of requests in respect of the unit charge for the following financial year.

2.3 EKS Key Performance Indicators - Substantial Assurance:

2.3.1 Audit Scope

The audit will examine and evaluate the procedures and controls established by management, to include

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- a) Ascertain the key performance indicators that are in place to be measured and the periods produced, from the current contract.
- b) Establish how these key performance indicators are calculated.
- c) Using the base data recalculate a sample of the key performance indicators to ensure that they are accurate and correct.
- d) Where there are any differences in the results ensure that there are no approved adjustments to the figures.
- e) Note that all the key performance indicators are produced by CIVICA except for the “accuracy of housing benefit processing” which is produced by EK Services.
- f) Ascertain what management information is produced from these key performance indicators and who sees this.
- g) Identify and evaluate any significant failures in the use of the key controls, and provide relevant recommendations regarding risk in a report to management.

2.3.2 Summary of Findings

The partner councils entered into an agreement with CIVICA in 2018 for them to undertake the Customer Service, Council Tax, Business Rates and Housing Benefit administration on behalf of the three councils and EK Services.

Part of that agreement was the production and reporting of key performance indicators so that CIVICA could be monitored on their outcomes on behalf of each of the services being supplied.

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

- There is a contract in place which clearly sets out the key performance indicators that will be used to monitor the services provided.
- The key performance indicators are produced and supplied on a monthly basis to the management of EKS and CIVICA and the client officers at the partner councils in the form of a performance report.
- There are regular meetings that take place and these include the discussion of performance data.

The following potential weaknesses were identified during the audit process:

- There is potential scope for the improvement of two of the performance indicators which relate to Freedom of Information requests and complaints.
- Consideration should be given to re-introducing the annual report / performance report for EK Services to the EK Services Committee.

2.4 EKS ICT Disaster Recovery – Reasonable Assurance:

2.4.1 Audit Scope

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The audit will examine and evaluate the procedures and controls established by management, to include

- a) Review the Service Level Agreement / relevant documents which detail the processes expected by the partners to be put into place by EK Services regarding their ICT function.
- b) Ascertain what disaster recovery strategy / policy has been drawn up by EK Services and when and how this has been approved and whether this integrates with the partner's business continuity plans.
- c) Evaluate the disaster recovery strategy / policy and compare this to other best practice examples for ICT.
- d) Establish if partner systems have been ranked as being critical or non critical business processes.
- e) Ascertain if testing is undertaken of the disaster recovery strategy, either in part or as a whole.
- f) Establish if there is a clear understanding of what ICT disaster recovery is the responsibility of the partners, if this is applicable.
- g) Review any internal guidance in place regarding the disaster recovery processes including any training for relevant officers and access to documentation off site.
- h) Ascertain how often the disaster recovery strategy is reviewed and updated.
- i) Ensure backups are stored off site in the case of loss of building access.
- j) Identify and evaluate any significant risks to the service and give advice on any control improvements in a report to management.

2.4.2 Summary of Findings

EK Services maintains three data centres that support around 1500 users across the partner councils. Information systems can fail and the only way to protect valuable data from being lost is to have an appropriate backup and recovery system in place. In order for disaster recovery processes to be effective management must provide commitment:

- In terms of providing appropriate resources.
- To the identification of requirements and the planning and implementation of standby arrangements.
- To the testing of the disaster recovery arrangements and the need to report on the results and make changes to the plan as appropriate.
- To the need to update the plan in the light of changing systems, people, responsibilities and external events.
- Staff numbers.

In order to prepare and manage an emergency situation ICT have a Disaster Recovery Strategy and Business Continuity Plan in place, which should be approved by all three partner councils, reviewed annually and include all critical systems. Expectations for day to day services are being managed by a Service Level Agreement.

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

- ICT Disaster Recovery is being recognised and managed via a disaster recovery plan. This is updated on an annual basis and reported to each client officer;
- Business Continuity for ICT Services is being managed via a plan and is updated annually. Partner Councils are expected to manage their own BC plans for services and should include all known ICT systems within them;
- Responsibilities for all ICT services have been adequately documented through the service catalogue;
- A Service Level Agreement is in place with a total systems failure being recognised as a high priority with faults expected to be fixed within 2 hours, if not then both the Disaster Recovery and Business Continuity Plans are to be invoked; and
- Horizon scanning and risks are adequately being documented through the Vulnerability Management Programme and reported through the Corporate Information Governance Group (CIGG).

Scope for improvement was however identified in the following areas:

- Business Impact Assessments need to be undertaken to ensure all systems have been assessed and ranked for each service area of the partner councils;
- A desk top exercise needs to be undertaken to test the disaster recovery process in full and highlight any weaknesses and training needs; and
- To ensure openness and transparency is occurring and for all partner councils to remain up to date with the ICT service and its processes and to ensure risks are being adequately managed; management reporting to the East Kent Services Committee needs to be occurring.

2.5 Local Code of Corporate Governance – Limited Assurance:

2.5.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council's governance arrangements are adequately designed to lead to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes for citizens and service users. Good governance should enable the Council to pursue its vision effectively as well as underpinning that vision

2.5.2 Summary of Findings

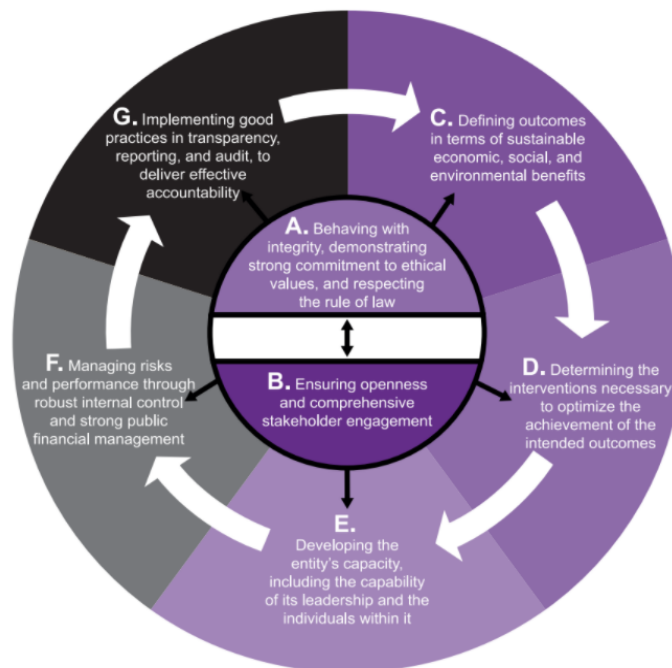
According to the Council's webpages, Governance has been defined as follows:

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“Governance is the system by which local authorities fulfil their purpose and achieve their intended outcomes for citizens and service users and operate in an effective, efficient, economic and ethical manner. Good governance leads to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes for citizens and service users. Ensuring that the right thing is done in the right way, for the right people, in an open, honest and timely manner”.

In order to fulfill this definition and ensure good governance is maintained the Council follow the framework as set by CIPFA / SOLACE which sets out seven principles; the diagram below (taken from the guidance) illustrates each of the principles and how they interact with each other with the goal of achieving the intended outcomes, while acting in the public interest at all times:



To demonstrate compliance with each of these principles the Council has adopted a Local Code of Governance and provides an annual statement of assurance of these internal control systems. Any weaknesses identified will lead to the implementation of an action plan which is reported to the Governance and Audit Committee for monitoring of progress purposes.

For 2019/20 the assurance provided was; 'The governance arrangements continue to be regarded as fit for purpose in accordance with the Governance Framework' and further action was identified as follows:

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Issues	Summary of Action Proposed
Financial Regulations are out of date and need to be refreshed	This refresh of Financial Regulations has been deferred to coincide with a wider Financial Management Review. The Chartered Institute of Public Finance and Accountancy (CIPFA) published their Financial Management Code in late 2019 and the Council will undertake a review of financial management later this year, which will help stabilise finances and to build for the future.
Constitution is becoming out of date and in need of review- this was brought forward from 2019/2020	Review of the Constitution, this will include: <ul style="list-style-type: none"> ● Planning Committee speaking rules and other committee procedural matters ● Council petition scheme ● Legal rules ● Timetable for questions to Council ● Questions to Council
Is the Council's Constitution robust in times of emergency?	To review the lessons learnt locally and nationally from the coronavirus epidemic and to determine what changes (if any) should be made to our governance arrangements to cover future emergency situations.
The present Grievance Policy is impractical and 'clunky' in relation to Statutory Officers	Review Grievance Policy for Statutory Officers in accordance with the JNC Conditions for Chief Executives
Misunderstanding over the meaning and investigation of 'whistleblowing' complaints	Review the present policy and its links with other employment policies. Awareness raising and training.

Due to a long term absence the primary auditee has not had the opportunity to respond to the queries raised by the auditor and it therefore fell to the delegated officer to respond in their absence.

Management can place Limited Assurance on the system of internal controls in operation for both the 2019/20 assessment period and for the current 2020/21 assessment period.

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

- Obligations for each core principal as set and defined within the CIPFA/SOLACE framework have not been met in their entirety due to reliance of either out of date or at the end of their shelf life policies;

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- If it is to continue as intended the check and challenge process being overseen by the Governance Group needs to be documented to evidence how they work, what they check, decisions made etc;
- There is no closure process for the action plan, therefore assurance can not be given that the recommendations have been fully implemented;
- (Whilst thought to be in error) The 'wrong' financial period has been reported on within the 2019/20 Annual Governance Statement (AGS); The 2019/20 statement has relied upon the 2018/19 set of financial statements, this is clearly the wrong period and therefore mis-leading. As the 2019/20 financial statements remain un-certified this would have affected the 'fit for purpose' assurance being provided;
- Training should be arranged to ensure staff and members can fulfill their obligations under the Transparency Code and positively contribute to a valid assurance statement; and
- Provisions within the Local Government Transparency Code have not been met in its entirety as some of the information categories data being published was either out of date or missing.

Effective control was however evidenced in the following areas:

- The Council has a documented Governance Framework which gives clear and accurate details of what Corporate Governance is, how it is applied within the Council and conforms with the CIPFA/SOLACE framework;
- There is a Code of Corporate Governance in place which evidences how each of the seven principles set within the CIPFA/SOLACE guidance is going to be met and identifies those corporate policies, strategies, processes and procedures that contribute to achieving each principle;
- A Governance Group has been set up to monitor and manage the agreed action plan, although this did not meet in 2020;
- The Annual Governance Statement report for 2019-20 has been constructed and signed off in accordance with the framework; and
- Information within the public domain is current and easily accessible.

Management Response

Due to pressures of work, the Director of Law and Democracy had not commented on the report before it was finalised. However, she has now spoken to the author, reviewed the recommendations and actions and made additional comments about current work and reviews that she is doing which will address the action plan and recommendations. She has also prepared a draft Annual Governance Statement in which current work and future planned actions are also set out.

2.6 Public Health Burials – Limited Assurance:

2.6.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established for Public Health Act Burials, ensuring that any burials undertaken are performed in line with procedures, and sufficient

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records maintained to safeguard the officer(s) making arrangements / fulfil statutory requirements should there be any estate.

2.6.2 Summary of Findings

The Public Health (Control of Disease) Act 1984 places a statutory duty on local authorities to arrange for a burial or cremation where no suitable alternative arrangements are being made. Public health funerals are provided by local authorities for people who have passed away within the district and have no next of kin, or whose next of kin, relatives or friends are unable or unwilling to make the necessary arrangements for a funeral. They are designed to protect public health and are important in ensuring that all individuals are treated with dignity and respect, regardless of their circumstances. However, the Act does not define how local authorities should carry out this duty, it specifically states that the local authority is responsible for a cremation or burial, it doesn't say anything about providing a funeral service – meaning there is considerable flexibility in how these funerals are delivered. In response to this, the Secretary of State produced a good practice guidance in September 2020 to assist local authorities in their duties.

Currently Thanet District Council has a contract in place to deliver a basic funeral service, which is usually a cremation, the ashes are spread within the garden of remembrance after a period of 6 months has expired from the date of the service. A burial is only undertaken if it is known through either a will or religious beliefs that these would be the wishes of the deceased.

According to the current contract in place, the charge for a cremation and burial is currently £622 & £684 retrospectively. On top of these costs are fees for the Minister, Doctor and Staff (time for investigation etc.) resulting in the following overall costs to the Council within the last three years as follows:

Year	Number of Cremations undertaken	Number of Burials undertaken	Total Cost (expenditure)	Total monies Reclaimed from the estate (income)	Cost to the Council
2017/18	17	2	£18,732.00	£6,450	£12,282
2018/19	20	0	£19,735.00	£10,142	£9,592
2019/20	17	1	£22,476.17	£14,034	£8,442

In order to assist with the tracing of relatives of the deceased the Council use the services of a genealogist consultant.

It should be noted that this audit was carried out during a national pandemic which has meant that procedures have had to be temporarily altered, however as these are in response to a major incident form part of the emergency

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planning and business continuity process which is audited under a separate review process. This audit has therefore been undertaken in conjunction with the newly released guidance issued from the Central Government in September 2020 and the existing procedures, last reviewed and amended in June 2015. An initial sample was selected at random for those records being maintained from 2017/18 financial year to date.

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

- Procedures are out of date (last reviewed and updated in 2015) and require a major refresh;
- Legal advice needs to be sought for the search of a property due to a change in legislation which appears to have limited the powers of entry to staff for a search to take place;
- Record keeping for site visits and assets being taken from the estate need to improve, including details of where they are being stored and how they were disposed of;
- The increase in fee for staff costs needs to be factored in when reclaiming costs for 2020/21; and
- In accordance with financial procedure rules, a debtors invoice should be raised for all public health funerals, this process needs to be implemented as presently only requests for payment are made via a letter.

Effective control was however evidenced in the following areas:

- Contracts in place that support this function are well written and conform with procurement procedures;
- Where permitted, retrieving income from the estate is working well; and
- To minimise the FOI requests, data on public health funerals undertaken is being made available via the Council's webpages;

2.7 Housing Revenue Account Stock Reconciliation - Not Applicable

2.7.1 Summary of Findings

An exercise was undertaken by the EKAP to reconcile the HRA and leasehold properties (stock held as per housing system records – reports provided by Housing System Support/Digital Team) to properties insured by the Council, using our interrogation software. The reconciliation identified the following:

- 48 HRA properties were identified as being missed off the insurance schedule; 28 of which are recent acquisitions/ status changes on the housing system in 2021; however, the remaining date back to status changes as far as 2019. In the event of damage the Council however, is able to claim under its Capital additions insurance policy element which covers the Council for individual properties up to the value of £10m in any one location.
- 2 HRA houses were sold and had not been removed from the insurance schedule.
- 1 leasehold property was not on the leasehold insurance schedule.

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- 9 properties on the leasehold insurance schedule should in fact be included on the HRA insurance schedule. It was found that due to a system error when transferring the data on the Housing Northgate system these properties incorrectly transferred across as sold and not void properties - this is currently being resolved by the Housing Systems Support/ Digital Team.

It would appear that despite the Insurance Officer's efforts, an annual inventory was being issued to EKH for checking but often not returned. With the responsibility of housing now back in house; and as a result of this reconciliation, the Insurance Officer has opened communication channels with the new TDC Housing System Support/ Digital Team to ensure that they are informed of changes to property status which may impact on insurance such as sales and acquisitions. It was also recommended that the Insurance Officer liaise with the Legal Team to ensure that they notify them whenever a housing property is purchased or sold. The Insurance schedules have now been updated.

2.8 EKS Housing Benefits 2020/21 - Quarterly Testing Quarters 3 & 4 – Not Applicable

2.8.1 Introduction

Over the course of 2020/21 financial year the East Kent Audit Partnership have been completing a sample check of Council Tax, Rent Allowance and Rent Rebate and Local Housing Allowance benefit claims.

