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Our Ref: Governance & Audit Committee/Agenda
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GOVERNANCE & AUDIT COMMITTEE

29 NOVEMBER 2023

A meeting of the Governance & Audit Committee will be held at **7.00 pm on Wednesday, 29 November 2023** in the Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Membership:

Councillor W Scobie (Chair); Councillors: Bright (Vice-Chair), Barlow, Braidwood, d'Abbro, Donaldson, Farooki, Garner, Manners, Munns, Nichols, Packman, Pope and Towning

AGENDA

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 27 September 2023, copy attached.
4. **TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2024/25**
Report to follow.
5. **MID YEAR REVIEW 2023/24: TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY** (Pages 11 - 32)
6. **CONTRACT STANDING ORDER WAIVERS** (Pages 33 - 60)
7. **AUDITOR'S ANNUAL REPORT** (Pages 61 - 124)
8. **EXTERNAL AUDIT PLAN 2021/22** (Pages 125 - 148)
9. **QUARTERLY INTERNAL AUDIT UPDATE REPORT** (Pages 149 - 168)

Item
No

Subject

10. **AUDIT COMMITTEE ASSURANCE STATEMENT** (Pages 169 - 232)
11. **RISK MANAGEMENT**
Report to follow.
12. **THANET LOTTERY UPDATE**
Report to follow.
13. **EXCLUSION OF PUBLIC AND PRESS** (Pages 233 - 238)
14. **ICT SECURITY UPDATE**
Report to follow.



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

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

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

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

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

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

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

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

An associated person is defined as:

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

An Authority Function is defined as: -

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

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

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

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

Gifts, Benefits and Hospitality

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

What if I am unsure?

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

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

GOVERNANCE & AUDIT COMMITTEE

Minutes of the meeting held on 27 September 2023 at 7.00 pm in Council Chamber,
Council Offices, Cecil Street, Margate, Kent.

Present: Councillor William Scobie (Chair); Councillors Bright, Barlow, d'Abbro, Donaldson, Farooki, Garner, Munns, Nichols, Packman, Pope and Towing

In Attendance:

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Braidwood and Davis.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF PREVIOUS MEETING

The Chair gave several updates on the previous minutes. Councillor Britcher proposed, Councillor Donaldson seconded and members agreed.

4. QUARTER 1 REVIEW 2023/24: TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY

Chris Blundell introduced the report making the following key points:

- It was a requirement that the treasury management activity was reported on a quarterly basis;
- Key items within the activity included the gross debt position at £20M, and the underlying need to borrow finance the capital programme was estimated for be £60M by the end of the financial year.

Members commented and asked the following questions:

- There was an underspend of £33.5M in the general fund and £4.1M in the housing revenue account, could more detail be provided regarding this?

Chris Blundell responded with the following points:

- The detail was set out and explained for within the budget monitoring report. The underspend was due to incorrect profiling;
- Initially there wasn't enough detailed information when setting the budget for the schemes.

Councillor Donaldson proposed, Councillor Davis seconded and members AGREED that:

The Governance & Audit Committee notes, and makes comments on as appropriate, this report.

5. RISK MANAGEMENT

Matt Sanham introduced the report making the following key points:

- The council monitored and manages the corporate risks through the corporate risk register;
- Contents of the report highlighted the high priority corporate risks, and the arrangements in place to ensure these risks were monitored and managed appropriately;
- The council had a proactive methodology on risk management and an interdepartmental cooperation on risk strategy;
- Risks had been assessed with a combination of the likelihood of something happening and the impact which arises if it does happen;
- Risk was considered unavoidable in organisations;
- At the staff level, the high level corporate risk register was regularly considered by the corporate management team.

Speaking under Council Procedure Rule 20.1 a Member asked questions and made a comment as follows:

- There was £1.2M in the budget for the risk of increased spend due to homelessness;
- There was a large piece of work regarding Berths 4/5 and project management framework;
- The environment act would be discussed after the 2024 General Election;
- There was no guaranteed external funding for the net zero strategy, however, the council was budgeting for electric vehicles and charging stations.

Members commented and asked the following questions:

- If repairs are made to the council estates, would the council opt for a net zero strategy?
- Questioning was raised regarding the risk scoring within the reports;
- Was there a review on how operational risks were dealt with around emergency response and business continuity?
- Members were pleased with the resilience within the risk management report regarding cyber-attacks;
- Discussion around more frequent in-house working for council employees was raised in relation to risk management, specifically cyber-attacks and mental health;
- Was the council recognising national standards, or was this tailored to the district?

Chris Blundell, Mike Humber and Bob Porter responded with the following comments:

- The council was looking for sustainable long term solutions;
- There was a journey to net zero strategy whilst considering the council's housing stock;
- Five tower blocks within the tower block refurbishment programme would see the removal and replacement of external wall insulation, this would be carried out sustainably;
- The social housing decarbonisation fund would improve the EPC ratings of the tower block buildings, reducing the carbon emissions;
- The council was looking at corporate estates, and reducing carbon emissions within these estates;
- Some risks were considered more severe than others. It was difficult to make comparison against different risks as each risk hit different categories of risk. Although risks were picking up different scorings, it was noted that each risk has a different composition due to hitting high scores across different risk categories;
- The council planned for emergencies of all sorts and size across the district;

- The operational risks regarding emergency response and business continuity would be reviewed and brought back to the committee;
- There was a detailed management plan which had been produced from the internal audit;
- Valid points were raised regarding the return to in-house working of council employee's. Members would have the ability to shape and influence the policy when this topic comes to the General Purposes committee;
- The risk management was a governance source of guidance which the council followed.

Councillor Donaldson proposed, Councillor Britcher seconded and members AGREED:

To approve the review of corporate risks and discuss annexed risks.

6. INDICATIVE EXTERNAL AUDIT PLAN 2021/22 - 2022/23

Matt Sanham and Nick Halliwell introduced the report making the following key points:

- The report covered the external audit plan for 2021/22 and 2022/23, this was developed by the appointed auditor, Grant Thornton;
- The expectation was that the indicative audit plan would be finalised and there would not be any significant changes to this;
- The audit was scheduled to take place in October 2023;
- Expected materiality was £2.7M, this was based on previous financial statements. This would be reassessed once the final statements of the accounts had been received;
- Significant risks would be identified. Significant risks included: pension liabilities, property valuations and management override of controls;
- New areas of focus for the 2022/23 audit included ISA 315.

Councillor Pope proposed, Councillor Britcher seconded and members agreed to note the report.

7. AUDIT PROGRESS REPORT AND SECTOR UPDATE

Matt Sanham and Nick Halliwell introduced the report making the following key points:

- The Audit progress and sector update was provided by Grant Thornton;
- The report set out two key areas, audit progress and sector updates;
- There was an audit backlog in local government audits. There were several key areas regarding why this had happened:
 1. Regulator focus around key areas and significant risks which had large values in accounts;
 2. Local audit capacity.
- There were talks regarding a backstop date, if audits were not completed by this set date a disclaimer opinion would be issued.

Members commented and asked the following questions:

- As well as having a delay across the sector due to the pandemic, the council also had governance issues;
- Had there been any discussion on specific dates regarding the backstop date?

Nick Halliwell responded:

- There had been discussions, but there was no definitive answers on dates. There was talk around the date of 31st March.

Councillor Donaldson proposed, Councillor Garner seconded and members agreed to note the report.

8. AUDIT FINDINGS REPORT 2020/21

Nick Halliwell introduced the report making the following key points:

- The report was presented at the last meeting of governance and audit, however there had been several updates;
- Advice had been given from the technical team that due to new code requirements around value for money reporting the findings should be given at the next committee meeting;
- Four key recommendations had been identified in the value for money report, this would be presented in the following committee.

Councillor Towning proposed, Councillor Donaldson seconded and members AGREED:

1. That the Audit Findings Report for 2020/21 as set out at Annex 1 is considered;
2. In the unlikely event that a minor change would be required, i.e. immaterial, the Section 151 be delegated the authority to sign-off the Audit Findings Report, in consultation with the committee Chair.