2.8.2 Findings

For the third and fourth quarters of 2020/21 financial year (October 2020 to March 2021) 50 claims including new and change of circumstances of each benefit type were selected by randomly selecting the various claims for verification. Below is a summary of the findings:-

A fail is categorised as an error that impacts on the benefit calculation. However data quality errors are still to be shown but if they do not impact on the benefit calculation then for reporting purposes the claim will be recorded as a pass.

2.9.3 Audit Conclusion

For this period 50 benefit claims were checked and 1 (2%) had a financial error and 2 (4%) of the claims had a data quality error.

For the 2020/21 year 95 claims were checked and 2 (2%) of the claims had a financial error and 2 (2%) had a data quality error.

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

- 3.1 As part of the period's work, fourteen 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

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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)	Phones, Mobiles & Utilities	Substantial	Substantial	C	0	C	0
				H	0	H	0
				M	1	M	0
				L	4	L	0
b)	Disabled Facilities Grants	Substantial	Substantial	C	0	C	0
				H	0	H	0
				M	2	M	2
				L	6	L	1
c)	Counter Fraud Arrangements	N/A	N/A	C	0	C	0
				H	6	H	3
				M	0	M	0
				L	0	L	0
d)	HMO & Selective Licences	Substantial	Substantial	C	0	C	0
				H	0	H	0
				M	1	M	0
				L	3	L	0
e)	Street Cleansing	Limited	Limited	C	2	C	2
				H	5	H	2
				M	2	M	2
				L	0	L	0
f)	Community Safety	Reasonable	Reasonable	C	1	C	1
				H	3	H	3
				M	6	M	2
				L	2	L	1
g)	Grounds Maintenance	Limited	Reasonable/ Limited	C	0	C	0
				H	5	H	1
				M	5	M	0
				L	5	L	0
h)	Public Health Burials	Limited	Reasonable	C	0	C	0
				H	8	H	0
				M	2	M	0
				L	3	L	0
i)	EKS Business Rate Reliefs / Credits	Substantial	Substantial	C	0	C	0
				H	0	H	0
				M	3	M	3

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				L	2	L	2
j)	EKHR Benefits in Kind	No	Reasonable	C	0	C	0
				H	4	H	0
				M	0	M	0
				L	0	L	0
k)	Covid Discretionary Grant Scheme	Reasonable	Substantial	C	0	C	0
				H	5	H	0
				M	1	M	0
				L	1	L	0
l)	Electoral Registration & Election Mngmt.	Reasonable	Reasonable	C	0	C	0
				H	7	H	4
				M	4	M	0
				L	4	L	2
m)	Employee Health & Safety	Reasonable	Reasonable	C	0	C	0
				H	4	H	0
				M	4	M	1
				L	7	L	1
n)	Building Control	Limited	Limited	C	0	C	0
				H	5	H	0
				M	4	M	1
				L	3	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.

c) Counter Fraud Arrangements:

The pilot was limited by the C19 pandemic with staff being redeployed, however it has been agreed to extend the arrangements, to continue to utilise the skills of the specialist investigators within the fraud team for a number of Tenancy Fraud and Right to Buy processes. EKAP will continue to independently review the Council's Counter Fraud arrangements periodically as part of planned work.

e) Street Cleansing:

Management Response

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The observations of the audit report and content of the actions were generally accepted in February 2020 by the Head of Service, however the priority ratings given to a number of the points in the Audit Action Plan (2 critical and 5 high) were considered to be set too high and were not accepted.

3 of the 9 recommendations have now been implemented. One of the outstanding recommendations refers to a street cleansing strategy which is marked as critical. A strategy or high level plan will be developed but this is not considered to be critical and resources are not currently available to allocate to this task.

Other recommendations refer to Service planning, performance indicators and a review of data collection methodology for street cleansing performance. Progress has been made in all of these areas but these are yet to be completed. The updating of Service Plans will be undertaken this year in accordance with corporate targets. Director of Operations.

f) Community Safety:

No response was received from the Director of Neighbourhoods in respect of an update on the progress towards implementation of the recommendations; we must therefore assume that they are still outstanding.

Management Response

The team were the front line response to the Covid-19 pandemic providing the community response to those who were in need of supplies, clinically extremely vulnerable and isolating. This has understandably led to a step back from achieving the outstanding items on this audit. The team are now working through them and updating them in line with a recent restructure changing the way that this service is delivered. I am confident going forward that we will be able to achieve these items. Director of Neighbourhoods.

g) Grounds Maintenance:

The Council has implemented nearly all of the audit recommendations made which will strengthen the Council's position from a compliance stand-point. The only issue that remains outstanding relates to governance. This audit recommendation is considered a high priority because whilst it does not impair the organisation's ability to achieve a corporate priority it significantly affects the effectiveness of the governance arrangements linked to a corporate priority. The corporate Statement 2019-23 states 'Having a clean and well-maintained environment remains important to us. We will be clear with our residents on what we will do and what our ask of residents are - cultivating a shared responsibility approach. Delivering a clean and accessible living environment, maintaining an emphasis on prevention but where necessary we will use an enforcement approach.'

Management Response

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The September 2020 Grounds maintenance audit report contained 15 action plan recommendations. To date, 11 of the recommendations have been fully implemented. A further 3 recommendations are no longer relevant and have therefore been closed.

One recommendation designated as 'high' priority remains outstanding regarding key performance indicators. In August last year the service director challenged the original 'critical' rating on this recommendation and suggested that the definition of a 'medium' priority recommendation was a better fit. Following this feedback the priority level was reduced from 'critical' to 'high'.

Whilst it is agreed that the principle of the recommendation is valid, the service director's opinion remains that this should have been assigned a medium priority level. The implementation of this recommendation will require new processes to be put in place for the recording, reporting and monitoring of performance indicators, all of which requires the permanent allocation of service resources. There is currently a greater need to direct our limited resources to the delivery of the service. Director of Operations.

h) Building Control

Management Response

Due to the national pandemic and a lack of staff resources has impacted on the implementation of the recommendations, however it can be evidenced that work is on-going to ensure the Building Control function continues to improve. There are no high priority recommendations outstanding after follow-up (from the Building Control Review) to be escalated for the attention of the s.151 officer and Members of the Governance & Audit Committee.

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: Right to Buy, Procurement, GDPR, and Housing Compliance Action Plan work.

The 2020-21 GDPR audit and implications of Home Working has stalled due to the absence of the Strategic Director (Governance) it has not been possible to progress this audit.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

- 5.1 The 2021-22 internal audit plan was agreed by Members at the meeting of this Committee on 3rd March 2021.
- 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 are made

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to the plan during the course of the year as some high profile projects or high-risk areas may be 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:

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 2021, 60.28 chargeable days were delivered against the target of 320 days which equates to 18.84% 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 31st May 2021 against the agreed 2020-21 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 yet to be followed up.

Appendix 5 Balanced Scorecard.

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PROGRESS TO DATE AGAINST THE AGREED THANET DISTRICT COUNCIL 2020-21 AUDIT PLAN – APPENDIX 1

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-06-2021	Status and Assurance Level
FINANCIAL GOVERNANCE:				
Creditors & CIS	10	10	0.18	Quarter 3
Income & Cash Collection	10	10	0.18	Quarter 3
Budgetary Control	10	10	0.18	Quarter 3
HOUSING SYSTEMS:				
Temporary Accommodation	12	12	0	Quarter 2
Right to Buy	10	10	2.61	Work-in-Progress
Responsive Repairs & Maintenance	15	15	0.17	Quarter 4
Tenant Health & Safety	10	10	0	Quarter 4
Rechargeable Works	10	10	0	Quarter 2
Resident Involvement	10	10	0	Quarter 4
Tenancy & Estate Mngmt	10	10	0.24	Work-in-Progress
TECHNOLOGY/CYBER RISKS:				
Cloud Computing/Digital	10	10	0.73	Quarter 3
GOVERNANCE RELATED:				
Corporate Advice/CMT	2	2	0.28	Work-inProgress throughout 2021-22
s.151 Officer Meetings and Support	9	9	5.13	Work-inProgress throughout 2021-22
Governance & Audit Committee Meetings and Report Preparation	12	12	4.96	Work-inProgress throughout 2021-22
2021-22 Audit Plan and Preparation Meetings	9	9	0	Quarter 4
PERFORMANCE MANAGEMENT:				
Performance Management	10	10	0	Quarter 3
RISK MANAGEMENT:				
Risk Management	10	10	0	Quarter 4
PROCUREMENT & CONTRACT MANAGEMENT:				
Service Contract Management	12	12	0	Quarter 2

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ASSET MANAGEMENT:				
Commercial Let Properties and Concessions	10	10	7.09	Work-in-Progress
SERVICE LEVEL:				
Thanet Lottery	15	15	0	Quarter 4
Electoral Registration & Election Management	10	10	0.18	Quarter 2
Playgrounds	10	10	0	Work-in-Progress
Equality & Diversity	10	10	0.67	Quarter 3
Land Charges	10	10	3.26	Finalised - Substantial
Ramsgate Port & Marina	12	12	0	Quarter 3
Ramsgate Harbour Accounts	5	5	0	Quarter 2
Events Management, Sports & Community Development	10	10	0	Quarter 4
Garden Waste	12	12	0.36	Quarter 2
Street Cleansing	14	14	0	Quarter 4
OTHER :				
Liaison With External Auditors	1	1	0.2	Work-inProgress throughout 2021-22
Follow-up Reviews	15	15	10.26	Work-inProgress throughout 2021-22
FINALISATION OF 2020-21 AUDITS:				
Procurement	5	5	1.52	Work-in-Progress
Coastal Management			4.16	Finalised-Substantial
Playgrounds			0.08	Work-in-Progress
Local Code of Corporate Governance			1.63	Finalised-Limited
Climate Change			6.53	Finalised- N/A
Housing Regulator Review			6.75	Work-in-Progress
RESPONSIVE WORK:				
Governance	0	0	0.34	Work-in-Progress
HRA Properties Data Match	0	0	2.59	Finalised- N/A
TOTAL	320	320	60.28	18.84% as at 30-06-2021

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PROGRESS TO DATE AGAINST THE AGREED EKS, EKHR & CIVICA AUDIT PLAN 2021-22:

Review	Original Planned Days	Revised Planned Days	Actual days to 30/06/2021	Status and Assurance Level
EKS Reviews;				
Housing Benefits - Payments	15	15	0	Quarter 2
Housing Benefit Testing	15	15	0.14	Work in progress throughout 21-22
Council Tax	15	15	0	Quarter 4
Customer Services/Gateway	15	15	0	Quarter 3
KPIs	5	5	0.24	Quarter 2
ICT - Change Controls	15	15	0.14	Quarter 3
ICT – Procurement & Disposal	15	15	0	Quarter 4
EKHR Reviews;				
Payroll	15	15	4.40	Quarter 2
Employee Allowances & Expenses	15	15	0	Quarter 3
Leavers & Recruitment	15	15	0.17	Quarter 3
Other;				
Corporate/Committee	5	5	3.56	Work in progress throughout 21-22
Follow up	5	5	0	Work in progress throughout 21-22
Finalisation of 2020/21 Audits:				
Restart Grants	10	10	5.98	Finalised - N/A
ICT – Disaster Recovery			0.35	Finalised-Reasonable
Housing Benefits – Quarterly Testing 20-21			5.45	Finalised - N/A
ICT – Software Licensing			8.68	Finalised- Reasonable /Limited
Responsive Work:				
Housing Benefit – RBV Framework	0	0	0.95	Work-in-Progress
Total	160	160	30.04	18.78% as at 30th June 2021

Definition of Audit Assurance Statements & Recommendation Priorities

Cipfa Recommended Assurance Statement Definitions:

Substantial assurance - A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable assurance - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited assurance - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No assurance - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

EKAP 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, 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>Counter Fraud Arrangements Pilot - May 2021</i>		
The councils should identify and quantify its fraud risk, which is essential to understanding specific exposures to risk, changing patterns in threats and the potential consequences to the councils and their service users.	Responsibility s.151 Officers for Dover, Thanet, Canterbury	Agreed – ABC will undertake this as part of the next steps Outstanding. New Proposed Completion Date 30 September 2021
The councils should make arrangements for the appropriate resources to support the counter fraud strategy.	Responsibility s.151 Officers for Dover, Thanet, Canterbury	Agreed – Enter into a new agreement with ABC Outstanding. New Proposed Completion Date 30 September 2021
The councils should collectively reconsider how they might share a resource to invest in counter fraud work, not only to work in accordance with best practice guidance, but to demonstrate their ‘zero tolerance’ to fraud, as set out in their strategies. Evidence from	Responsibility s.151 Officers for Dover, Thanet, Canterbury	Agreed – Will achieve this with a new agreement with ABC Outstanding. New Proposed Completion Date

<p>other councils is that this work will generate cashable savings over and above the costs invested.</p>		<p>30 September 2021</p>
<p><i>Street Cleansing - May 2021:</i></p>		
<p>Critical - The Council should obtain Cabinet approval for a Street Cleansing Strategy which;</p> <p>-</p> <ul style="list-style-type: none"> ● Sets out the objectives of the service in terms of compliance with the Code of Practice; ● Sets out the objectives of the service for litter, detritus, graffiti and fly tipping which supports the broader Corporate Objective 1; ● Clarifies the level of service standard / grade expected for litter and detritus; ● Takes into account the zoning arrangements; ● Ensures streets within the district are considered for zoning; ● Clarifies response times to incidents where litter and detritus reach an unacceptable level; ● Sets out street cleansing routines; ● Clarifies how operations & resources will meet requirements and meet service and strategic objectives; ● Sets out how performance monitoring techniques, arrangements and performance mechanisms are to work in practice and support good governance and accountability; and 	<p>I agree with the need for a strategy. Especially given we are soon to have a refreshed set of corporate priorities it would be timely to do this once those have been formalised.</p> <p>We are working with finance currently to find ways to fund additional resources to result in service improvements and efficiencies. We need the additional resources to be able to set service standards and publish detailed response times.</p> <p>One of the measures we are taking is the introduction of a new job role of environmental operative which is a multi-functional role giving more flexibility enabling better output.</p> <p>We acknowledge that we need more resources to provide the level of service expected by residents, and if we are reviewing zoning and service standards it is likely to lead to further resource required.</p>	<p>Management Comment: - Management Team are looking at formulating a policy to cover the services objectives.</p> <p>Management will work towards implementing an overarching policy by December 2021. Once this policy is complete it will be presented to Cabinet for approval.</p> <p>Outstanding with Intent to Action. Revised Implementation Date December 2021.</p>

<ul style="list-style-type: none"> consider an annual self assessment of compliance with the responsibilities set under the Defra Code. The results should be reported each year to senior management. 	<p>The risk rating of critical applies to the link to corporate objectives and need for good governance.</p> <p>Acting Environmental Services Manager (JV) - December 2020</p>	
<p>High - The Council should review the customer facing website to ensure it includes details of zoning information in accordance with 8.7 of the Code of Practice on Litter and Refuse. The Council should also make sure residents can submit service requests through the website and provide a link to the complaints webpage if the customer wishes to make a formal complaint about the service.</p> <ul style="list-style-type: none"> The Council should amend its Complaints and Compliments webpage to include a form that can be submitted if a resident wants to submit a street cleansing complaint. 	<p>This has already been discussed with the digital team and we already use the code of practice zoning methodology. This will be published along with some service standards.</p> <p>The online form should be up already.</p> <p>Acting Environmental Services Manager (JV) - January 2020</p>	<p>Management Comment: - This can be achievable through discussion with the digital team. The aim is to complete this by December 2021.</p> <p>Outstanding with Intent to Action. Revised Implementation Date December 2021.</p>
<p>High - The Council should introduce, set a target for, and report on, the following performance indicators to senior management: -</p> <ul style="list-style-type: none"> % of streets not cleaned within the response times published by DEFRA dependent on the classification of intensity of use; % of High intensity of use (busy public areas) that fail to meet DEFRA response times; and 	<p>Management will review this recommendation as part of the work carried out on strategy development.</p> <p>Management are confident we are beating the response times in most cases. The only way to monitor this job by job would be for all taskings to be individually put on m3 and time target set on them, then closed when completed which would be a big admin</p>	<p>Management Comment: - This will be looked at when the new policy is written and adopted by the Cabinet by December 2021.</p> <p>Outstanding with Intent to Action. Revised Implementation Date December 2021.</p>

<ul style="list-style-type: none"> • % of streets not cleaned once within the last year. 	<p>resource given the amount of reactive cleansing has to do in Thanet.</p> <p>Not all roads need cleaning once a year necessarily ie rural areas.</p> <p>Acting Environmental Services Manager (JV) - December 2020</p>	
<p>Critical - The Council should review the entire methodology employed to inspect street cleansing standards. The Auditor recommends the Council: -</p> <ul style="list-style-type: none"> • ensures the method for monitoring the two N195 performance indicators is amended so that the Council approves an inspection regime that sets out the distance an officer should cover when inspecting; • ceases to use a Street Cleansing Supervisor to inspect street cleansing standards and uses an officer that is completely independent from the service being inspected • re-trains any inspector on the Code and ensure that inspections are carried out in accordance with the Code; • ensures inspections take place on randomly selected days of the week at least twice a month; • ensures at least two strategically important roads are inspected each time 	<p>Agreed, it has been done this way for a long time. This will be actioned straight away ready for the next set of inspections due if possible with someone outside the service area carrying out inspections.</p> <p>Acting Environmental Services Manager (JV) - January 2020</p>	<p>Management Comment: - There is a Google project in place that will incorporate this recommendation including photographs to help management monitor the quality of the street cleansing services to ensure the Council meets the standards set out with the new policy. This will be in place by December 2021.</p> <p>Outstanding with Intent to Action. Revised Implementation Date December 2021.</p>

<p>(i.e. roads in and out of Margate / Ramsgate and Broadstairs); and</p> <ul style="list-style-type: none"> ensures the independent inspecting officer takes photos of the streets inspected and retains these for audit purposes. 		
<i>Community Safety - May 2021:</i>		
<p>High - Report to CMT on the impact of vacant posts with a view to getting a decision on filling these posts.</p>	<p>Substantive and interim vacancies have been filled and admin vacancy is at interview stage, delays are partly due to the need for enhanced police vetting. No report to CMT required. Proposed Completion Date: May 2019</p> <p>Responsibility: Community Safety Manager</p>	<p>No update received from the Director of Neighbourhoods as at 07/05/2021</p> <p>Outstanding</p>
<p>Critical - Look at the M3 system to ensure worksheets and associated documents are kept and managed in accordance with GDPR and retention schedules.</p>	<p>All records will be deleted according to the retention schedule for community safety. Proposed Completion Date: May 2019</p> <p>Responsibility: Community Safety Manager and Administrator</p>	<p>No update received from the Director of Neighbourhoods as at 07/05/2021</p> <p>Outstanding</p>
<p>High - Revise the retention policy to bring it up to date with the implementation of Google documents and cease of H:Drive</p>	<p>Policy updated. Proposed Completion Date: March 2019</p> <p>Responsibility: Community Safety Manager</p>	<p>No update received from the Director of Neighbourhoods as at 07/05/2021</p> <p>Outstanding</p>

<p>High - The use of pocket notebooks be managed, monitored and maintained in accordance with PACE and the councils retention policies, all notes kept from site visits should be transposed onto the M3 system.</p>	<p>The procedure will be updated to be consistent however PACE notebooks are not the only form of evidence gathering.</p> <p>Proposed Completion Date: April 2019</p> <p>Responsibility: Community Safety Manager</p>	<p>No update received from the Director of Neighbourhoods as at 07/05/2021</p> <p>Outstanding</p>
<p><i>Grounds Maintenance - May 2021:</i></p>		
<p>Management should introduce performance indicators and key performance indicators for the Open Spaces Service linked to the service standards that are currently published on the website. These should feed into the new Corporate Priorities of the Council. Suggestions include performance indicators linked to service standards: -</p> <ul style="list-style-type: none"> ● <i>Grass mowing not carried out 8 times per year (between March and October).</i> ● <i>% of flower beds that have not been attended in order to ensure public safety and avoid obstruction, taking into account good horticultural practice.</i> ● <i>% of hedges not maintained at least once a year.</i> ● <i>Number of sports fields wear areas not reinstated at least once a year.</i> ● <i>% of requests for inspections of trees in Open Spaces not carried out within a certain number of days.</i> 	<p>Open Spaces Service Standard was revised and updated by EP and JV January 2020.</p> <p>It is agreed that corporate performance indicators need to be put in place. It is not agreed that this is a critical priority as it does not impact upon a corporate risk or seriously impairs the organisation's ability to achieve a corporate priority. The definition of a medium priority fits this action better.</p> <p>Proposed Completion Date & Responsibility</p> <p>January 2021 Director of Operations (GW)</p>	<p><u>Management Comment</u> Management will consider the recommendation at a later date in collaboration with the Director of Operations (MH). This audit recommendation is considered a medium priority recommendation.</p> <p>Outstanding with intent to action.</p> <p><u>Auditor Comment</u> This audit recommendation is considered a high priority against the internal audit definitions - whilst it is acknowledged it does not impair the Council's ability to achieve a corporate priority; it significantly affects the effectiveness of the governance arrangements (performance management) linked to a corporate priority. The Corporate Statement 2019-23 states <i>'Having a clean and well-maintained environment remains important to us. We will be clear with our residents on what we will do and what our</i></p>

<ul style="list-style-type: none"> • Number of urgent minor work requests not completed within a certain number of days. • % of staff that have either not been training or require refresher training in accordance with the Council's training Programme. • % of graffiti of a racist or explicit nature not removed within a certain number of days. • Number of complaints received. 		<p>ask of residents are - cultivating a shared responsibility approach. Delivering a clean and accessible living environment, maintaining an emphasis on prevention but where necessary we will use an enforcement approach.'</p>
<p><i>Electoral Registration & Election Management - June 2021</i></p>		
<p>Services are procured in accordance with CPR's or a waiver is sought and put in place.</p>	<p>Agreed.</p> <p>Proposed Completion Date - Feb 2019</p> <p>Responsibility - Electoral Services Manager</p>	<p>Managers comments - Fully Implemented</p> <p>Auditor comments - In order to test this a question was raised regarding services procured between the issue of the final report and to date (09/06/21), awaiting evidence of this process. Without this evidence the recommendation can not be discharged and remains outstanding.</p> <p>Outstanding.</p>
<p>Data Protection Training should be given to all canvass staff and records of this be maintained</p>	<p>Will speak with DPO to seek guidance on if the training provided within the slides is sufficient.</p> <p>Training is next due Aug/Sept 2019</p>	<p>Managers comments -</p> <p>2019 - Full reference in canvassers instructions manual and also reiterated verbally during training.</p>

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	<p>Proposed Completion Date -Decision sought by February 2019 and Training given during Aug/Sept 2019</p> <p>Responsibility - Electoral Services Manager</p>	<p>2020 - Canvassers not used due to Covid 19.</p> <p>Auditor comments - a request has been made for a copy of the instructions manual to be provided to clarify that this area has been sufficiently covered. Awaiting evidence, without this evidence the recommendation can not be discharged and remains outstanding.</p> <p>Outstanding.</p>
A Public Engagement Strategy to be written	<p>Will use the template provided by the Electoral Commission and complete in time for next canvass.</p> <p>Proposed Completion Date - Aug/Sept 2019</p> <p>Responsibility - Electoral Services Manager</p>	<p>Each canvass a public awareness strategy in compliance with the Electoral Commission is put in place with the help of our communications team.</p> <p>Auditor comments - a request was made for the most recent strategy as evidence for this process. Awaiting evidence, without this evidence the recommendation can not be discharged and remains outstanding.</p> <p>Outstanding</p>
Ensure the terms of the lease for the units being hired to store equipment are met and	<p>Will review the term of the lease to seek clarification that all is as it should be i.e. insurance, business rates etc.</p>	<p>Terms of the 3 year lease have been reviewed and budget checked and allocated</p>

<p>evidence of this needs to be maintained on file for audit purposes</p>	<p>Further discussions with Head of Asset Management, RO, Finance & Legal to be had to ensure that any additional costs for this change in circumstances and leased premises has been allocated/budgeted for.</p> <p>Proposed Completion Date - Jan 2019, in place for Apr 2019</p> <p>Responsibility - Electoral Services Manager</p>	<p>Auditor comments - copy of the lease requested, evidence still to be provided, without this evidence the recommendation can not be discharged and remains outstanding</p> <p>Outstanding</p>
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SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED – APPENDIX 4			
Service	Reported to Committee	Level of Assurance	Follow-up Action Due
Planning Applications, Income and s.106 Agreements	December 2019	Reasonable/Limited	Work-in-Progress
EKHR Disclosure & Barring Service	November 2020	Limited	Work-in-Progress
Local Code of Corporate Governance	July 2021	Limited	Quarter 3

BALANCED SCORECARD - QUARTER 1

INTERNAL PROCESSES PERSPECTIVE:	2021-22 Actual	Target	FINANCIAL PERSPECTIVE:	2021-22 Actual	Original Budget
	Quarter 1		Reported Annually		
Chargeable as % of available days	90%	80%	<ul style="list-style-type: none"> • Cost per Audit Day 	£	£356.35
Chargeable days as % of planned days			<ul style="list-style-type: none"> • Direct Costs 	£	£459,443
CCC	25.92%	25%	<ul style="list-style-type: none"> • + Indirect Costs (Recharges from Host) 	£	£10,945
DDC	40.50%	25%	<ul style="list-style-type: none"> • - 'Unplanned Income' 	£	Zero
TDC	18.84%	25%			
FHDC	22.94%	25%			
EKS	18.78%	25%			
Overall	25.75%	25%	<ul style="list-style-type: none"> • = Net EKAP cost (all Partners) 		£470,388
Follow up/ Progress Reviews;					
<ul style="list-style-type: none"> • Issued 	28	-			
<ul style="list-style-type: none"> • Not yet due 	21	-			
<ul style="list-style-type: none"> • Now due for Follow Up 	15	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Full			

Annex 1
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<u>CUSTOMER PERSPECTIVE:</u>	<u>2021-22 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2021-22 Actual</u>	<u>Target</u>
	Quarter 1		Quarter		
Number of Satisfaction Questionnaires Issued;	17		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	7		Percentage of staff holding a relevant higher level qualification	39%	39%
	= 41 %		Percentage of staff studying for a relevant professional qualification	15%	N/A
Percentage of Customers who felt that;			Number of days technical training per FTE	1.4	3.5
<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%	100%	Percentage of staff meeting formal CPD requirements (post qualification)	39%	39%
	100%	90%			
	100%	100%			

Draft Annual Governance Statement 2020 - 21

Meeting	Governance and Audit Committee
Date	28 July 2021
Report Author	Estelle Culligan (Director of Law and Democracy)
Portfolio Holder	Cllr Ash Ashbee - Leader
Status	For Information
Classification:	Unrestricted
Key Decision	No
Ward:	All

Executive Summary:

To provide the Governance and Audit Committee with the draft Annual Governance Statement 2020/21.

Recommendation(s):

Committee agrees the draft Annual Governance Statement 2020/21 which will be shared with our external auditors for amendment and comment by them prior to publication in September.

Corporate Implications

Financial and Value for Money

There are no financial implications arising directly from this report.

Legal

Regulation 6(1)(a) of the Accounts and Audit regulations 2015 requires the council to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published statement of accounts. Regulation 6(1)(b) of the Regulations requires that the statement is the Annual Governance Statement

There are no legal implications arising directly from this report. However failure to comply with statutory timescales may have legal implications

Corporate

The Annual Governance Statement is a corporate document and as such should be owned by all senior officers and members of the authority. Failure to accept the AGS will diminish the council's governance arrangements.

Equality 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, sex, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

This report relates to the following aim of the equality duty: -

- *To eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act.*
- *To advance equality of opportunity between people who share a protected characteristic and people who do not share it*
- *To foster good relations between people who share a protected characteristic and people who do not share it.*

The AGS supports the public sector equality duty directly.

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -
(delete as appropriate)

- Communities

1.0 Introduction and Background

- 1.1 The annual governance statement (AGS) is a statutory document which explains the processes and procedures in place to enable the council to carry out its functions effectively.
- 1.2 The statement is produced following a review of the council's governance arrangements and includes an action plan to address any significant governance issues identified.
- 1.3 The Governance and Audit Committee will consider this draft AGS and assurance gathering process. The AGS will then be audited and the Monitoring Officer will make any necessary changes before final publication In September 2021.

2.0 The Draft Annual Governance Statement (AGS)

- 2.1 The draft AGS, which is attached at Annex 1, should reflect the corporate governance environment of the council as detailed in the adopted Local Code of Corporate Governance. In essence, the AGS is the formal statement that recognises, records and publishes the council's governance arrangements
- 2.2 The AGS is a key corporate document, and the Leader and Chief Executive have joint responsibility as signatories for its accuracy and completeness. In order to ensure that the AGS accurately reflects our Governance Framework, a number of sources of assurance are gathered to feed into the preparation of the document. The draft has already been or will shortly be consulted upon with the Leader, Chief Executive / Section 151 Officer and all members of the Corporate Management Team.
- 2.3 An action plan will be developed to address the governance issues identified. This will be monitored through the council's monitoring system and an update report will be provided to Governance and Audit Committee on a quarterly basis

3.0 Next Steps

- 3.1 If approved, the draft will be reviewed by Grant Thornton for additional comments and as part of their annual process of approving and signing off the accounts.

Contact Officer: *Estelle Culligan (Director of Law and Democracy)*

Reporting to: *Madeline Homer (Chief Executive)*

Annex List

Annex 1: Draft Annual Governance Statement 2020 - 2021

Corporate Consultation

Finance: *Chris Blundell (Director of Finance)*

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Thanet District Council Draft Annual Governance Statement 2020-2021

July 2021

Scope of responsibility

Thanet District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money allocated to it is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Accounts and Audit (England) Regulations 2015 requires all relevant bodies to prepare and publish an Annual Governance Statement.

The purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values, by which the Council directs and controls its activities, and how it leads, engages with and accounts to the community it serves. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to an acceptable level. It cannot eliminate all risk of failure to achieve the Council's aims and objectives, but it seeks to provide reasonable rather than absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify, prioritise and manage the risks to the achievement of the Council's aims and objectives.