9. QUARTERLY INTERNAL AUDIT UPDATE

Simon Webb introduced the report, making the following key points:

- This was the regular quarterly internal update report which summarised the work by the East Kent Audit Partnership. The report contained details of the performance of the Easter Kent Audit Partnership up until the end of quarter one, 30th June 2023;
- Nine audits were completed during quarter one;
- Three areas had achieved substantial assurance. This was noted as garden waste and recycling income, the HRA business plan and insurance and inventory of portable assets;
- Area's which concluded reasonable assurance included environmental protection service requests, rent accounting collection and debt management;
- Employee health and safety concluded limited assurance;
- Planned maintenance contract letting and management concluded no assurance;
- Follow ups were considered an important part of the audit. During the period, three follow ups had been completed;
- Complaints monitoring moved from no assurance up to reasonable assurance, this was a significant improvement;
- There had been slippage in implementing the recommendations regarding absence management, revised due dates for the actions were proposed.

Speaking under Council Procedure Rule 20.1 a Member asked questions and made a comment as follows:

- The audit findings were welcomed;
- There had been fortnightly meetings with the Section 151 Officer and Health and Safety Manager. Cabinet was reviewing health and safety statistics;
- If residents were not getting good value for money regarding East Kent Opportunities, actions would be taken to address this.

Members commented and made the following points:

- There had been historic governance and management problems, officers would be bringing a report to October's Cabinet meeting regarding this;
- What was the process for writing off debts?
- A question was raised around carefully chosen language in the report;
- Areas of concern were related to contractors fitting low cost non-direct wired carbon monoxide alarms in every instance, and thirteen new boiler installations with thirteen instances of work paid for and no certification. These examples had flagged up issues with the way the contract was managed;
- Were officers confident that the internal audit plan for 2023/24 and 2024/25 would cover the core aspects of the Council in terms of assurance?

Chris Blundell, Bob Porter and Matt Sanham responded with the following points:

- There were different arrangements made in the constitution for writing off debts. At a certain level debt would need to be presented to Cabinet, under a certain level the Section 151 Officer could write off the debt;
- There would be a follow up audit;
- The gas boiler installation and the installation of carbon monoxide alarms were considered legacy issues from East Kent Housing setting up this specific contract. The Council requested the necessary installation certificates, but they were delayed until the contractor confirmed that they had put the correct anti-corrosion additives into the water. This was a requirement of the Council to ensure the life of the new central heating system would be preserved post installation;
- Within the new gas boiler contract, every boiler would be checked by the external technical auditing contractor. New arrangements were noted as much more robust than prior arrangements;
- The Council took fraud and corruption very seriously;
- The Head and Deputy Head of Audit met with the Section 151 Officer on a regular basis to discuss the plan. The plan was a live document, and moved with the emerging risks and opportunities of the Council;
- Typically one follow up is untaken for audits, however there are exceptions to this, particularly if the Committee requests further assurance.

Councillor Davis proposed, Councillor Britcher seconded and members agreed to note the report.

Meeting concluded : 8.43 pm

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Mid Year Review 2023/24: Treasury Management and Annual Investment Strategy

Governance & Audit Committee	29 November 2023
Report Author	Chris Blundell, Director of Corporate Services and Section 151 Officer
Portfolio Holder	Councillor Rob Yates, Cabinet Member for Corporate Services
Status	For Decision
Classification	Unrestricted
Ward	Thanet Wide
Previously Considered by	Cabinet - 16 November 2023

Executive Summary:

This report summarises treasury management activity and prudential/ treasury indicators for the first half of 2023/24.

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 2023/24 mid-year position for treasury activities.

Key reporting items to consider include:

- 2023/24 mid-year capital expenditure on long term assets was £5.9m (2022/23 mid-year: £6.3m), against a full-year budget of £60.7m.
- The Council’s gross debt, also called the borrowing position, at 30 September 2023 was £19.7m (30 September 2022: £20.0m).
- The Council’s underlying need to borrow to finance its capital expenditure, also called the Capital Financing Requirement (CFR), is estimated to be £78.3m at 31 March 2024 (31 March 2023: £52.2m).
- The Council has held less gross debt than its CFR and accordingly has complied with the requirement not to exceed its authorised borrowing limit of £81m.

- As at 30 September 2023 the Council's investment balance was £55.4m (30 September 2022: £56.8m).
- It is proposed that the 2023/24 Treasury Management Strategy Statement be amended as described in section 3 of this report.

Recommendation(s):

That the Governance & Audit Committee:

1. Notes, and makes comments on as appropriate, this report and annexes;
2. Recommends this report and annexes (including the prudential and treasury indicators that are shown and the proposed changes to the 2023/24 Treasury Management Strategy Statement) 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 Director of Corporate Services and Section 151 Officer, and this report is helping to carry out that function.

Risk Management

Risk management is as per the provisions of the annual Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy.

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 Background

1.1 Treasury management

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 Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

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 the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.2 Capital Strategy

The CIPFA Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy which is to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

2 Introduction

2.1 This report has been written in accordance with the requirements of the CIPFA Code of Practice on Treasury Management.

2.2 The primary requirements of the Code are as follows:

- a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- c) Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy (for the year ahead), a Mid-year Review Report (this report) and an Annual Report (stewardship report), covering activities during the previous year. Two additional quarterly reports are also provided to the Governance and Audit Committee.
- d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- e) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Governance and Audit Committee.

2.3 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2023/24 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (see also the Capital Strategy) and prudential indicators;
- A review of the Council's investment portfolio for 2023/24;
- A review of the Council's borrowing strategy for 2023/24;
- A review of any debt rescheduling undertaken during 2023/24;
- A review of compliance with Treasury and Prudential Limits for 2023/24.

3 Treasury Management Strategy Statement and Annual Investment Strategy Update

3.1 The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, Capital Strategy and Non-Treasury Investment Report, was approved by the Council on 9 February 2023.

3.2 It is proposed that both the Operational Boundary and Authorised Limit for borrowing in the 2023/24 TMSS (referred to in section 3.1 above) be increased by £20m to reflect the increase in the 2023/24 HRA capital programme for the acquisition and development of new affordable housing units (as referred to in section 4.2 below).

3.3 During the half year ended 30 September 2023 the Council operated within the treasury and prudential indicators set out in the 2023/24 TMSS.

4 The Council’s Capital Position (Prudential Indicators)

4.1 This part of the report is structured to update:

- The Council’s capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

4.2 Prudential Indicator for Capital Expenditure

This table shows the revised budgets for capital expenditure and the changes since the capital programme was agreed at the Budget.

The revised GF budget includes net reprofiling of -£6.748m (£33.159m unspent budgets from 2022/23 that have been rolled into 2023/24 less £39.907m subsequently transferred out). The largest element of the increase in the revised HRA budget is £19.485m for the acquisition and development of new affordable housing units

Capital Expenditure	2023/24 Original Budget £m	Current Position – Actual spend at 30/09/23 £m	2023/24 Revised Budget £m
General Fund	32.999	2.567	26.640
HRA	12.453	3.286	34.095
Total	45.452	5.853	60.735

Monitoring information on the capital programme at scheme level, including forecasts to the end of the financial year, is included in the regular Cabinet Budget Monitoring Reports.

4.3 Changes to the Financing of the Capital Programme

The table below takes the capital expenditure plans (as detailed in the previous table), and shows the expected financing arrangements of this capital expenditure.

The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2023/24 Original Budget £m Total	Current Position – Actual at 30/09/23 £m	2023/24 Revised Budget £m GF	2023/24 Revised Budget £m HRA	2023/24 Revised Budget £m Total
Total spend	45.452	5.853	26.640	34.095	60.735
Financed by:					
Capital receipts	3.811		4.653	1.517	6.170
Capital grants	25.836		14.336	1.583	15.919
Reserves	8.332		1.034	9.023	10.057
Revenue	0.405		0.112	0.370	0.482
Total financing	38.384		20.135	12.493	32.628
Borrowing need	7.068		6.505	21.602	28.107

4.4 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

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.