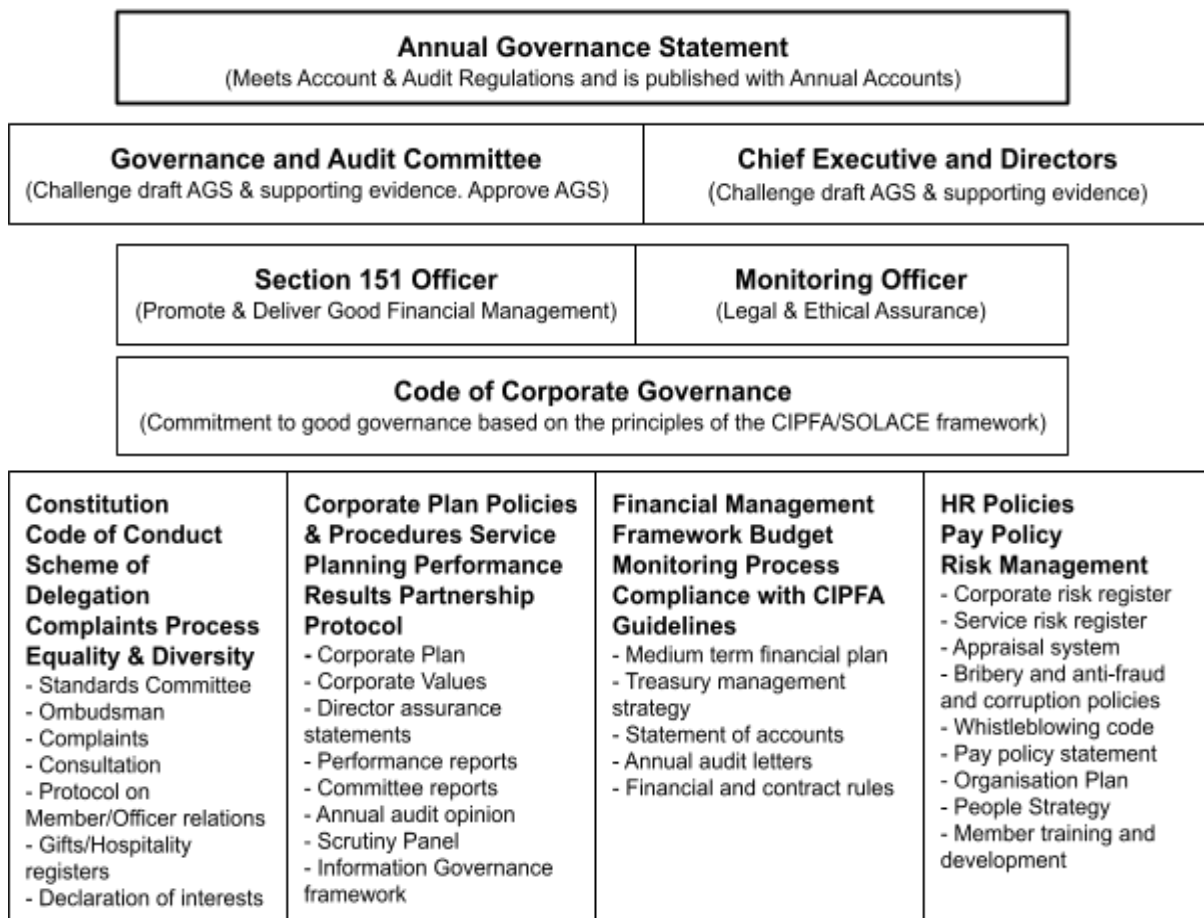
The Governance Framework

The Council's Governance Framework addresses the way the Council is controlled and managed, both strategically and operationally, and how it will deliver its services. The Framework recognises that the Council's business is focussed upon its corporate priorities and seeks to facilitate delivery to our local communities of the goals set out in the Corporate Plan. The structures and processes, risk management and other internal control systems, such as standards of conduct, form part of this Framework, which is about managing the barriers to achieving the Council's objectives.

Members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal. This task is managed by the Corporate Management Team (CMT) which comprises the Chief Executive, Corporate Directors and Directors. The Code of Corporate Governance sets out the controls in full and can be found at:

<https://democracy.thanet.gov.uk/documents/s63167/Thanet%20District%20Council%20Local%20Code%20of%20Corporate%20Governance%202019.pdf>

Governance Framework



Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by:

- the work of the Monitoring Officer and Section 151 Officer, who have responsibility for the development and maintenance of the governance environment;
- the review of the effectiveness of the Council’s Internal Audit Arrangements 2020/21, as provided by the East Kent Audit Partnership;
- comments made by the external auditors and other review agencies and inspectorates;
- The Audit & Governance Committee’s review that the elements of the governance framework are in place and effective, to ensure compliance with the principles.

The following annual documents also inform the review:

- Annual report of the Standards Committee
- Annual report of the Overview and Scrutiny Panel
- Annual report of the Head of Internal Audit
- Annual report of Governance and Audit Committee

Agenda Item 6

Annex 1

- External Audit Annual Letter

The members of the Council's Corporate Management Team have considered the draft Annual Governance Statement and for each of their areas of control, acknowledge responsibility for risk management and internal control, and certify satisfaction with the arrangements in place throughout 2020/21.

In accordance with section 3.7 of the Code of Practice on Local Authority Accounting for 2020/21, the Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the CFO in Local Government.

The Council's Monitoring Officer has a legal responsibility to look into matters of potential unlawfulness within the Council. In 2020/21 the Monitoring Officer reviewed a number of areas in the Council's Constitution which were progressed through the Constitutional Review Working Party and Standards Committee before being recommended to Council.

The Annual Reports from the Standards Committee, Overview and Scrutiny Panel and Governance and Audit Committee were considered by Council on 25 March 2021 and have also been taken into account in preparing this statement.

Council

Following a motion proposed to Council in March 2020 to remove the Leader, Cllr Rick Everitt, Cllr Everitt resigned as Leader. At a meeting of Council on 2 June 2021, Cllr Ashbee was elected Leader and formed a Conservative Cabinet.

The Council remains in no overall control with the following numbers of councillors: Conservative 25, Labour 17, Thanet Independents 6, Green 4, Independent 3.

At the meeting on 11 July 2019, the Council agreed to call upon the four political groups and the single non-aligned Councillor to work together to identify preferred options for changing our system of governance, from the current Cabinet led system to a Committee led system, and then submit those options to the Constitutional Review Working Party for consideration.

No reports or options in relation to this decision were put to the Constitutional Review Working Party during 2019/2020 or 2020/21.

The Council's Corporate Statement and supporting Core Business Objectives for 2019-2023 can be found at link below.

<https://democracy.thanet.gov.uk/documents/s66020/Corporate%20Statement%202019-2024.pdf>

Overview and Scrutiny Panel

Links to the Panel's annual report to Council on 25 March 2021 can be found here:

<https://democracy.thanet.gov.uk/documents/s71863/Annual%20OSP%20Report%20to%20Council%202020-21.pdf>

<https://democracy.thanet.gov.uk/documents/s71734/Annex%201%20-%20Scrutiny%20Review%20Scoring%20table%20-%20Google%20Docs.pdf>

<https://democracy.thanet.gov.uk/documents/s71767/Annex%202%20-%20OSP%20Pre%20and%20Post%20Decision%20Reviews.pdf>

Members noted the report.

Internal Audit

The internal audit function for the Council is performed by the East Kent Audit Partnership (EKAP), which provides internal audit services to the councils of Canterbury, Dover, Folkestone and Thanet. As a result of this collaborative approach the partnership is able to provide a mechanism for promulgating best practice to the East Kent authorities that use its services. The East Kent Audit Partnership Internal Audit Team reports to the s.151 Officer, the Deputy Chief Executive. They operate under a Charter, which defines their relationship with officers, and the Governance and Audit Committee. Through their audit assurance work, internal audit provides an opinion on the effectiveness of the systems of internal control. As part of the annual review of governance arrangements and in particular the system of internal control, the Council undertakes an annual review of the effectiveness of the system of internal audit.

Internal Audit has responsibility to:

- Report on the level of assurance in respect of the Council's internal control systems,
- Provide an overall independent annual Opinion from the Head of the Audit Partnership highlighting areas of concern. This is compiled from the Internal Audit work programme and a review of the Council's risk management and Corporate Governance arrangements.

The overall opinion of the System of Internal Controls in operation throughout 2020-21 based on the work of the East Kent Audit Partnership is presented in their annual report to the Governance and Audit Committee 28 July 2021.

- The internal auditors are independent to the management of the Council and have direct access to the Chair of the Governance and Audit if required. They provide a regular update to the Committee at each of the quarterly meetings and may attend any special meetings that may be convened during the year.
- As at 31 March 2021 the Internal Auditors completed 240 days of review equating to 77% of planned completions. This is compared to the adjusted target of 75% planned completion, having lost quarter one (April, May and June 2020) to the staff having been redeployed.

Agenda Item 6

Annex 1

- The EKAP undertakes a regular schedule of follow up audits to ensure that management have implemented the action plans arising from each audit. Members can see full details within the Internal Audit Annual Report 2021-21.
- The EKAP met as a team in March 2020 and considered the Public Sector Internal Audit Standards (PSIAS) Checklist for compliance. The results of this self-assessment showed that internal audit is currently working towards full compliance and has agreed an action plan to achieve this. The lack of an External Quality Assessment (EQA) against the PSIAS is hereby disclosed as non-conformance in this Annual Governance Statement. The four s.151 Officers, acting as the EKAP Client Officer Group, continue to be content to rely on the self-assessment process for the PSIAS and not commission an EQA.
- As part of EKAP's quality monitoring arrangements Members should be aware that following the completion of each audit, a satisfaction questionnaire is completed by the managers of the service that has been audited enabling the officers involved to comment on the conduct and outcome of the audit. This information is used, in part, to inform the self-assessment and continuous improvement.

External Audit

This section is still to be completed by Grant Thornton - see recommendation in the covering report.

Governance and Audit Committee

The Committee continues to discharge its responsibilities to provide independent assurance on the adequacy of the council's risk management framework and the associated control environment, and in providing robust scrutiny and challenge of the Authority's financial performance.

Links to the committee's annual report reported to Council on 25 March 2021 can be found here:

https://democracy.thanet.gov.uk/documents/s71864/REVIEW%20OF%20THE%20EFFECTIVENESS%20OF%20THE%20GOVERNANCE%20AND%20AUDIT%20COMMITTEE%20AND%20ANNUAL%20REPORT%20FOR%202020_21.pdf

https://democracy.thanet.gov.uk/documents/s71865/Annex%201.%202020_21%20Annual%20Report.doc.pdf

Standards Committee

Links to the committee's annual report reported to Council on 25 March 2021 can be found here:

<https://democracy.thanet.gov.uk/documents/s71831/Standards%20Committee%20Chairs%20Report%20-%209%20March%202021.pdf>

<https://democracy.thanet.gov.uk/documents/s71832/Standards%20Statistics%20Table.pdf>

Members noted the report.

New Members of the committee

Two new Independent Members were also appointed in the 2020/21 municipal year bringing the number of Independent Members of the Committee to its full complement of four.

Training

Because of budgetary impacts and the impact on working practices this year due to Covid-19, Thanet District Council has not maintained its Charter status for Elected Member Development. However, Democratic Services has maintained training provision for councillors in providing the usual induction training programme for councillors, regular planning committee training, training on the Code of Conduct and Standards etc.

However, it is intended that the team will look to develop training for members further during the following year as working practices return to normality.

Constitutional Review Working Party (CRWP)

The Constitutional Review Working Party met twice in 2020-21. At those meetings it made recommendations to the Standards Committee on topics including:

- Review of the word limit questions to Council from Councillors and members of the public.
- Amending the Council's constitution to use non-gender specific pronouns.

General Purposes Committee

In early 2020, The General Purposes Committee considered advice from the Local Government Association on the efficacy of the Council's Grievance Policy (which applies to all staff), with respect to grievances in relation to statutory officers. The committee instructed East Kent HR to look at best practice through a benchmarking exercise and to prepare a new grievance policy based on the JNC model. Work on that issue has continued and EKHR has prepared a draft policy and consulted with the officers affected by the change.

Once the process is complete, the matter will be reported to the General Purposes Committee.

During the year the committee also appointed the Investigatory and Disciplinary sub-committee (IDSC) to consider a number of matters for the Council. The IDSC continues to deal with those matters in accordance with the Council's procedures.

The committee also dealt with the outcome of a grievance appeal brought by a member of staff. That matter has been considered and completed by the committee.

Corporate Risks

The Governance and Audit Committee receive regular reports on the Corporate Risk Register, the framework through which the Council monitors and manages its corporate risks. The contents of the reports highlight the high-priority corporate risks and show the arrangements in place to ensure these risks are monitored and managed appropriately.

The following corporate risks relate to significant governance issues.

Political Stewardship

This issue has appeared as a significant risk to the council for the last few years as the Council has been, and remains in, no overall control. This leads to some upheaval, evidenced by the fact that the Council has had a recent change in leadership following a previous change only 18 months' before that. However, the council continues to pursue opportunities to support cross-party working. All groups understand the need to work together and are working towards the corporate goals of the Council.

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. There remains continued uncertainty regarding the external funding environment and challenges still exist with delivering the budget.

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.

Disciplinary and Grievance Matters

The council's General Purpose Committee (GPC) and its Investigatory and Disciplinary Sub Committee (IDSC) are considering on-going disciplinary and grievance matters. Cabinet approval was granted on 8 June 2021 for a budget for anticipated possible costs of up to £733k to fund current and on-going legal fees associated with these matters, however the exact funding source was at the time still to be identified. The progress and conclusion of these matters present both a financial and reputational risk to the authority. Apart from the costs set out in the Cabinet report, there has been (and continue to be) costs in excess of £167k associated with the salaries of suspended staff, as well as costs incurred in 2019-20 which also related to disciplinary and grievance matters.

Ombudsman Complaints

The Ombudsman received 20 complaints and took the following decisions on them:

Upheld - maladministration & Injustice - 4

Not Upheld - no maladministration - 1

Not Upheld - no further Action - 3

Closed After Initial Enquiries - no further action - 7

Closed after initial enquiries - out of jurisdiction - 3

Complaint received but not counted as complaint decision - 2

The Ombudsman did not issue any public reports against the Council.

There were no complaints which resulted in recommended actions with regard to significant governance matters.

Monitoring Officer's Report

Employment Matters

A number of employment matters are outstanding and are being dealt with by the proper processes. These matters should be concluded in 2021/22.

The Impact of Covid 19

The coronavirus Covid 19 pandemic has had a substantial impact on the Council's governance arrangements. The UK was put into lockdown on 23 March 2020 in an unprecedented step to attempt to limit the spread of coronavirus.

In early February 2020, Cllr Constantine resigned as a Councillor for Newington ward and a by-election was set for 19 March 2020. On government advice and subsequently through the Local Government and Police and Crime Commissioner (Coronavirus) (Postponement of Elections and Referendums) (England and Wales) Regulations 2020, the by-election was postponed until May 2021.

Under the same Regulations, the Police and Crime Commissioner Elections (which are carried out by the Council's Returning Officer) and which were due to take place on 7 May 2020 were postponed until May 2021.

Both these elections, together with the County Council elections, two further by-elections and the Broadstairs Neighbourhood Plan Referendum, took place on 6 May 2021.

On 4 April 2020 The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020. This gave the Council powers to:

- Provide for remote access to Council meetings by members and by the press and public.
- Enabled the Council to hold and alter the frequency and occurrence of meetings without requirement for further notice.
- Provided for members of local authorities to attend meetings remotely

Agenda Item 6

Annex 1

- Removed the requirement for an annual meeting in May 2020

The pandemic and subsequent 'lockdown' led to a change in the way staff operated with people working from home, and being re-allocated to Covid 19 support activities.

The work by Democratic Services on remote meetings supported the work of other East Kent Districts and was also provided as an example of good practice for the Association of Democratic Services Officers (ADSO).

<https://www.adso.co.uk/app/uploads/2020/05/ADSO-Virtual-Meetings-case-studies-updated-2020-05-28.pdf>

Despite a challenge in the High Court led by the Local Government Association and ADSO, central government refused to extend the legislation to allow remote meetings. A High Court challenge for a declaration as to the inclusion of remote meetings in the definition of "place" in the Local Government Act 1972 failed.

Therefore with effect from 7 May 2021, the Council has returned to in person meetings for Council meetings. This has led to significant creativity to ensure successful meetings while protecting people's safety and ensuring social distancing. Meetings of Council have taken place at the Ramsgate Leisure Centre.

Disbanding of East Kent HR (EKHR)

Following discussions by the Chief Executives in late 2020, the East Kent Services Strategic Board decided to disband EKHR and bring HR services in-house. Each Council considered and approved the decision at its Cabinet or Policy Committee in April/May 2021. Work is ongoing with the EKHR staff and the Councils are on track to bring the service in-house from 1 September 2021.

It is intended that an in-house HR service will better support the corporate aims of the Council and will more closely align with the needs of the Council and its staff. The intention is also that councillors will have a closer involvement in setting staffing policies for their own organisation.

Issues Raised by Governance and Audit at its meeting of 3 March 2021.

The Chief Executive has commissioned the Council's external auditors, Grant Thornton, to carry out a review into culture and governance. In response to the provision of the draft internal audit plan at the meeting, the then Chair of Governance and Audit requested that the review take place during the first quarter of 2021.

Grant Thornton are reporting separately to the meeting of Governance and Audit on 28 July 2021 on the progress of this review.

Areas for Improvement

The 2019/20 Annual Governance Statement and its action plan can be found at the following link:

https://www.thanet.gov.uk/wp-content/uploads/2018/07/Annual-Governance-Statement-2019_20.pdf

In concluding this year's overview of the Council's governance arrangements, the following issues have been identified that need to be addressed to ensure continuous improvement in the Governance Framework. The aim is to address these weaknesses during the 2021/22 financial year, by way of an action plan for improving the governance framework and system of internal control. This will be subject to regular monitoring by the Governance and Audit Committee.

No	Issues	Summary of Action Proposed
1.	Financial Regulations are out of date and need to be refreshed	A consultant was commissioned to undertake an independent review of the council's financial regulations and wider approach to Financial Management in May and June 2021. The council will consider how to implement the recommendations of this review later this year, which will help stabilise finances and to build for the future.
2.	Constitution is becoming out of date and in need of a comprehensive review	<p>This work has been started and the following items have been completed:</p> <ul style="list-style-type: none"> ● A review of the Council's petition scheme ● Revision of word limit for Questions to Council ● Updating the scheme of Cabinet delegations <p>In addition the following items need to be reviewed:</p> <ul style="list-style-type: none"> ● Officer delegations ● Financial Procedure Rules - in process ● Review of the Contract Standing Orders <p>A report will also be presented to Council on 15 July about a parental leave policy for councillors.</p>
3.	Is the Council's Constitution robust in times of emergency?	To review the lessons learnt locally and nationally from the coronavirus epidemic and to determine what changes (if any) should be made to our governance arrangements to cover future emergency situations.
4.	The present Grievance Policy is impractical and 'clunky' in relation to Statutory Officers.	Complete the review of the Grievance Policy for Statutory Officers in accordance with the JNC Conditions for Chief Executives. This matter is nearly complete.

5.	Review of Culture and Governance by Grant Thornton	This process is ongoing .
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Approval of the Annual Governance Statement

The governance arrangements continue to be regarded as fit for purpose in accordance with the Governance Framework.

Signed Madeline Homer

Date

Madeline Homer
Chief Executive

Signed Cllr Ash Ashbee
Leader of the Council

Date

Annual Treasury Management Review 2020-21

Governance & Audit Committee 28 July 2021

Report Author	Tim Willis, Deputy Chief Executive and Section 151 Officer
Portfolio Holder	Councillor David Saunders, Cabinet Member for Finance
Status	For Decision
Classification	Unrestricted
Previously Considered by	N/A
Ward	Thanet Wide

Executive Summary:

This report summarises treasury management activity and prudential/ treasury indicators for 2020-21. However, the council's 2020-21 accounts have not yet been audited and hence the figures in this report are subject to change.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

“The management of the local authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions;

the effective control of the risks associated with those activities; and

the pursuit of optimum performance consistent with those risks.”

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the 2020-21 year-end position for treasury activities.

Key reporting items to consider include:

- 2020-21 capital expenditure on long term assets was £23.5m (2019-20: £17.5m), against a budget of £43.8m.
- The council's gross debt, also called the borrowing position, at 31 March 2021 was £24.4m (31 March 2020: £25.0m).
- The council's underlying need to borrow to finance its capital expenditure, also called the Capital Financing Requirement (CFR), was £56.7m at 31 March 2021 (31 March 2020: £54.6m).
- Therefore it can be reported the council has complied with the requirement to hold less gross debt than its CFR.
- The maximum debt held by the council during 2020-21 was £25.0m, which was well within the statutory authorised limit of £109.0m

- At 31 March 2021 the council's investment balance was £31.3m (31 March 2020: £33.9m).

Recommendation(s):

That the Governance & Audit Committee:

1. Notes the actual 2020-21 prudential and treasury indicators in this report;
2. Makes comments as appropriate on this Annual Treasury Management Report for 2020-21;
3. Recommends this report to council for approval.

Corporate Implications

Financial and Value for Money

The financial implications are highlighted in this report.

Legal

Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the council's finances. For this council, this is the Deputy Chief Executive, and this report is helping to carry out that function.

Corporate

Failure to undertake this process will impact on the council's compliance with the Treasury Management Code of Practice.

Equalities Act 2010 & Public Sector Equality Duty

There are no equity and equalities implications arising directly from this report, but the council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these.

It is important to be aware of the council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by council.

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities.

1. Introduction and Background

- 1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions;

*the effective control of the risks associated with those activities; and
the pursuit of optimum performance consistent with those risks.”*

- 1.2. The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the council’s low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.3. The second main function of the treasury management service is the funding of the council’s capital plans. These capital plans provide a guide to the borrowing need of the council, essentially the longer-term cash flow planning, to ensure that the council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any existing debt may also be restructured to meet council risk or cost objectives.

2. Reporting Requirements

- 2.1. This council is required by regulations issued under the Local Government Finance Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2020-21. This report meets the requirements of both the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 2.2. During 2020-21 the minimum reporting requirements were that the full council should receive the following reports:
 - an annual treasury strategy in advance of the year (council 06-02-2020):
<https://democracy.thanet.gov.uk/documents/s67348/TMSS%202020-21.pdf>
 - a mid-year treasury update report (council 10-12-2020):
<https://democracy.thanet.gov.uk/documents/s70687/Mid%20Year%20Report%20Council%202020-21.pdf>
 - an annual review following the end of the year describing the activity compared to the strategy (this report).
- 2.3. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the 2020-21 year-end position for treasury activities and highlights compliance with the council’s policies previously approved by members.
- 2.4. This council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Governance and Audit Committee before they were reported to the full council. Member training on treasury management issues was last undertaken on 31-10-2019 in order to support

members' scrutiny role, and further training will be arranged as required. The council's external treasury management advisor is Link Group, Treasury Solutions (Link).

- 2.5. The council's 2020-21 accounts have not yet been audited and hence the figures in this report are subject to change

3. The Council's Capital Expenditure and Financing

- 3.1. The council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure for the General Fund (GF) and the Housing Revenue Account (HRA) and how this was financed.

	2019-20 Actual £'000	2020-21 Budget £'000	2020-21 Provisional Actual £'000
Capital expenditure - GF	6,887	21,389	12,376
Capital expenditure - HRA	10,586	22,418	11,118
Capital expenditure - Total	17,473	43,807	23,494
Financed by:			
Capital receipts	2,964	8,665	3,259
Capital grants	5,954	8,427	4,169
Revenue and reserves	3,760	17,082	5,730
Borrowing	4,795	9,633	10,336
Total	17,473	43,807	23,494

- 3.2. Full details of capital expenditure and explanations of variances from budget will be reported within the Financial and Performance Monitoring Year-End Report to Cabinet in September. The council is committed to tackling the significant level of slippage in the capital programme as per the following extract from section 5 of the council's Capital Strategy document:

“Slippage will not be the acceptable norm - capital schemes will be at risk of having their council funding re-directed should there be delays that cannot be substantiated (schemes that are externally funded may require more flexibility however).”

4. The Council's Overall Borrowing Need

- 4.1. The council's underlying need to borrow to fund its capital expenditure is termed the Capital Financing Requirement (CFR). The CFR can be thought of as the outstanding debt that still needs to be repaid in relation to the capital assets (buildings, vehicles etc) that the council has purchased or invested in. It can also be helpful to compare it to the outstanding balance that is still payable on a loan or a mortgage, in this case we are considering how much of the council's debt still needs to be paid for.
- 4.2. **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the council should ensure that its gross external borrowing (borrowing undertaken with financial institutions or external organisations) does not, except in the short term, exceed the total of the CFR in the preceding year (2020-21) plus the estimates of any additional capital financing requirement for the current (2021-22) and next two financial years.
- 4.3. This essentially means that the council is only borrowing to fund capital expenditure and is not borrowing to support revenue expenditure. Under statutory requirements councils are not allowed to borrow to fund their revenue budget activities.
- 4.4. By assessing this indicator over four years it allows the council some flexibility to borrow in advance of its immediate capital needs in 2020-21. The table below highlights the Council's gross borrowing position against the CFR and shows that the council has complied with this prudential indicator, as the council's gross debt of **£24.4m** is less than the **£56.7m** CFR at 31 March 2021.

	31 March 2020 Actual £'000	31 March 2021 Budget £'000	31 March 2021 Provisional Actual £'000
CFR GF	30,422	29,076	28,449
CFR HRA	24,200	29,362	28,236
Total CFR	54,622	58,438	56,685
Gross borrowing position	(25,025)	(43,463)	(24,394)
Underfunding of CFR	29,597	14,975	32,291

- 4.5. **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the council does not have the power to borrow above this level.
- 4.6. **The operational boundary** – the operational boundary is the expected borrowing position of the council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.
- 4.7. The table below shows that during 2020-21 the Council's maximum gross debt position was **£25.025m** and therefore it has maintained gross borrowing within its authorised limit and operational boundary.

	2020-21 £000
Authorised limit	109,000
Maximum gross borrowing position during the year	25,025
Operational boundary	99,000
Average gross borrowing position	24,650

- 4.8. **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2020-21 %
Financing costs as a proportion of net revenue stream - GF	5.7%
Financing costs as a proportion of net revenue stream -HRA	4.8%

5. Treasury Position as at 31 March 2021

- 5.1. Table 1 presents the council's treasury position (excluding finance leases) at the beginning and the end of 2020-21.

Table 1 - Overall Treasury Position as at 31 March 2021

	31 March 2020 Principal £'000	Rate/ Return %	Average Life Years	31 March 2021 Principal £'000	Rate/ Return %	Average Life Years
Gross Debt Position						
GF debt	9,125	3.28%	14.8	8,495	3.36%	14.9
HRA debt	15,900	4.08%	8.3	15,899	4.14%	7.6
Total debt (all fixed rate)	25,025	3.80%	10.7	24,394	3.86%	10.1
CFR compared to Gross Debt						
GF CFR	30,422			28,449		
HRA CFR	24,200			28,236		
Total CFR	54,622			56,685		
Under- borrowing	29,597			32,291		
Net Debt / Investment						
Total debt	25,025	3.80%	10.7	24,394	3.86%	10.1
Total investments	(33,904)	0.79%		(31,325)	0.23%	
Net debt / (investment)	(8,879)			(6,931)		

- 5.2. Table 1 shows that, as previously stated, gross debt was £24.394m and the CFR was £56.685m at the end of 2020-21. This means the Council is in an under borrowed position of £32.291m, as external gross debt is less than the CFR.
- 5.3. Table 1 also shows that the council's investments totalled £31.325m at the 2020-21 year end and therefore was in a net investment position, as investments held exceeded gross debt by £6.931m.
- 5.4. All of the debt is from the Public Works Loan Board (PWLB), which is a facility operated by the UK Debt Management Office on behalf of HM Treasury and provides loans to local authorities, apart from the following two GF loans (as at 31 March 2021):
- Market: £4.5m principal at 4.19% with an average life of 0.5 years.
 - Salix: £13k principal at 0.00% with an average life of 0.5 years.
- 5.5. The maturity structure of the debt portfolio, or the timeline of when the council's debt is repayable, was as follows:

	31 March 2020 actual £000	2020-21 upper limits £000	31 March 2021 actual £000
Under 1 year	5,131	12,197	8,679
1 year to under 2 years	4,179	12,197	334
2 years to under 5 years	3,080	12,197	2,833
5 years to under 10 years	2,356	12,197	2,356
10 years to under 20 years	7,359	12,197	7,272
20 years to under 30 years	1,920	12,197	1,920
30 years to under 40 years	0	12,197	0
40 years to under 50 years	1,000	12,197	1,000
50 years and above	0	12,197	0
Total debt	25,025		24,394

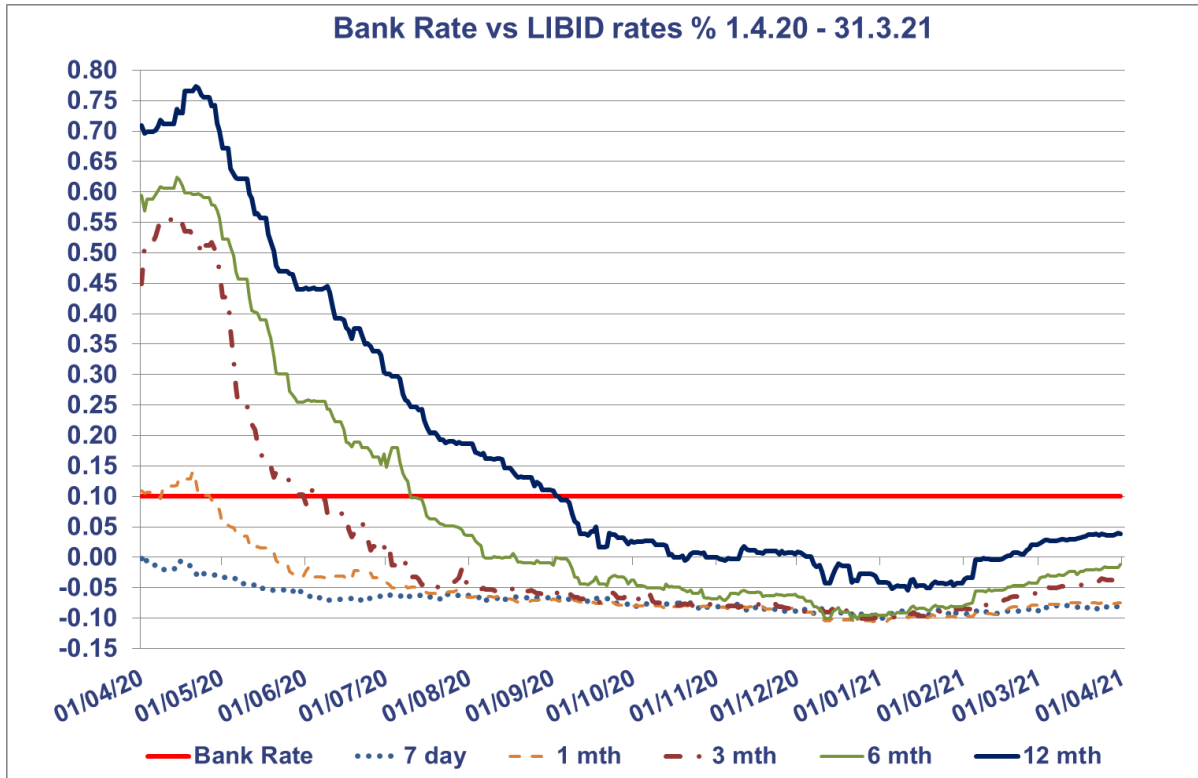
- 5.6. The following table shows the value of the type of investments the council was holding at year-end. All investments at the 2020-21 year-end were for under one year. Investments at the 2019-20 year-end for longer than 365 days were £0.6m.