The table below shows the CFR, and also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the forecast CFR. The main reason for the increase in estimate shown below is the increase in the 2023/24 HRA capital programme for the acquisition and development of new affordable housing units (as referred to in section 4.2 above). THE CFR estimates below do not reflect the transfer of land off Highfield Road, Ramsgate from GF to HRA (as per the report tabled at the 2 March 2023 Cabinet meeting) as this transfer is estimated for 2024/25.

Prudential Indicator – the Operational Boundary for external debt

	2023/24 Original Estimate £m	Current Position – Actual at 30/09/23 £m	2023/24 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement			
CFR –General Fund	29.002		28.687

CFR – HRA	31.331		49.631
Total CFR	60.333		78.318
Net movement in CFR	8.099		26.084
	2023/24 Original Indicator £m	Current Position – Actual at 30/09/23 £m	2023/24 Revised Indicator £m
Prudential Indicator - the Operational Boundary for External Debt			
Borrowing	76.000	19.718	96.000
Other long term liabilities*	10.000	0.596	10.000
Total debt	86.000	20.314	106.000

* Any 'on balance sheet' PFI schemes and finance leases etc (including the leisure centre deferred credit).

4.5 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, borrowing will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2023/24 Original Estimate £m	Current Position – Actual at 30/09/23 £m	2023/24 Revised Estimate £m
Gross borrowing	54.683	19.718	77.317
Plus other long term liabilities*	0.597	0.596	0.568
Total gross borrowing	55.280	20.314	77.885
CFR (year end position)	60.333		78.318

The Section 151 Officer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit for external debt	2023/24 Original Indicator £m	Current Position – Actual at 30/09/23 £m	2023/24 Revised Indicator £m
Borrowing	81.000	19.718	101.000
Other long term liabilities*	15.000	0.596	15.000
Total	96.000	20.314	116.000

** Any 'on balance sheet' PFI schemes and finance leases etc (including the leisure centre deferred credit).*

5 Annual Investment Strategy 2023/24

5.1 The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by Council on 9 February 2023. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

5.2 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit quality financial institutions.

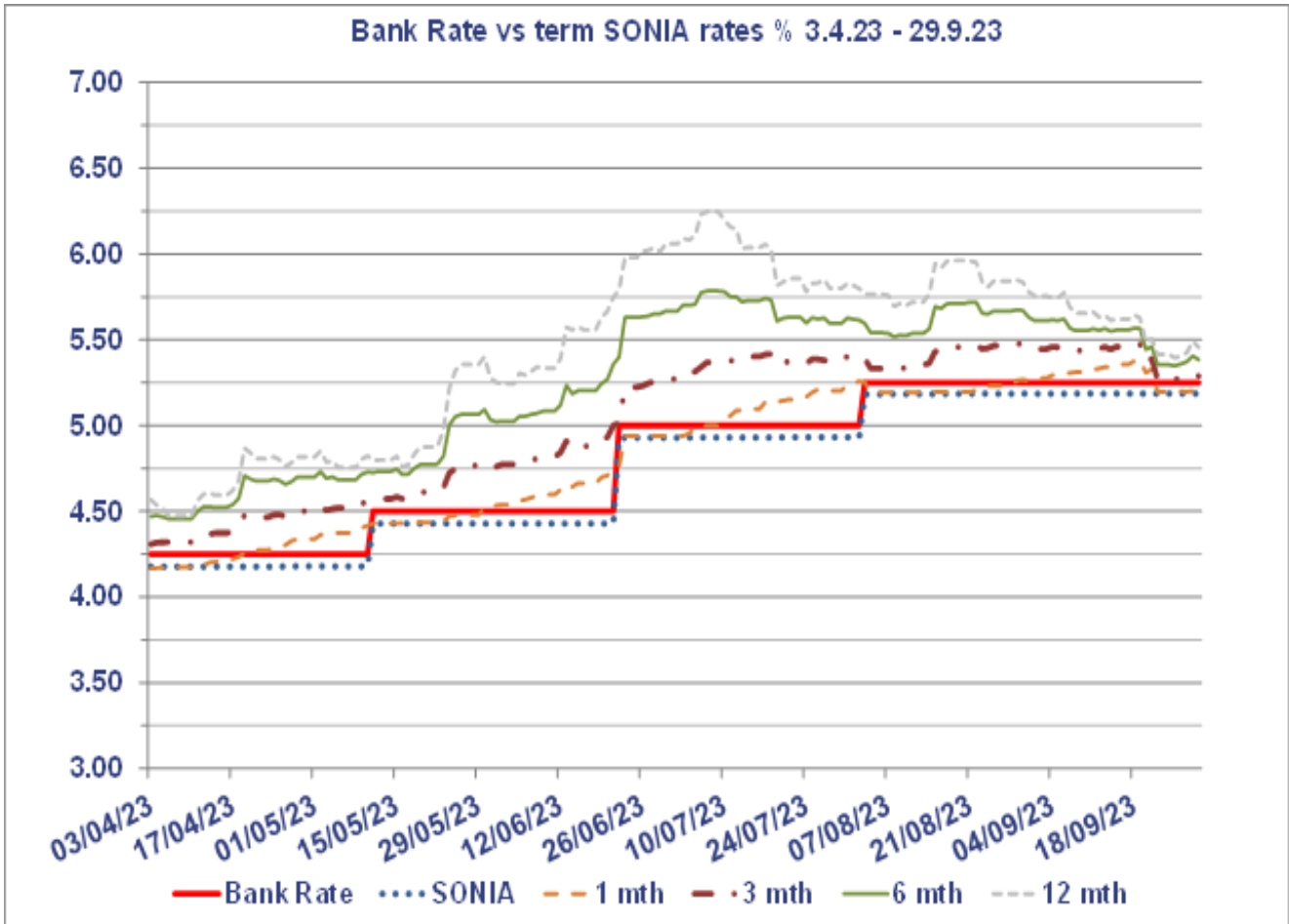
5.3 Creditworthiness

Following the Government's fiscal event on 23rd September 2022, both S&P and Fitch placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and a challenging economic outlook. Nothing further has evolved in the first half of 2023/24.

5.4 Credit Default Swap (CDS) prices

It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

5.5 Investment rates during half year ended 30th September 2023



	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	5.25	5.19	5.39	5.48	5.78	6.25
High Date	03/08/2023	29/09/2023	19/09/2023	30/08/2023	07/07/2023	07/07/2023
Low	4.25	4.18	4.17	4.31	4.46	4.47
Low Date	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
Average	4.81	4.74	4.83	5.03	5.26	5.45
Spread	1.00	1.01	1.22	1.17	1.33	1.77

5.6 The Council held £55.441m of investments as at 30 September 2023, with maturities all under one year (£56.827m at 31 March 2023). The investment portfolio yield for the first six months of the year is 4.68% against a benchmark (average 7 day SONIA compounded rate) of 4.67%. The constituent investments are:

Sector	Country	Total £m
Banks	UK	6.285
Money Market Funds	UK	48.156
Bond Funds	UK	1.000
Total		55.441

- 5.7 The Section 151 Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2023/24.
- 5.8 The Council's budgeted investment return for 2023/24 is £1.262m (£0.631m half-year) and performance for the first half of the financial year is above budget at £1.389m. The revised estimate for 2023/24 is £2.385m.
- 5.9 The above bond fund is a pooled investment fund accounted for at fair value, although there is a mandatory statutory override for local authorities to reverse all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. There was an unrealised fair value gain of £24k as at 31 March 2023 and it is not expected that the cessation of the override will have an adverse impact on the Council.

5.10 Investment Risk Benchmarking

Investment risk benchmarks were set in the 2023/24 Treasury Management Strategy Statement (TMSS) for security, liquidity and yield. The mid-year position against these benchmarks is given below.

5.10.1 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).

The security benchmark for each individual year is (excluding unrated investments):

	1 year	2 years	3 years	4 years	5 years
Maximum	0.05%	0.05%	0.05%	0.05%	0.05%

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

The Section 151 Officer can report that the investment portfolio was maintained within this overall benchmark for the first half of this financial year.