	31 March 2020 actual £000	31 March 2020 actual %	31 March 2021 actual £000	31 March 2021 actual %
Banks - Instant Access	3	0.01	29	0.09
Banks - Notice Accounts	4,453	13.13	8,154	26.03
Banks - Fixed Term Deposits	13,483	39.77	3,200	10.22
Money Market Funds	15,965	47.09	19,942	63.66
Total Treasury Investments	33,904	100.00	31,325	100.00

6. The Strategy for 2020-21

6.1. Investment strategy and control of interest rate risk

6.1.1. The following chart tracks the Bank of England base rate of interest and the London Interbank Bid Rates (LIBID) during 2020-21.



6.1.2 Investment returns which had been low during 2019-20, plunged during 2020-21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020-21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

6.1.3 While the council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with

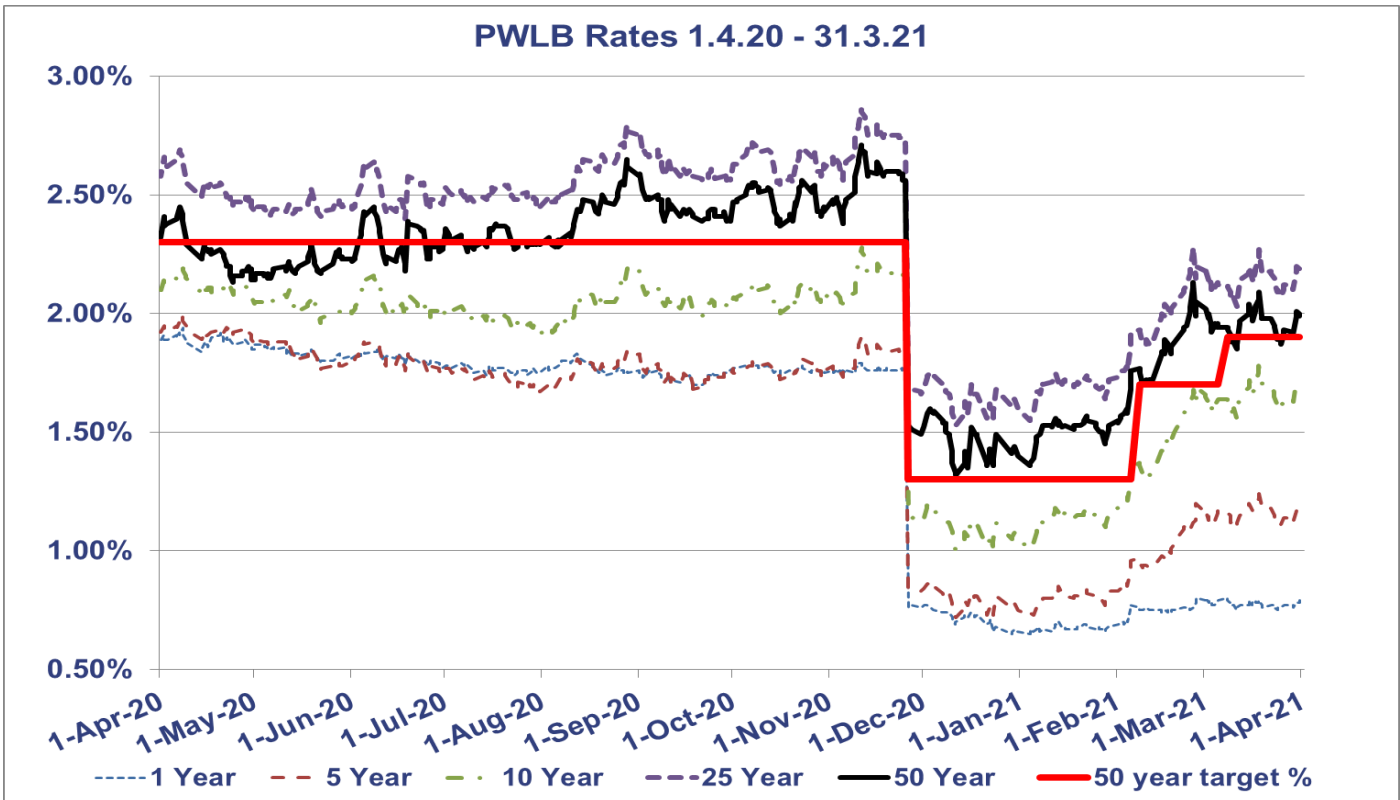
annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

6.1.4 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts/graphs shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

6.2. **Borrowing strategy and control of interest rate risk**

- 6.2.1. During 2020-21, the council maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement) was not fully funded with loan debt, as cash supporting the council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.
- 6.2.2. A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.
- 6.2.3. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 6.2.4. Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Section 151 Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:
- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
 - if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected (e.g. perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks), then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.
- 6.2.5. Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2020-21 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Group Interest Rate View		8.3.21												
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	
5 yr PWLB	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40	
10 yr PWLB	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90	
25 yr PWLB	2.10	2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50	
50 yr PWLB	1.90	1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30	



6.2.6. PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of

interest rates and bond yields in financial markets over the last 30 years. We have seen over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession.

- 6.2.7. Gilt yields fell sharply from the start of 2020 and then spiked up during a financial markets melt down in March caused by the pandemic hitting western countries; this was rapidly countered by central banks flooding the markets with liquidity. While US treasury yields do exert influence on UK gilt yields so that the two often move in tandem, they have diverged during the first three quarters of 2020-21 but then converged in the final quarter. Expectations of economic recovery started earlier in the US than the UK but once the UK vaccination programme started making rapid progress in the new year of 2021, gilt yields and PWLB rates started rising sharply as confidence in economic recovery rebounded. Financial markets also expected Bank Rate to rise quicker than in the forecast tables in this report.
- 6.2.8. At the close of the day on 31 March 2021, all gilt yields from 1 to 5 years were between 0.19 – 0.58% while the 10-year and 25-year yields were at 1.11% and 1.59%.
- 6.2.9. HM Treasury imposed **two changes of margins over gilt yields for PWLB rates in 2019-20** without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and **on 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates**; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.
- 6.2.10. The new margins over gilt yields are as follows: -
- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
 - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
 - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
 - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
 - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- 6.2.11 There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 (as per Link's forecast of 8 March 2021 in section 6.2.5 above) as the Bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.
- 6.3. **Change in strategy during the year** – the strategy adopted in the original Treasury Management Strategy Report for 2020-21 (approved by the council on 06-02-20) was

revised during 2020-21 in the mid-year treasury update report (approved by the council on 10-12-20).

7. Borrowing Outturn for 2020-21

- 7.1. **Borrowing** – Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.
- 7.2. **Borrowing in advance of need** - The council has not borrowed more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed.
- 7.3. **Rescheduling** – No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.
- 7.4. **Repayments** – The council repaid £0.631m of maturing debt using investment balances, as below:

Lender	Principal £'000	Interest Rate	Repayment Date
Salix	4	0.00%	01-04-20
PWLB	43	3.08%	23-04-20
PWLB	50	2.48%	27-05-20
PWLB	146	1.97%	27-05-20
PWLB	72	1.28%	20-06-20
Salix	4	0.00%	01-10-20
PWLB	43	3.08%	23-10-20
PWLB	50	2.48%	27-11-20
PWLB	147	1.97%	27-11-20
PWLB	72	1.28%	20-12-20
Total	631		

- 7.5. **Summary of debt transactions** – The average interest rate on the debt portfolio increased from 3.80% to 3.86% during the year. This was due to the repayment of maturing debt as shown above.

8. Investment Outturn for 2020-21

- 8.1. **Investment Policy** – the council's investment policy is governed by the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance, which has been implemented in the annual investment strategy approved by the council on

6 February 2020. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

- 8.2. The investment activity during the year conformed to the approved strategy.
- 8.3. During the year the council's treasury adviser, Link Group Treasury Solutions, reduced its suggested maximum duration from 1 year to 6 months for a bank that the council had a number of fixed term deposits with; even though the maximum duration as per the council's investment policy (set out in the Treasury Management Strategy Report) remained at 370 days given the bank's credit rating. As at 31 March 2021 the remaining terms on deposits with this bank were all under 6 months.
- 8.4. From 1 April 2020 to 15 April 2020 inclusive, the council maintained balances with its own banker which exceeded the £7m investment limit stipulated in the council's investment policy; the highest daily deposit account balance being £26.764m. However, these balances were for operational/transactional purposes (to help deal with the coronavirus pandemic) rather than for investment. The council received an exceptional amount of coronavirus related grant funding (£40m) from the Government on 1 April 2020 and (given the very short notice) was unable to fully absorb this within its various money market funds (MMFs), given MMF facility limits and MMFs available at that time.
- 8.5. **Resources** - the council's cash balances comprise revenue and capital resources and cash flow monies. The council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2020 £000	31 March 2021 Provisional £000
GF Balance	2,011	2,011
Earmarked Reserves	13,528	25,400
HRA Balance	8,645	8,020
Capital Receipts Reserve	8,544	6,316
Major Repairs Reserve	15,469	15,425
Capital Grants Unapplied	43	43
Total Usable Reserves	48,240	57,215

- 8.6. **Investments held by the council**
- The council maintained an average balance of £50.198m of internally managed funds.
 - The internally managed funds earned an average rate of return of 0.23%.
 - The comparable performance indicator is the average 7-day London Interbank Bid Rate (LIBID) rate, which was minus 0.07%.

- This compares with an original budget assumption of £33m investment balances earning an average rate of 1.00%.
- Total investment income was £115k compared to a budget of £330k.

8.7. **Investments held by fund managers** – the council does not use external fund managers on a discretionary basis for any part of its investment portfolio.

9. Investment risk benchmarking

9.1. The following investment benchmarks were set in the council's 2020-21 annual treasury strategy:

9.1.1. **Security** - The council's maximum security risk benchmark for the current portfolio, when compared to historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio (excluding unrated investments).

9.1.2. **Liquidity** – in respect of this area the council seeks to maintain:

- Liquid short term deposits of at least £10m available with a week's notice.
- Weighted average life benchmark is expected to be in the range of 0 to 1 years, with a maximum of 5 years.

9.1.3. **Yield** - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate.

9.1.4. The council kept to the above benchmarks during 2020-21.

10. International Financial Reporting Standard 16 (IFRS 16)

10.1. The implementation of IFRS16 (bringing almost all lease liabilities on to the balance sheet together with the corresponding 'right of use' assets) has been delayed for a further year from 2021-22 to 2022-23 accounts closedown, due to pressures on council finance teams as a result of the Covid-19 pandemic.

11. Prudential and Treasury Codes

11.1 Following consultation, CIPFA intends publishing revised Prudential and Treasury Codes in December 2021. (The Prudential Code aims to ensure that the financial plans of local authorities are affordable, prudent and sustainable).

11.2 Key changes to the Codes are due to include:

- a) Clarification of commercial activity/investment and prudent borrowing activity.
- b) The inclusion of proportionality as an objective (assessing risks against resource levels).
- c) Introduction of the Liability Benchmark as a treasury management indicator.

- d) Integration of environmental, social and governance risks into the treasury policy framework.
- e) Guidance on treasury development, knowledge retention, skills and training.

12. Options

- 12.1 The recommended option (to ensure regulatory compliance as set out in section 1 of this report) is that the Governance & Audit Committee:
- Notes the actual 2020-21 prudential and treasury indicators in this report.
 - Makes comments as appropriate on this Annual Treasury Management Report for 2020-21.
 - Recommends this report to council for approval.
- 12.2 Alternatively, the Governance & Audit Committee may decide not to do this and provide reason(s) why.

13. Next Steps

- 13.1 This report is to go to Cabinet, and then council for approval. Cabinet and council meetings are on 29 July 2021 and 9 September 2021 respectively.

14. Disclaimer

- 14.1 This report is a technical document focussing on public sector investments and borrowings and, as such, readers should not use the information contained within the report to inform personal investment or borrowing decisions. Neither Thanet District Council nor any of its officers or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein (such information being subject to change without notice) and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. Any opinions, forecasts or estimates herein constitute a judgement and there can be no assurance that they will be consistent with future results or events. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith.

Contact Officer: Tim Willis, Deputy Chief Executive & Section 151 Officer
Reporting to: Madeline Homer, Chief Executive

Annex List

Annex 1: Report Guidance
Annex 2: Abbreviations and Definitions
Annex 3: Capital Financing Charts

Corporate Consultation Undertaken

Finance: Chris Blundell, Director of Finance and Deputy Section 151 Officer
Legal: Estelle Culligan, Director of Law and Democracy

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ANNUAL TREASURY MANAGEMENT REVIEW 2020-21

Annex 1: Report Guidance

Capital Expenditure and Financing

This section includes the council's debt and Capital Financing Requirement (CFR) split between its General Fund (GF) and Housing Revenue Account (HRA). The HRA is a 'ring-fenced' account for local authority housing.

The CFR represents the council's aggregate borrowing need (the element of the capital programme that has not been funded). The council's debt should not normally be higher than its CFR as explained in the report.

Borrowing Need

PWLB is the Public Works Loan Board which is a statutory body operating within the UK Debt Management Office, an Executive Agency of HM Treasury. PWLB's function is to lend money from the National Loans Fund to local authorities, and to collect the repayments.

The council has the following types of fixed rate loan with the PWLB:

- Annuity: fixed half-yearly payments to include principal and interest.
- Equal Instalments of Principal: equal half-yearly payments of principal together with interest on the outstanding balance.
- Maturity: half-yearly payments of interest only with a single payment of principal at the end of the term.

Financing Costs as a Proportion of Net Revenue Stream

This shows (separately for HRA and GF) the percentage of the council's revenue stream that is used to finance the CFR (net interest payable and Minimum Revenue Provision (MRP)).

MRP is the annual resource contribution from revenue which must be set against the CFR so that it does not increase indefinitely.

Borrowing and Investments

Borrowing limits – there are various general controls on the council's borrowing activity (operational boundary, authorised limit and maturity profiles).

General controls on the council's investment activity, to safeguard the security and liquidity of its investments, include:

- Creditworthiness of investment counterparties.
- Counterparty money limits.
- Counterparty time limits.
- Counterparty country limits.

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ANNUAL TREASURY MANAGEMENT REVIEW 2020-21

Annex 2: Abbreviations and Definitions

- ALMO** An Arm's Length Management Organisation is a not-for-profit company that provides housing services on behalf of a local authority. Usually an ALMO is set up by the authority to manage and improve all or part of its housing stock.
- LG** Link Group, Treasury solutions – the council's treasury management advisers.
- CE** Capital Economics - is the economics consultancy that provides Link Asset Services, Treasury solutions, with independent economic forecasts, briefings and research.
- CFR** Capital Financing Requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.
- CIPFA** Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.
- CPI** Consumer Price Inflation – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.
- ECB** European Central Bank - the central bank for the Eurozone.
- EU** European Union.
- EZ** Eurozone - those countries in the EU which use the euro as their currency.
- Fed** The Federal Reserve, often referred to simply as "the Fed," is the central bank of the United States. It was created by Congress to provide the nation with a stable monetary and financial system.
- FOMC** The Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members -- the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.
- GDP** Gross Domestic Product – a measure of the growth and total size of the economy.
- G7** The group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.
- Gilts** Gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt (unless a gilt is index linked to inflation). While the coupon rate is fixed, the yields will change inversely to the price of gilts, i.e. a rise in the price of a gilt will mean that its yield will fall.
- HRA** Housing Revenue Account.