5.10.2 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 0.5 years, with a maximum of 1.0 year.

The Section 151 Officer can report that liquidity arrangements were adequate for the first half of this financial year.

This authority does not currently place investments for more than 370 days due to the credit, security and counterparty risks of placing such investments.

5.10.3 Yield

Local measures of yield benchmarks are:

- Investments – Internal returns above the average 7 day SONIA compounded rate.

The Section 151 Officer can report that the yield on deposits for the first half of the financial year is 4.68% against a benchmark (average 7 day SONIA compounded rate) of 4.67%.

5.11 Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

6 Borrowing

6.1 The Council’s capital financing requirement (CFR) revised estimate for 2023/24 is £78.318m. The CFR denotes the Council’s underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council has borrowings of £19.718m (table 4.5) and will have utilised an estimated £58.600m of cash flow funds in lieu of borrowing (assuming no additional borrowing is undertaken during the year). This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring if further upside risk to gilt yields prevails.

6.2 No new external borrowing was undertaken during the first half of this financial year.

6.3 The Council repaid £0.165m of maturing debt during the first half of this financial year using investment balances, as below:

Lender	Principal £'000	Interest Rate	Repayment Date
PWLB	43	3.08%	24/04/23
PWLB	50	2.48%	30/05/23

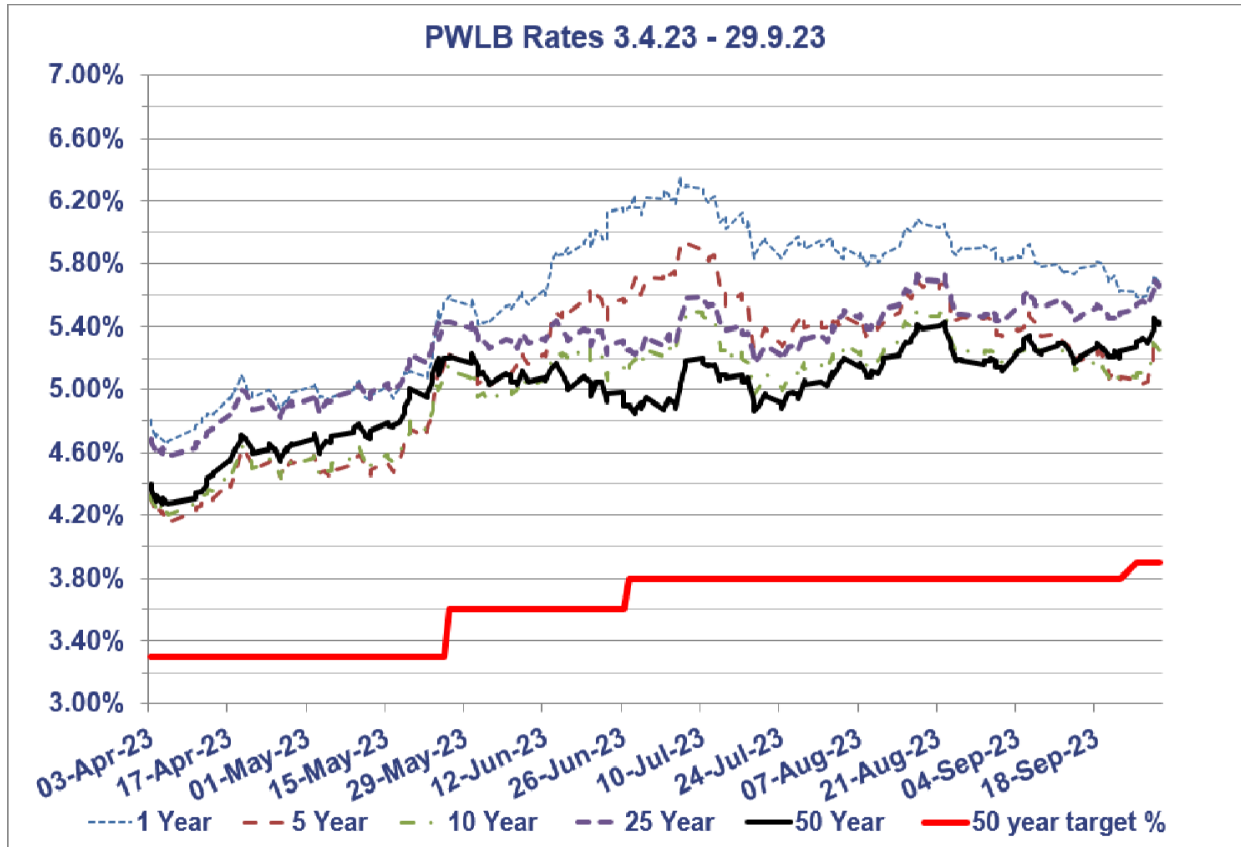
Agenda Item 5

PWLB	72	1.28%	20/06/23
Total	165		

As below, a further £0.093m of existing maturing debt is due to be repaid during the second half of this financial year. In addition, the Council has a long term loan of £4.5m from Dexia which has a lender's option/borrower's option (LOBO) feature. The option allows Dexia to alter the interest rate every six months although, if Dexia exercises this option, the Council may repay the loan. If Dexia decides not to exercise this option, the loan will continue at the fixed rate until maturity in 2065.

Lender	Principal £'000	Interest Rate	Repayment Date
PWLB	43	3.08%	23/10/23
PWLB	50	2.48%	27/11/23
Total	93		

- 6.4 Borrowing may be undertaken during the second half of this financial year and options will be reviewed in due course in line with market conditions. The capital programme is being kept under regular review due to the effects of inflationary pressures and shortages of materials, labour, and capital receipts. The Council's borrowing strategy will therefore also be regularly reviewed and then revised, if necessary, in order to achieve optimum value and risk exposure in the long-term.
- 6.5 The graph and table below show the movement in PWLB borrowing rates for the first six months of the year to 30 September 2023.
- 6.6 PWLB borrowing rates during half year ended 30th September 2023**



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

6.7 Gilt yields and PWLB certainty rates were on a generally rising trend throughout the first half of 2023/24. At the beginning of April, the 5-year rate was the cheapest part of the curve and touched 4.14% whilst the 25-year rate was relatively expensive at 4.58%.

6.8 July saw short-dated rates peak at their most expensive. The 1-year rate spiked to 6.36% and the 5-year rate to 5.93%. Although, in due course, short-dated rate expectations fell, the medium dates shifted higher through August and the 10-year rate pushed higher to 5.51% and the 25-year rate to 5.73%. The 50-year rate was 4.27% on 5th April but rose to 5.45% on 28th September.

6.9 Link Group (the Council’s external treasury management advisor) forecasts rates to fall back over the next two to three years as inflation dampens. The CPI measure of inflation is expected to fall below 2% in the second half of 2024, and Link Group forecasts 50-year rates to stand at 3.90% by the end of September 2025. However, there is considerable gilt issuance to be digested by the market over the next couple of years, as a minimum, so there is a high degree of uncertainty as to whether rates will fall that far.

6.10 The current PWLB rates are set as margins over gilt yields as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate (GF)** is gilt plus 80 basis points (G+80bps)
- **PWLB Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- **PWLB Certainty Rate (HRA)** is gilt plus 40bps (G+40bps)

The **UK Infrastructure Bank** will lend to local authorities that meet its scheme criteria at a rate currently set at gilt plus 40bps (G+40bps).

6.11 Debt rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt rescheduling has been undertaken to date in the current financial year.

6.12 The Council’s budgeted debt interest payable for 2023/24 is £2.077m (£1.039m half-year) and performance for the first half of the financial year is below budget at £0.401m, reflecting the use of internal borrowing (see section 6.1). The revised estimate for 2023/24 is £2.388m.

7 Treasury Management Indicators

7.1 Ratio of financing costs to 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.

%	2023/24 Original Indicator	2023/24 Revised Indicator
GF	10.0%	5.6%
HRA	6.6%	3.5%

7.2 Maturity Structures of Borrowing

These gross limits are set to reduce the Council’s exposure to large fixed rate sums falling due for refinancing.

	2023/24 Original Upper Limit	Current Position – Actual at 30/09/23	2023/24 Revised Upper Limit

Maturity structure of fixed rate borrowing			
Under 12 months	50%	35.7%	50%
1 year to under 2 years	50%	0.4%	50%
2 years to under 5 years	50%	1.3%	50%
5 years to under 10 years	50%	12.0%	50%
10 years to under 20 years	50%	35.8%	50%
20 years to under 30 years	50%	9.7%	50%
30 years to under 40 years	50%	0.0%	50%
40 years to under 50 years	50%	5.1%	50%
50 years and above	50%	0.0%	50%

The current position shows the actual percentage of fixed rate debt the authority has within each maturity span. None of the upper limits have been breached.

8 Options

8.1 The recommended option (to ensure regulatory compliance as set out in section 1 of this report) is that the Governance & Audit Committee:

- Notes, and makes comments on as appropriate, this report and annexes.
- Recommends this report and annexes (including the prudential and treasury indicators that are shown and the proposed changes to the 2023/24 Treasury Management Strategy Statement) to Council for approval.

8.2 Alternatively, the Governance & Audit Committee may decide not to do this and advise the reason(s) why.

9 Next Steps

9.1 This report is to go to the 7 December 2023 Council meeting for approval.

10 Disclaimer

10.1 This report (including annexes) 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: Chris Blundell, Director of Corporate Services & Section 151 Officer
Reporting to: Colin Carmichael, Interim Chief Executive

Annex List

Annex 1: Economic Update, Interest Rate Forecast and Debt Maturity

Annex 2: Guidance on the Treasury Management Strategy Statement and Annual
Investment Strategy – Mid Year Review Report 2023/24

Corporate Consultation Undertaken

Finance: N/A

Legal: Sameera Khan, Interim Head of Legal & Monitoring Officer

ANNEX 1 – ECONOMIC UPDATE, INTEREST RATE FORECAST AND DEBT MATURITY

1 Link Group’s Economic Update (issued by Link on 4 October 2023)

1.1 The first half of 2023/24 saw:

- Interest rates rise by a further 100 basis points, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- A 0.5% m/m decline in real GDP in July, mainly due to more strikes.
- Consumer Price Index (CPI) inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).

1.2 The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

1.3 The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.

1.4 The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.

1.5 As the growing drag from higher interest rates intensifies over the next six months, Link thinks the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of-living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. Link expects the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

Agenda Item 5

Annex 1

- 1.6 The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.
- 1.7 But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.
- 1.8 CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.
- 1.9 In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five Monetary Policy Committee members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25 basis point hike.
- 1.10 Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".
- 1.11 This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices

Agenda Item 5

Annex 1

could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.

- 1.12 The yield on 10-year Gilts fell from a peak of 4.74% on 17th August to 4.44% on 29th September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).
- 1.13 The pound weakened from its cycle high of \$1.30 in the middle of July to \$1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.
- 1.14 The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.

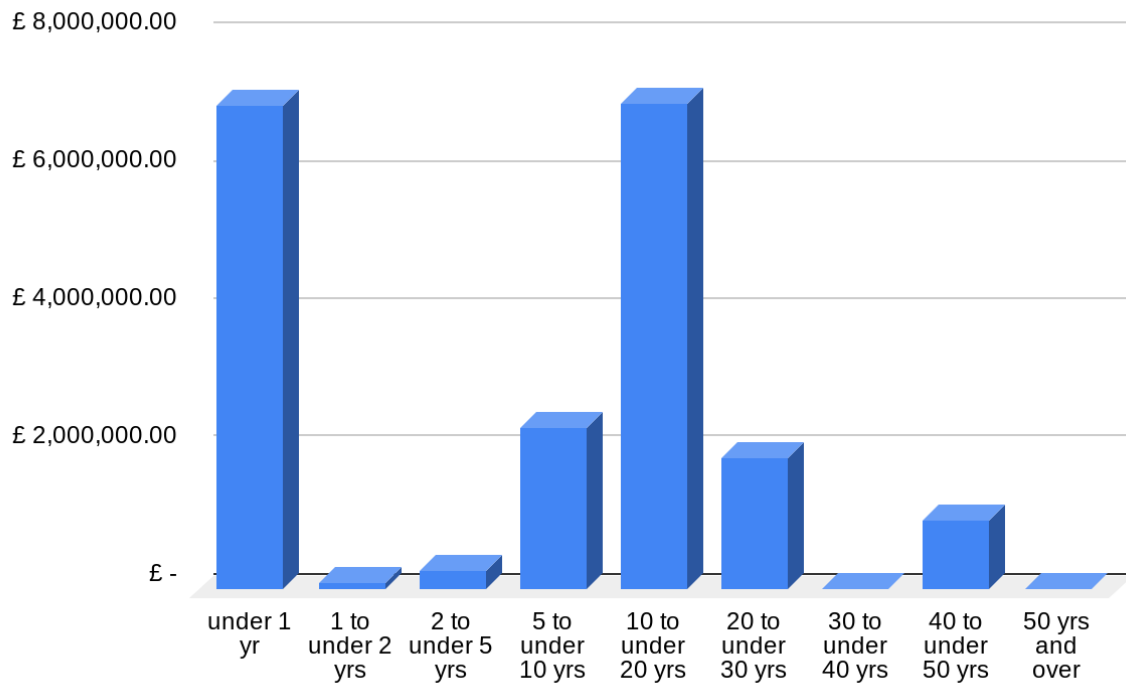
2 Link Group's Interest Rate Forecast (issued by Link on 4 October 2023)

- 2.1 The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates.
- 2.2 Link's latest forecast on 25th September 2023 sets out a view that short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.
- 2.3 Link's PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 basis points, calculated as gilts plus 80 basis points) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View 25.09.23													
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

3 Debt Maturity

3.1 The maturity structure of the Council's borrowing as at 30 September 2023 (as per section 7 of the main report) is shown below in graph format.



3.2 As per section 6.3 of the main report, £0.165m of council debt with the PWLB matured, and was repaid, during the first half of this financial year.

**ANNEX 2 – GUIDANCE ON THE TREASURY MANAGEMENT STRATEGY STATEMENT
AND ANNUAL INVESTMENT STRATEGY – MID YEAR REVIEW REPORT 2023/24**

Prudential Code

The Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice for capital finance, to which local authorities must have regard.

Capital Expenditure

The Capital Expenditure table (section 4.3 of report) is split between the Council's Housing Revenue Account (HRA) and General Fund (GF or non-HRA). The HRA is a 'ring-fenced' account for local authority housing.

The table also shows the resources used to fund the capital expenditure (being capital receipts from the sale of assets, capital grants, reserves and revenue) and any shortfall in resources. This shortfall represents the Council's borrowing need.

Borrowing Limits

The Capital Financing Requirement (CFR) represents the Council's aggregate borrowing need. i.e. the element of the capital programme that cannot be funded. Borrowing may only be undertaken for capital expenditure purposes.

The Limits to Borrowing Activity table (section 4.5 of report) shows that the Council's debt is not more than the CFR because, as above, the CFR represents the Council's aggregate borrowing need.

Borrowing limits (sections 4.5 and 7.2 of report) – there are various general controls on the Council's borrowing activity (operational boundary, authorised limit and maturity profiles).

Investments

General controls on the Council's investment activity to safeguard the security and liquidity of its investments (as set out in the Council's Annual Investment Strategy), include:

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

Borrowing Sources/ Types

PWLB (section 6 of report) 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 (section 7.1 of report), 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.

Contract Standing Order Waivers

Governance and Audit Committee 29 November 2023

Report Author	Chris Blundell, Director of Finance and Section 151 Officer
Portfolio Holder	Cllr Rob Yates, Cabinet Member for Finance and Procurement
Status	For Decision
Classification:	Unrestricted
Key Decision	No
Ward:	All Wards

Executive Summary:

This is the fourth of the on-going regular update reports to the committee on the council's use of waivers to its Contract Standing Orders (CSOs).