Agenda Item 7

Annex 2

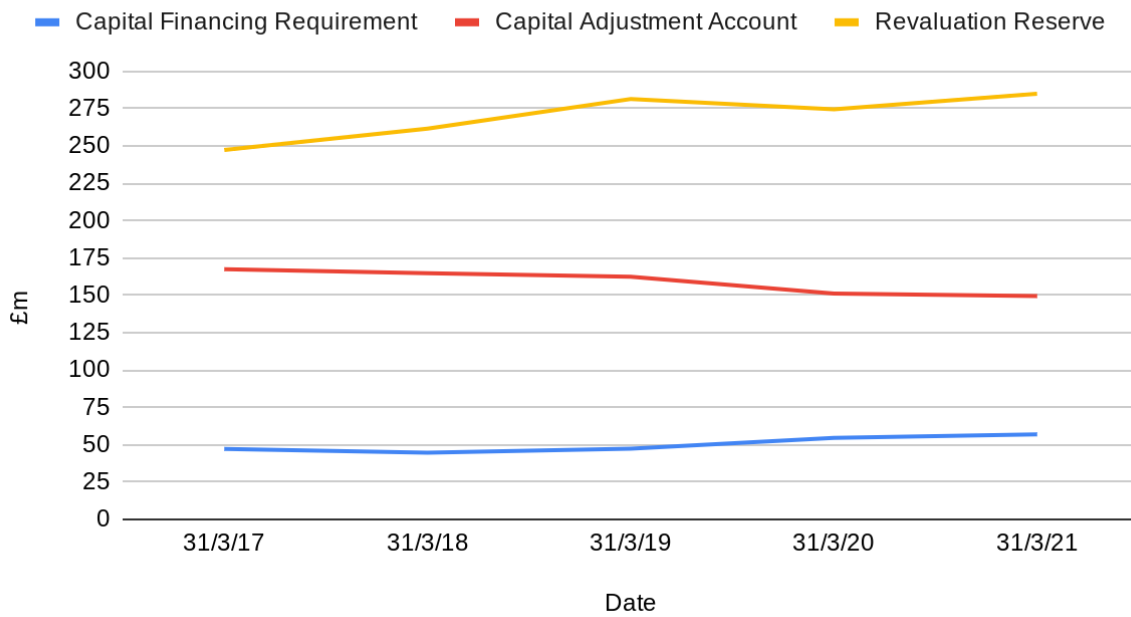
- IMF** International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.
- LIBID** The London Interbank Bid Rate is the rate bid by banks on deposits, i.e. the rate at which a bank is willing to borrow from other banks. It is the "other end" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend).
- MHCLG** The Ministry of Housing, Communities and Local Government - the Government department that directs local authorities in England.
- MPC** The Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.
- MRP** Minimum Revenue Provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR (the total indebtedness of a local authority).
- PFI** Private Finance Initiative – capital expenditure financed by the private sector i.e. not by direct borrowing by a local authority.
- PWLB** Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.
- QE** Quantitative Easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, like government bonds (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to ‘cool’ the economy.
- RPI** The Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – CPI. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.
- TMSS** The annual Treasury Management Strategy Statement report that all local authorities are required to submit for approval by the full council before the start of each financial year.
- VRP** A Voluntary Revenue Provision to repay debt, in the annual budget, which is additional to the annual MRP charge (see above definition).

ANNUAL TREASURY MANAGEMENT REVIEW 2020-21

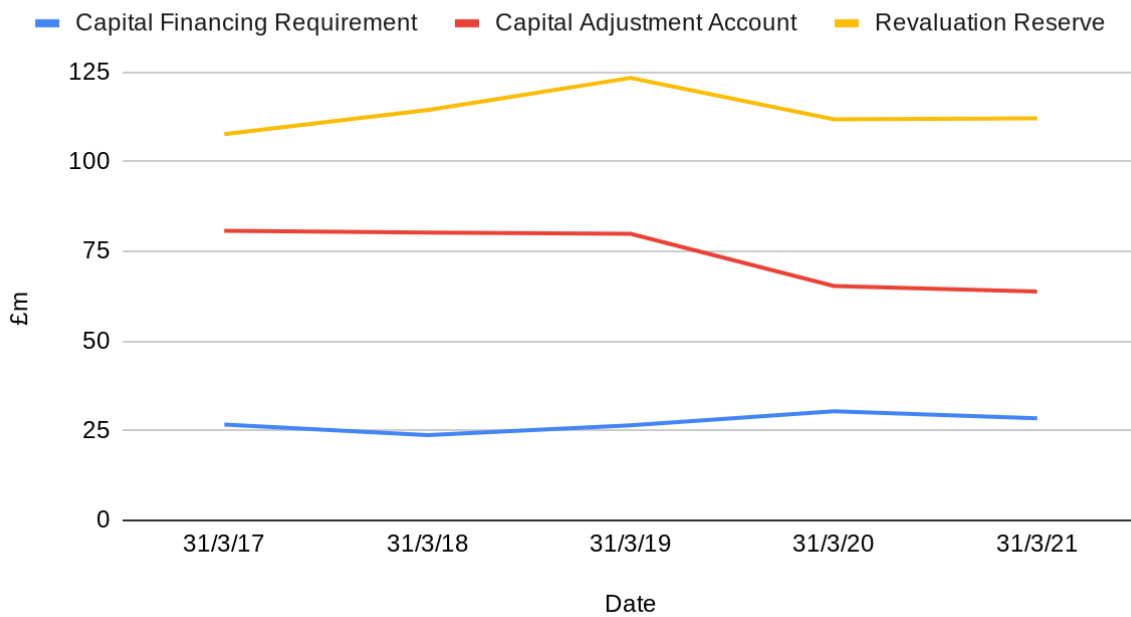
Annex 3: Capital Financing Charts

Capital Asset Financing - 5 Year Summary

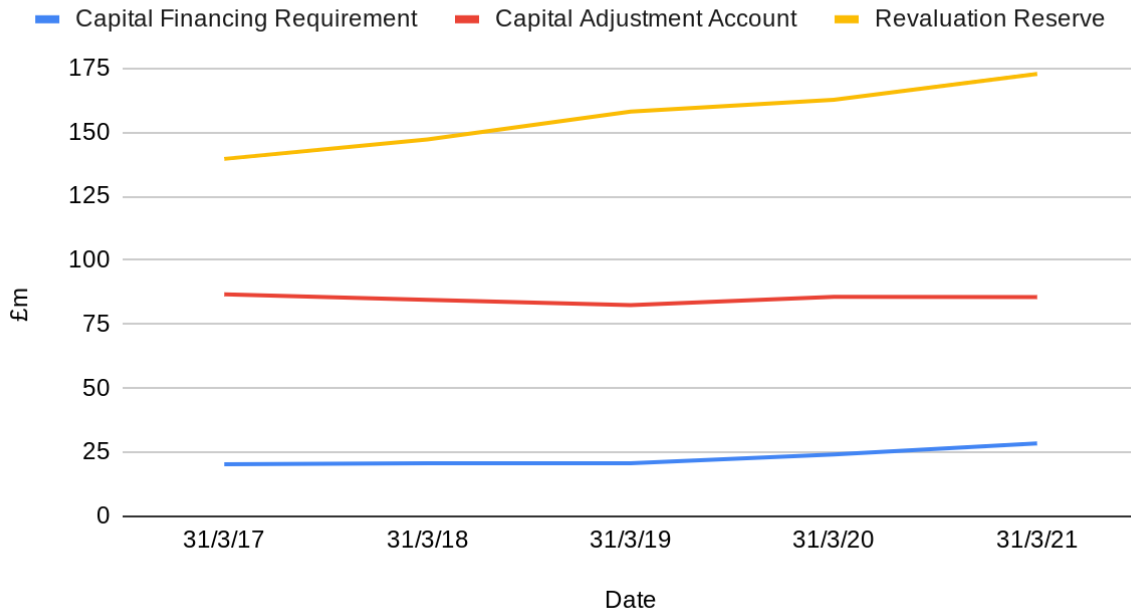
Capital Asset Financing - Total (5 Year Summary)



Capital Asset Financing - GF (5 Year Summary)

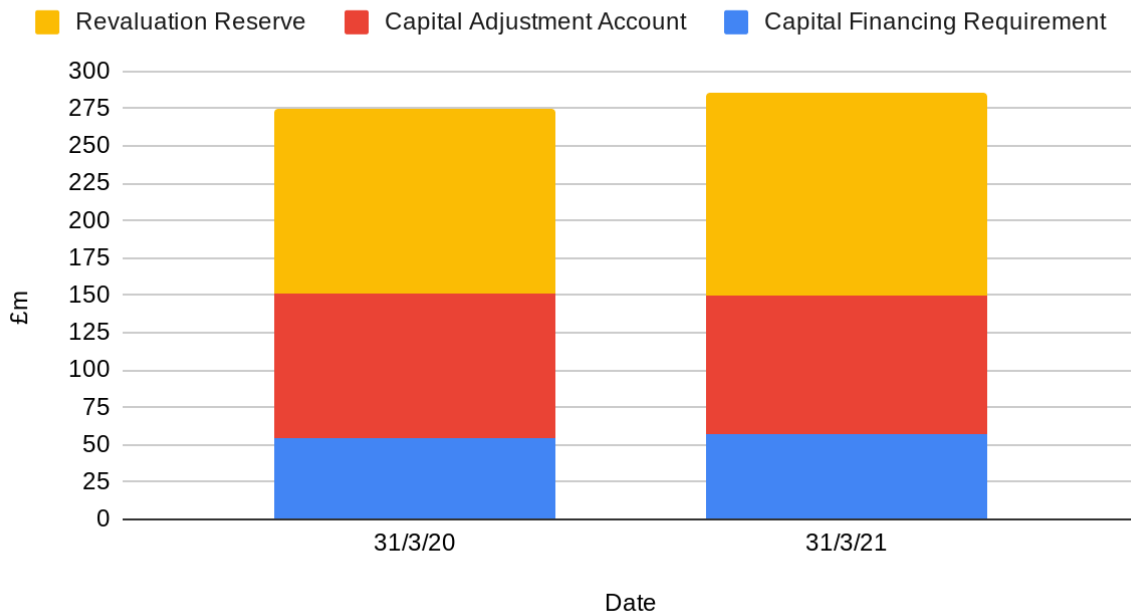


Capital Asset Financing - HRA (5 Year Summary)

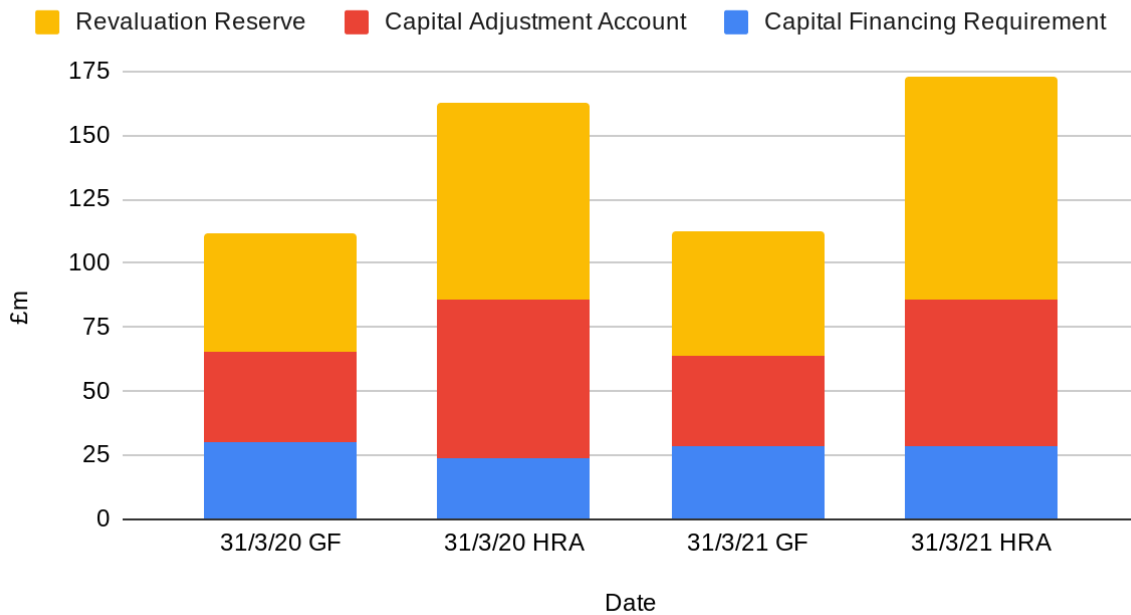


Capital Asset Financing - Current and Prior Year

Capital Asset Financing - Total (Current and Prior Year)

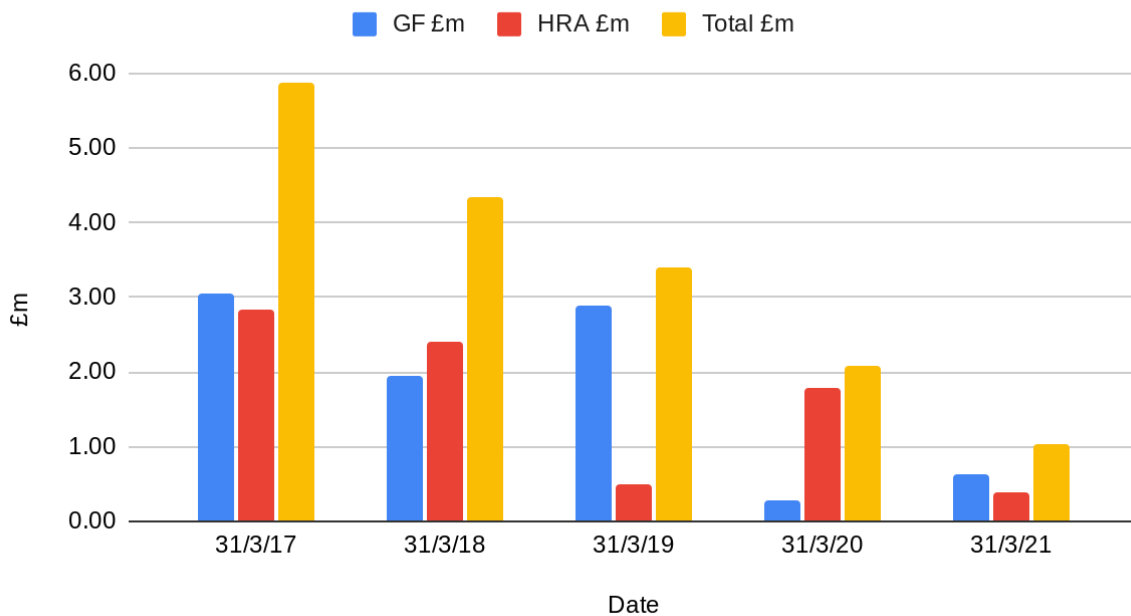


Capital Asset Financing - GF/HRA (Current and Prior Year)



Net Capital Receipts - 5 Year Summary

Net Capital Receipts - GF/HRA (5 Year Summary)



The Net Capital Receipts chart above excludes the 2020/21 capital receipt from the Dreamland disposal, as this is being used to reduce the council's capital financing requirement (CFR) rather than finance the future capital programme.