The council's purchasing decisions and processes are important because the money involved is public money. The council's CSOs provide a structure within which purchasing decisions are made and implemented and contain the core obligations that all officers who are in a position of spending the Council's money must follow.

The table below sets out the procurement route to be used depending on the value of 'Goods, Supplies and Services' contracts without VAT.

Value	Procurement Method
Below £10,000	Local CSO rules apply - At least one quote in advance - Consideration to be given to suitably qualified Thanet/Supplier/s, if available.
£10,000 - £99,999	Local CSO rules apply - At least three written quotes in advance, using the Council's Invitation to Quote documents or electronic method agreed with Procurement - Consideration to be given to suitably qualified Thanet/Supplier/s, if available. Published on Contracts Finder
£100,000 - £177,897.99	Local CSO rules apply - At least three written tenders in advance, using the council's Invitation to Tender documents with advertisement by public notice. Published on Contracts Finder, and the Kent Business Portal
£177,989.00 and above	PCR2015 & CSOs apply - Full competitive process using the Council's invitation to Tender documents following advertisement in the FTS for suppliers Published on Find a Tender Services (FTS), Contracts Finder and the Kent Business Portal

Agenda Item 6

The limits for 'Works' contracts are higher and full competitive tender processes are required for contract values above £4,447,448.00 without VAT. The council is also able to utilise compliant purchasing schemes for direct awards and mini competition processes, as an alternative way to procuring, without advertising as a full open process.

There is a general presumption in favour of competition and that contracts will be put out to competitive quote/tender when they are of an estimated value of £10,000 and above, however the requirement for the Council to conduct a competitive purchasing process can be waived under certain circumstances. For example:

- Where the work, supply or service is not subject to UK Public Contract Regulations 2015 and is required as a matter of urgency and a delay would be likely to lead to financial loss, personal injury or damage to property,
- Where the work is of a specialist nature and the supply market has been tested and found to be limited
- At the discretion of the relevant Director who may proceed in a manner most expedient to the efficient management of the service/Council with reasons recorded in writing.

For a full list of justified circumstances, please refer to **Appendix 1**.

The following table summarises the Council's approved Waivers for July to November 2023/2024 (up to 9 November):

Department / Directorate	No. Approved Waivers for July to Nov 2023/24 - as at 9 November 2023.			No. Rejected Waivers for July to Nov as at 9 November 2023	Total no. of Waivers received for July to Nov as at 9 November 2023
	Below £100k	£100k and above	Total		
Chief Executive	0	0	0	0	0
Corporate Services	6	0	6	0	6
Environment	1	1	2	1	3
Place	4	0	4	6	10
Total Number of Waivers	11	1	12	7	19

A detailed list of July to November 2023/2024 Waivers can be seen in **Appendix 4**

Recommendation(s):

1. The committee notes the report

Corporate Implications

Financial and Value for Money

As detailed within the body of the report

Legal

Local Government procurement is governed by the Public Contracts Regulations 2015 and Concessions Contracts Regulations 2016.

The Local Government (Transparency Requirements) (England) Regulations 2015 require additional contracting information to be published beyond the legislative requirements of the Public Contracts Regulations 2015 and Concessions Contracts Regulations 2016.

Corporate

The overriding procurement policy requirement is that all public procurement must be based on value for money, defined as “the best mix of quality and effectiveness for the least outlay over the period of use of the goods or services bought”

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.

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.

Corporate Priorities

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities

1. Introduction

- 1.1. This is the fourth of the on-going regular update reports to the committee on the council's use of waivers to its Contract Standing Orders (CSOs). The purpose of the report is to provide the committee with oversight of the application of waivers to the council's contract standing orders have been raised, setting out the number of instances and the rationales for the decisions taken by officers.

2. Background

- 2.1. The council's purchasing decisions and processes are important because the money involved is public money and the council has a responsibility to ensure value for money is achieved.
- 2.2. The council's CSOs provide a structure within which purchasing decisions are made and implemented and contain the core obligations that all officers who are in a position of spending the Council's money must follow. CSOs are the minimum requirements all officers should follow, providing protection to the council, officers and members, and which form part of the Council's Constitution.
- 2.3. CSOs apply to all contracts the council enters with the following exceptions:
 - Employment contracts
 - Acquisition or rental of land, buildings or other property
 - Arbitration or conciliation
 - Retention of legal councils and appointment of expert witnesses in legal proceedings
 - Service Level Agreements setting out funding arrangement to voluntary bodies

3. General Principles Applying to All Contracts

- 3.1. There is a general presumption in favour of competition and that contracts will be put out to competitive quote/tender when they are of an estimated value of £10,000 and above. This is to ensure that the Council uses its resources efficiently, purchases quality goods, services and works, safeguards its reputation from any implication of dishonesty or corruption and is able to demonstrate principles of sustainability, efficiency, whole life costing and cost savings.
- 3.2. All contract opportunities with a value over £25,000 and above must be published on the government's 'Contracts Finder' portal (<https://www.gov.uk/contracts-finder>), unless there is a clear justified need not to do so. Subsequent awards over this value must also be published. Contracts in excess of £100,000 are also published on the Kent Business Portal (www.kentbusinessportal.org.uk).
- 3.3. The tables below sets out the procurement route to be used depending on the value of the contract without VAT.

Table 1: Goods, Supplies and Services contracts

Value	Procurement Method
Below £10,000	Local CSO rules apply - At least one quote in advance - Consideration to be given to suitably qualified Thanet/Supplier/s, if available.
£10,000 - £99,999	Local CSO rules apply - At least three written quotes in advance, using the Council's Invitation to Quote documents or electronic method agreed with Procurement - Consideration to be given to suitably qualified Thanet/Supplier/s, if available. Published on Contracts Finder
£100,000 - £177,897.99	Local CSO rules apply - At least three written tenders in advance, using the council's Invitation to Tender documents with advertisement by public notice. Published on Contracts Finder, and the Kent Business Portal
£177,898.00 and above	PCR2015 & CSOs apply - Full competitive process using the Council's invitation to Tender documents following advertisement in the FTS for suppliers and Part A* services, Published on Find a Tender Services (FTS), Contracts Finder and the Kent Business Portal

Table 2: Works Contracts

Value	Procurement Method
Below £10,000	Local CSO rules apply - At least one quote in advance - Consideration to be given to suitably qualified Thanet/Supplier/s, if available.
£10,000 - £99,999	Local CSO rules apply - At least three written quotes in advance, using the Council's Invitation to Quote documents or electronic method agreed with Procurement - Consideration to be given to suitably qualified Thanet/Supplier/s, if available. Published on Contracts Finder
£100,000 - £4,447,447.99	Local CSO rules apply - At least three written tenders in advance, using the council's Invitation to Tender documents with advertisement by public notice. Published on Contracts Finder, and the Kent Business Portal
£4,447,448.00 and above	PCR2015 & CSOs apply - Full competitive process using the Council's invitation to Tender documents following FTS advertisement

Table 3: Service/Works Concession Contracts

Value	Procurement Method
Below £10,000	Local CSO rules apply - At least one quote in advance - Consideration to be given to suitably qualified Thanet/Supplier/s, if available
£10,000 - £99,999.99	Local CSO rules apply - At least three written quotes in advance, sourced and receipted electronically using Council's e-procurement system - Consideration to be given to suitably qualified Thanet/Supplier/s, if available Published on Contracts Finder
£100,000 - £4,447,447.99	Local CSO rules apply - At least three written tenders in advance, using the council's e-procurement system with advertisement by public notice Published on Contracts Finder, and the Kent Business Portal
£4,447,448.00 and above	Concession Contracts Regulation 2016 (ccr2016) apply - full competitive process using the Council's e-procurement system following FTS advertisement Published on Find a Tender Service (FTS), Contracts Finder and the Kent Business Portal

3.4. The council is also able to utilise Purchasing Schemes such as framework agreements, Dynamic Purchasing systems and other similar arrangements, such as the Government eMarketplace as an alternative and compliant route to procuring from the market.

3.5. As a minimum, all contracts of a value of £10,000 or more shall include clauses which set out:

- The works, supplies (goods), services, material, matters or things to be carried out or supplied
- Specify the price to be paid, the estimated price or the basis on which the price is to be calculated
- The time within which the contract is to be performed
- Quality requirements and/or standards which must be met
- Requirements on the contractor to hold and maintain appropriate insurance
- Adequate contract management and audit provisions
- What happens in the event that the contractor fails to comply with its contractual obligations (in whole or in part)
- A duty on the contractor to comply with all relevant legislative requirements and discharge of obligations under said legislation.

4. Waivers

4.1. The requirement for the Council to conduct a competitive purchasing process for contracts of £10,000 or more can be waived under certain circumstances.

4.2. This arises where officers request to waiver some of the council's CSOs in order to progress a purchase that is deemed in the best interest of the public or service for reasons such as, however, not limited to:

- Where a full competitive exercise is not able to be carried out for particular justifiable reasons,
- where a competitive process was carried out, however, less than three Quote/Tenders were achieved, in order to progress the award of a contract the Council's T&C are not able to be used.

Other circumstances requiring a waiver could be:

- where Legal advice has been sought for contracts of 100k and above and it has been determined that due to the nature of the agreement being used,
- it would not be best served for the contract or framework arrangement to be executed as a deed under the Council's common seal,
- or where a Tender Opening is not being undertaken due to the need for a direct award process.

4.3. CSO 12 sets out the provisions under which a waiver must be complied with, ensuring a clear decision has been made, for what reason and by whom. For example:

- where contracts are below Public Contract Regulations 2015 (PCR) threshold and the work, supply or service is required as a matter of urgency and a delay would be likely to lead to financial loss, personal injury or damage to property,
- Where the work is of a specialist nature, the skill of the contractor is of primary importance, and the supply market has been tested and found to be limited
- At the discretion of the relevant Director who may proceed in a manner most expedient to the efficient management of the service/Council with reasons recorded in writing.

4.4. For a full list of justified circumstances, please refer to **Appendix 1**.

5. Waiver Application Process

5.1. The waiver application is completed by the lead contracting officer know as the Responsible Officer and reviewed by the service area's Head of Service and sets out the following:

- details of the department and lead officer, contract information, budget information, value to be waived, CSOs being waived
- business reasons for the application waiver (economical, technical, operational)
- evidence to demonstrate probity and value for money (selection process, market competition, benchmarking exercises)
- Confirmation that the Responsible Officer has read and has reasonable understanding of CSOs
- Signature of four separate officers of the Council; Lead Officer, Corporate Director, Procurement Manager and Section 151 Officer.

- 5.2. A copy of the Waiver Application can be seen in **Appendix 2**.
- 5.3. CSOs should only be waived in exceptional circumstances and only be waived in advance. Retrospective waivers will not be approved by the Section 151 officer and the spend will be recorded as non-compliant with CSO in such instances.
- 5.4. Furthermore, note CSOs cannot be waived in all instances. For example where the value exceeds the Public Contract Regulations 2015 threshold, which is currently £5,336,937 (£4,447,448 before VAT if applied at 20%) for works contracts and £213,447 (£177,898 before VAT if applied at 20%) for goods and services contracts.
- 5.5. Lack of planning in providing insufficient time available to carry out a full procurement exercise or when going out to Quote/Tender would cause administrative, procedural burdens or a short delay to progress, would also not be considered justified reasons for waiving CSOs.
- 5.6. A comparison table of the number of Waivers across 2020/2021 to 2023/2024 (up to 9 November 2023) can be seen in **Appendix 3**.

6. Waivers in 2023/24 (July to November)

- 6.1. Table 3 below summarises the Council's approved Waivers for 2023/2024 (July to 9 November):

Table 3: Waivers 2023/24 (July to November)

Department / Directorate	No. Approved Waivers for July to Nov 2023/24 - as at 9 November 2023.			No. Rejected Waivers for July to Nov as at 9 November 2023	Total no. of Waivers received for July to Nov as at 9 November 2023
	Below £100k	£100k and above	Total		
Chief Executive	0	0	0	0	0
Corporate Services	6	0	6	0	6
Environment	1	1	2	1	3
Place	4	0	4	6	10
Total Number of Waivers	11	1	12	7	19

- 6.2. A comparison table of the number of Waivers for 2022/2023 (July to 9 November) and 2023/2024 (July to 9 November) can be seen in **Appendix 3**. This also includes the number of waivers approved in 2023/2024 up to 9 November 2023 and the previous years from 2020/2021.
- 6.3. It was announced in April 2023 that a new corporate structure was to be implemented and the final recruitment took place at the end of August 2023. As part of the new corporate structure, a Directorate structure of Place, Environment, Corporate Services was implemented replacing the previous structure of Operational Services, Deputy Chief Executive and the Corporate Governance. This has therefore been reflected in the July to November 2023 Report. Due to the complexities of the change in organisational structure it is not possible to directly compare to previous years figures.
- 6.4. There have been 19 Waiver applications received as of 9 November 2023 for the 2023/2024 July to November period. Of the waivers received only 12 were approved. The majority of Waiver applications continue to be under the 100K threshold and when compared to the same period of waiver figures in 2022/2023, they are very similar in number to those approved in the previous financial year. When comparing the total number of waivers received for 2023/2024 up to 9 November to the same period of time in 2022/2023 the number of waivers received is almost the same, however, the number of waivers approved is significantly less.
- 6.5. During this July to November period, reasons for waivers have included where the Council Standard Clauses have not been able to be used, limited markets; where only one supplier could provide the full requirements and the majority of Waivers approved were where it was considered that a direct award was in the best interests of the management of the service/Council; for cost saving reasons, complexities of the project or where the risk of not achieving the requirement by a specific deadline would significantly impact the Council's internal services.
- 6.6. Within the 7 Waiver applications rejected, these were on the basis of being considered non-compliant with CSOs and the Financial Procedure Rules (FPRs). Advice was given on how to mitigate the same circumstances occurring in the future.
- 6.7. A detailed list of 2023/2024 (including July to November) Waivers can be seen in **Appendix 4** and a breakdown of Nature of Waiver Categories can be seen in **Appendix 5**.

7. Ongoing Objectives

In June, the Council's 'Head of Finance, Procurement, Risk commissioned a Procurement Process Review. The purpose of this review was to look at whether the process can be streamlined to meet the ever changing needs, priorities and of the whole organisation, ensuring documents remain fit for purpose, robust processes remain in place compliant with PCR2015 and CCR2016, market changes are taken into consideration when considering thresholds, the identification of any gaps that may exist and resources available to fulfil

requirements. The review has been undertaken by an independent party who engaged with the key stakeholders from across the organisation responsible for commissioning contracts. Engagement on the waiver process was part of this and would be subject to recommendations following the review, which would be considered and incorporated into the waiver process and as part of the Council's refresh of CSOs. **The outcome of this review is also being considered as part of the Council's review of its arrangements for project management.**

The previous report advised that the Council's CSOs were due to be refreshed in 2023, which if approved, may include an increase to the value of works, supplies and services that are considered to be of quotation threshold, currently £10,000 and above. It had been anticipated the new threshold value would be £25,000 and will enable officers to seek one quote up to a value of £24,999, which should enable procurements more quickly without having to undertake a full competitive process, for what would be considered lower risk or low value requirements. Should an increase in thresholds be recommended and approved as part of the CSOs refresh, a waiver would no longer be required to waive a competitive process below that agreed value at CSO 6.6.