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CORPORATE RISK MANAGEMENT - QUARTERLY UPDATE

Governance and Audit Committee	28 July 2021
Report Author	Chris Blundell, Head of Financial and Procurement Services
Portfolio Holder	Councillor Ashbee, Portfolio Holder for Corporate Performance and Risk
Status	For information
Classification:	Unrestricted
Key Decision	No
Ward:	All

Executive Summary:

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

Recommendation(s):

1. To approve the review of corporate risks.

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.

It is the role and responsibility of the Section 151 Office to have active involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered.

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 revised Risk Management Strategy on 6 March 2019, which includes a requirement to provide regular corporate risk updates to G&A Committee.

Equality 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.

This report relates to the following aim of the equality duty: -

- *To advance equality of opportunity between people who share a protected characteristic and people who do not share it.*

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.

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities

1.0 Introduction

- 1.1. The Council monitors and manages its corporate risks through the Corporate Risk Register. The contents of the report highlight the high-priority corporate risks and show the arrangements in place to ensure these risks are monitored and managed appropriately.

2.0 Background

- 2.1 The Risk Management Strategy 2019-23 was approved by the Governance and Audit Committee at its meeting on 6 March 2019.
- 2.2 The strategy defines corporate risks as *'those which could impact across the whole council including those relating to partnerships'*. The strategy prescribes that these risks should be assessed by the Corporate Management Team (CMT) and the

Member Risk Management Champion and then reported to the Governance and Audit Committee on a regular basis.

3.0 Risk, Risk Management and Responsibilities

- 3.1 **What is risk** - Risk is defined as the uncertainty of outcome, whether positive opportunity or negative threat, of actions and events.

Risk can be a threat (downside) or an opportunity (upside)

- 3.2 A local authority's purpose is generally concerned with the delivery of service or with the delivery of a beneficial outcome in the public interest. The delivery of these objectives is surrounded by uncertainty which both poses threats to success and offers opportunity for increasing success.

- 3.3 **What risk management** - Risk Management can be defined as:

*'Risk Management is the process by which risks are **identified, evaluated and controlled**. It is a key element of the framework of governance together with community focus, structures and processes, standards of conduct and service delivery arrangements'*

(Audit Commission)

- 3.4 Risks have to be assessed in respect of the combination of the likelihood of something happening, and the impact which arises if it does actually happen. Risk management includes identifying and assessing risks and then responding to them. Risk is unavoidable, and every organisation needs to take action to manage risk in a way which it can justify to a level which is tolerable. The amount of risk which is judged to be tolerable and justifiable is the "risk appetite".

- 3.5 **Roles and responsibilities** - The primary member oversight on risk is provided by the Governance and Audit 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.

- 3.6 At staff level, the high-level corporate risk register is regularly considered by the 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.

- 3.7 The Chartered Institute of Public Finance and Accountancy (CIPFA) Position Statement on Audit Committees (2018) sets out the key principles for audit committees operating in local government.

- 3.8 The statement sets out the key responsibilities of the committee to include:

*'consider the **effectiveness** of the authority's **risk management arrangements** and the control environment, reviewing the risk profile of the organisation and*

assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations'

3.9 The report seeks to aid the committee to discharge these responsibilities.

4.0 Corporate Risk Register

4.1 A summary of the highest scoring corporate risks on the register is set out in the table and the following narrative below, together with the comparative scores noted by the Governance & Audit Committee on 3 March 2021.

4.2 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	Mar 21 Score	Jul 21 Score	Change
CR-05	Political Stewardship	16	16	No change
CR-11	Covid-19	16	16	No change
CR-12	Cyber Attack	16	16	No change
CR-13	Governance	-	16	New
CR-01	Limited Resources	12	12	No change
CR-05	Homelessness	9	12	Added
CR-09	Brexit	12	12	No change

4.3 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.

4.4 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.

5. Highest-scoring risks

5.1 **Political Stewardship (Impact 4, Probability 4):** The Council has recently changed from a Labour administration back to Conservative, due to continued leadership changes political stewardship remains a risk to the council. The council continues to pursue opportunities to support cross-party working and induction training for new members took place post election.

- 5.2 **Limited Resources (Impact 4, Probability 3):** 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.

The impact of Covid-19 on the council's finances has been profound. During the summer of 2020, as the first wave had a major impact on residents and businesses, it also had a major impact on the council's spending (as we attempted to alleviate the worst aspects of the virus) and income (through reductions in fees and charges, Council Tax and Business Rates). For the current year, the council has also administered substantial financial support to residents and businesses.

Against this background, the council has now approved the 2021-22 budget, however the impact of Covid-19 on both income and expenditure forecasts led to a report to Cabinet on 30 July 2020 and Council on 10 September 2020. In addition, the budget monitoring report no.3 to Cabinet estimated the financial impact of Covid was £5.2m against an estimated £3.5m of government funding, leaving a budget gap of £1.7m.

As a result, difficult decisions have been made about the use of reserves to bridge this gap. A knock on effect of the pandemic is also likely to impact on the budget process for 2022-23 and the Medium Term Financial Strategy. Further difficult decisions will be required over this medium term to ensure reserves are replenished.

There is uncertainty about the shape of local government finance envisaged as a result of national reviews of Fair Funding and Business Rates. These reviews have major implications for the council's Budget and Medium Term Financial Strategy.

- 5.3 **Brexit (Impact 3, Probability 4) -** The UK left the European Union on 31 January 2020. The UK Government has now agreed a deal with the European Union.

Although the deal is positive news for the UK and more beneficial than no deal, there are potential issues that may still arise during an initial adjustment period. The recent issue around the export of vaccines from the EU to other third countries is an example of this.

Although there has been some bedding in of the UK exit from the EU there are still significant areas of national concern 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 progress contingency planning.

The Council has previously received £500k additional funding from the Government to assist with some of the additional impact of Brexit on local issues and these are currently being used to mitigate some of the impact.

- 5.4 **Coronavirus (Impact 4, Probability 4):** In 'normal' emergencies, local authorities and local resilience forums deal first with an emergency and then the Recovery – getting back to 'business as usual' (for example, when the flood waters recede, work takes place to repair any damage and to get people back into their homes). The Recovery from the Covid-19 Pandemic will be unlike any other in our lifetimes. The crisis has gone on for longer, been more extreme and will have more profound consequences than anything we have prepared for before.

Restrictions were due to be lifted in June but the Delta variant has seen some restrictions extended into July. Although England still has a clear timetable out of the pandemic, the unpredictable nature of events could lead to an impact on future planning as well as significant challenges in running a normal service.

The current pandemic spans other Emergency Planning events including the end of the Brexit Transition Phase and that for much of it, staff and partners will be working remotely. Finally, the sheer scale and breadth of the social and economic impacts means that we will be entering uncharted territory and it is hard to predict where we will end up.

- 5.5 **Cyber Attack (Impact 4, Probability 4):** The Council is becoming more and more aware of cyber attacks across the local government sector. This and recent attempts to send emails to staff from internal email addresses such as the Chief Executive's, further highlights the impending risk to internal systems.

At a time when the majority of staff are working from home due to the pandemic, a much higher reliance on IT systems is needed and therefore the risk of disruption to Council services as a result of a Cyber attack is heightened.

The Council is mitigating the impact of any potential attack by ensuring IT systems are as robust as possible, but as we've seen globally, even the larger international companies are still susceptible to attack.

Cyber insurance is also being assessed to ensure that the Council can protect itself against the financial impact that could be caused by such an event.

6. New Risks

6.1 **Governance (Impact 4, Probability 4):**

Governance & Audit Committee will have reports on this agenda that outline progress on corporate governance matters, many of which remain outstanding. The financial risks attached to these issues are substantial. The council's General Purpose Committee (GPC) and its Investigatory and Disciplinary Sub Committee (IDSC) are considering on-going disciplinary and grievance matters. Cabinet approval was granted on 8 June 2021 for a budget for anticipated possible costs of up to £733k to fund current and on-going legal fees associated with these matters, however the exact funding source was at the time still to be identified. The progress and conclusion of these matters present both a financial and reputational risk to the authority. Apart from the costs set out in the Cabinet report, there has been (and continue to be) costs in excess of £167k associated with the salaries of suspended

staff, as well as costs incurred in 2019-20 which also related to disciplinary and grievance matters.

7. Re-emerging risks

7.1 Homelessness (Impact 3, Probability 4)

Homelessness has grown as a challenge for many local authorities over the last year, Thanet included. There are additional pressures on Housing as the gap between supply and demand increases and previously plans have been developed to ensure that this pressure is minimised. The council has reviewed and is delivering its homelessness strategy action plan, is regularly monitoring the levels of homelessness and has commissioned new services to address the increasing need for support. This work will continue. The council has also successfully bid for new government funding to support homelessness services locally.

However the Council is seeing another surge of homelessness across the district as a result of Covid/Brexit and in addition the eviction ban coming to an end on 1 June will add additional financial pressures.

These financial pressures are currently estimated at up to £500k for 2021/22 based on current homelessness levels, although this excludes any potential impact of the evictions ban, as due to the 14 day notice periods the impact of this will only just be becoming evident.

8. Recommendation

8.1 To approve the review of corporate risks.

Contact Officer: Chris Blundell, Director of Finance
Reporting to: Tim Willis, Deputy Chief Executive and S151 Officer

Corporate Consultation

Finance: Chris Blundell, Director of Finance
Legal: Estelle Culligan, Director of Law and Democracy

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G&A Subgroup and Accounts Update

Governance and Audit Committee 28 July 2021

Report Author Chris Blundell (Director of Finance)

Portfolio Holder Cllr David Saunders

Status For Decision

Classification: Unrestricted

Key Decision No

Ward: All

Executive Summary:

The report recommends the establishment of a Governance and Audit Committee subgroup to undertake a detailed review of the 2020-21 accounts. This subgroup would assist committee members in exercising their responsibility for approving the accounts, by improving their understanding and oversight of the accounts.

The report also provides an update on the changes to the statutory audit deadlines and on the actual closure and audit of the 2020-21 accounts.

Recommendation(s):

1. The establishment of a subgroup to undertake a detailed review the of draft statements and report back to the committee be approved
2. The change in statutory deadlines and the progress towards producing the draft 2020-21 statements be noted

Corporate Implications

Financial and Value for Money

As detailed in the body of the report

Legal

The Accounts and Audit (England) Regulations 2015 and the Council's constitution place the responsibility for approval of the accounts with the Governance and Audit Committee.

Corporate

The establishment of a Governance and Audit subgroup to undertake a detailed review of the 2020-21 accounts would assist the Committee in exercising its responsibility for approving the accounts by improving their understanding and oversight of the accounts.

Equality Act 2010 & Public Sector Equality Duty

There are no equality implications arising from this report.

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- *Growth*
- *Environment*
- *Communities*

1. Introduction and Background

- 1.1 The primary purpose of this report is the recommendation of the establishment of a Governance and Audit subgroup to undertake a detailed review of the 2020-21 accounts.
- 1.2 The report also provides an update on the changes to the statutory audit deadlines and on the actual closure and audit of the 2020-21 accounts.

2. Governance and Audit Sub-group

- 2.1 The Governance and Audit committee is responsible for the approval of the Council's annual statements of accounts, with the Chairperson required to sign the accounts as the seal of approval.
- 2.2 Local Government accounts are unquestionably complex and many commentators have stated that they are "impenetrable" to the lay reader. The majority of members will not have professional financial backgrounds and as such typically the committee primarily relies on the reports of officers and opinion of the external auditors in order to obtain sufficient assurance to approve the accounts.
- 2.3 To assist the committee in improving their understanding of the accounts and the assurance in the figures presented it is recommended that a subgroup is established with the remit of undertaking a detailed review of the 2021-22 accounts.
- 2.4 It is proposed that the subgroup consist of four nominated and named members, but more members may attend or participate at the subgroup meetings as per Council Procedure Rule 20.1. It is also proposed that the requirement political balance be waived for this subgroup. This will require a nem-con vote, which means that every member of the committee must vote for the proposal of setting up the subgroup for which political balance has been waived. If a member votes against or abstains, then proportionality has to remain.

- 2.5 It is anticipated that the subgroup will only need to meet once or twice and that each meeting would take approximately 2 hours. The terms of reference for the subgroup are set out at Annex 1.

3. Changes to Statutory Audit Deadlines for 2020-21

- 2.1 The Accounts and Audit (England) Regulations 2015 require the council (through this Committee) to approve and publish its annual statement of accounts by 31 July. Furthermore, local authorities are required to approve their draft accounts by 31st May, with draft accounts being made available for public inspection for 30 working days, inclusive of the first 10 working days of June.
- 2.2 However, a recent review conducted by Sir Tony Redmond into local authority auditing and financial reporting (Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting) published in September 2020 highlighted the following findings:
- The existing statutory audit deadline of 31 July is unrealistic.
 - There is an argument to suggest the deadline should be moved to 30 September to enable audit requirements to be fulfilled effectively.
- 2.3 Consequently, audit regulations have been amended to extend the deadline for publishing the audited accounts to 30 September for two years (2020-21 and 2021-22 accounting years), with further review thereafter.
- 2.4 The draft accounts also need to be published by 1st August, again representing an extension from the existing 31st May deadline.

3. Progress with Closure of Accounts

- 3.1 The closure of the accounts is progressing well, and officers expect that the draft statements of accounts will be published on Friday 30 July. The Council has produced a draft outturn report that is being presented to Cabinet for consideration on Thursday 29 July 2021.
- 3.2 A verbal update will be provided to the Committee by the Director of Finance as to how closure has progressed between the date of publication of this report and the meeting.

4.0 Options

- 4.1 The committee may decide:
1. **To establish the subgroup** - this would assist in exercising their responsibility for approving the accounts by improving their understanding and oversight.
 2. **Not establish the subgroup** - members could either continue with the existing arrangements, or recommend a different course of action.

Contact Officer: *Chris Blundell, Director of Finance*

Reporting to: *Tim Willis (Deputy Chief Executive (S151 Officer))*

Annex List

Annex 1: Terms of Reference

Corporate Consultation

Finance: *N/A*

Legal: *Estelle Culligan (Director of Law and Democracy)*

**STATEMENT OF ACCOUNTS GOVERNANCE AND AUDIT COMMITTEE SUBGROUP
TERMS OF REFERENCE FOR 2021/22**

General

A subgroup of the Governance and Audit Committee is being established to undertake a detailed review of the 2021-22 Statement of Accounts.

Membership, Chairmanship and Quorum

Number of Members	Four - additional members may attend and participate under CPR 20.1
Political Composition	No requirement for political proportionality on the subgroup. To be confirmed by a nem-con vote.
Co-optees	None
Substitute Members Permitted	Yes
Political Balance Rules apply	No
Appointments/Removals from Office	By Chairperson of the Governance and Audit Committee
Restrictions on Membership	None
Restrictions on Chairmanship	Chairperson of the Governance and Audit Committee
Quorum	Three

Agenda Item 9

Annex 1

Number of ordinary meetings per Council Year	Meetings will be called as required
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Terms of Reference

1. To undertake a detailed review of the Council's draft 2020-21 Statement of Accounts, including a review of:
 - The narrative report
 - The core statements: The Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement
 - The key estimates, uncertainties and assumptions underpinning the figures disclosed in the accounts;
 - The supporting notes and other disclosures;
 - Requests from the auditors for information or assurance; and
 - Any other relevant documentation
2. To make recommendations to the s151 officer or his deputy on any improvements to the draft accounts;
3. Provide assurance to the Governance and Audit Committee that the draft statements provide a true and fair reflection of the Council's financial position and performance

General

The work of the subgroup is restricted to the stated terms of reference highlighted above unless they are reviewed by the Chairperson of the Governance and Audit Committee.

Notes

This subgroup was established through the initial terms of reference approved by the Governance and Audit Committee on 28 July 2021.