- 7.1. One of the other amendments being considered that may assist the Council streamline its internal processes is the amendment to wording surrounding the Standard Clauses inclusion for Purchasing Schemes (Frameworks). There are a number of Frameworks the Council uses, which do not allow provision for additional Terms and Conditions to be applied. In these circumstances the Council would not be able to include its own Standard Clauses and comply with its own CSOs requirements, without waiving this requirement. In consultation with Procurement and Legal, where the Council is prevented from including its own standard Clauses within a Framework Agreement, it has been proposed to amend the CSOs wording to acknowledge this as a valid circumstance outside of the Council's control and would therefore, not require a Waiver to be submitted.
- 7.2. The [Procurement Act 2023](#) has just received royal assent and will be coming into force in October 2024. It is anticipated a full revision of the CSOs would be required to support the new Procurement Regulations. Whilst an initial training session has been attended by the Procurement Manager and Section 151 Officer on what the Council may expect to be introduced in the new Public Contract Regulations, the full guidance has not yet been made available to the Council. The Legal Team are also in the process of seeking available training sessions now the Bill has been passed and will both work together to ensure the Council continues to be prepared for the change in regulations and the impact on the Council's processes. Further updates will be provided when more information becomes available and how this could affect the Waiver application process.
- 7.3. In Previous updates, it has been reported that full due diligence checks are also continuing to be carried out for all **waiver applications** where the waiver is deemed justified, to best protect the Council. These checks consist of carrying out a financial appraisal to confirm the supplier can meet the Council's minimum financial requirements for a contract of that value or combined value where the supplier is delivering more than one contract for the Council. The due diligence also includes confirming the supplier has the appropriate level of insurance cover in place that the Council would need to mitigate the risk. This approach was reviewed again in September 2023 by the Director of Corporate Services and Section 151

Officer, the Head of Finance, Procurement and Risk and the Procurement Manager (Operations) to ensure the level of due diligence checks continue to meet the Council's current requirements and it was deemed the approach continues to be appropriate for the majority of waivers received. Where the nature of the circumstances, however, requires extreme urgency for business critical circumstances, such as Health and Safety reasons, and carrying out the full due diligence checks and PIF completion may cause additional delays, a decision would continue to be taken by the Section 151 Officer as to whether the full due diligence checks will be required.

- 7.4. CSOs training and refresher training has continued to be undertaken to help ensure a greater understanding of CSOs; how and why these should be followed, the use of waivers, and an improvement to contract management, helping to mitigate the need for unnecessary waivers. Part of the training is on the Waiver application process and understanding that waivers are for exceptional circumstances only once all compliant options have been considered. As noted in the previous report to this committee, waiver applications continue to be received supported by evidence and the Procurement Initiation Form at the outset now, which greatly assists with processing the waiver applications in a smooth and timely manner.
- 7.5. Training of Officers will also need to be refreshed as part of the CSOs refresh and again ready for when the new Procurement Act comes into force. It is anticipated that this will be undertaken as part of a training programme being introduced to ensure that all officers who are in a position of spending the Council's money are identified and all training requirements are met.

Contact Officer: *Chris Blundell, (Acting Deputy Chief Executive)*
Reporting to: *Colin Carmichael (Interim Chief Executive)*

List of Appendices:

- Appendix 1 - CSO 12 Waivers extract
- Appendix 2 - CSO Waiver Application
- Appendix 3 - Comparison table of Waivers across 2020/2021 to 2023/2024
- Appendix 4 - Detailed list of 2023/2024 Waivers (April to 9 November)
- Appendix 5 - Category of Waivers 2023/2024 (April to November)

Corporate Consultation

Finance: *Not applicable*

Legal: *Ingrid Brown (Head of Legal and Democracy & Monitoring Officer)*

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Extract from Contract Standing Orders (CSOs) October 2018

12 Waivers

- 12.1 The requirement for the Council to conduct a competitive purchasing process for contracts of £10,000 or more may be waived in the following circumstances:
- 12.1.1 For contracts which are not subject to the EU Rules, the work, supply or service is required as a matter of urgency and a delay would be likely to lead to financial loss, personal injury or damage to property; or
 - 12.1.2 the circumstances set out in the Public Contract Regulations 2015 Regulation 32 apply (whether or not the contract is of a type which is subject to the application of the EU Rules); or
 - 12.1.3 where the supply is for parts for existing machinery, or where the terms of supply of equipment require that maintenance be undertaken by a specified provider; or
 - 12.1.4 where the work is of a specialist nature, the skill of the contractor is of primary importance, and the supply market has been tested and found to be limited; or
 - 12.1.5 where the supply is for maintenance to existing IT equipment or software, including enhancements to current software, which can only be performed by the licensed developer or owner of the system; or
 - 12.1.6 at the discretion of the relevant Corporate Director who may proceed in a manner most expedient to the efficient management of the service/Council with reasons recorded in writing.
- 12.2 A Responsible Officer who seeks a waiver of Contract Standing Orders shall do so **only in advance and only in exceptional circumstances**. Further guidance on what may constitute exceptional circumstances permitting waiver of these Contract Standing Orders is set out in the Council's Purchasing Guide.
- 12.3 All waivers from these Contract Standing Orders must be:
- 12.3.1 Fully documented
 - 12.3.2 Subject to a written report in an approved format, available on the intranet, to be submitted **in advance** to the relevant Corporate Director for endorsement which shall include reasons for the waiver which demonstrate that the waiver is genuinely required
 - 12.3.3 Subject to comment and/or endorsement as to existence of exceptional circumstances by the Strategic Procurement Manager
 - 12.3.4 Subject to **approval in advance** by the Deputy Chief Executive/Section 151 Officer or his/her authorised representative, who shall record that they have considered the reasons for the waiver and that they are satisfied that the circumstances justifying the waiver are genuinely exceptional.
- 12.4 All decisions on waivers must take into account:
- 12.4.1 Probity
 - 12.4.2 Best value/value for money principles.

Agenda Item 6

Annex 1

- 12.5 For contracts subject to the EU Rules, any waiver from the requirement for competition must meet without exception the conditions set out in the EU Rules, in addition to the general requirements above.
- 12.6 Once a waiver is approved in respect of a specific contract value, the waiver shall cover contract spend up to the next spend threshold negating the need for a further waiver application on occasion when there may be a slight increase in contract spend.

**APPLICATION TO WAIVER CONTRACT STANDING ORDERS
(FOR CONTRACTS IN EXCESS OF £9,999)**

This form must state appropriate CSO numbers under which application is made with sufficient explanation as to:

- 1) Actions/process to be waived
- 2) The CSO which provides authority to apply waiver
- 3) The business reasons and circumstances leading to the application (i.e. economical/technical/operational)

Please note – Waivers can only be sought in advance. (CSO 12.2) Retrospective CSO waivers will not be authorised. Waivers can only be agreed where informed by sound business reasons.

Responsible Officer:	Tel Ext:	Date:
Department:	Section	

Contract Title and brief description	
Supplier	
Existing Supplier	Yes/No
Value of total contract including: proposed extensions and options	
Expenditure Code:	
Allocated Budget:	
CSO Clause/s number/s to be waived on which application based (N.B. all non-waived clauses will still apply)	
Specific CSO clause number providing authority to apply to waiver (as defined under CSO12)	

Please describe reason for waiver (This should give clear explanation as to the circumstances that have lead you to require the CSO waiver i.e. a) what has gone wrong, including reason for failure as applicable which must include remedial action being taken to avoid a reoccurrence b) steps and reason required to utilise an opportunity)

All decisions on waivers must take into account probity and value for money. Please provide evidence to demonstrate this has been achieved.

List information (<i>This should include information such as selection process/market competition/benchmarking</i>)

I understand and will ensure all necessary contract documentation appropriate to Council requirements is in place and validated. These to include financial check, Insurances, CIS details, Health and Safety, Equalities and Diversity, Child Protection and Safeguarding Generally, TUPE as and where appropriate to the nature of the contract and as required by Council procedures.

The information provided on this form is correct and detail provided is representative of the full requirement and circumstances. I understand approval is based on information provided and therefore limited to the scope contained. The proposed expenditure is within the Budget/Capital Programme and Policy Framework and I have read the Council's Contract Standing Orders and have complied with all the requirements.

NB Officers who breach the Council's Contract Standing Orders will be subject to disciplinary proceedings.

Responsible Officer completing form	Date:
Name	
Signature	

Having rigorously challenged this application I agree that this waiver complies with the conditions as allowed for in CSOs and is therefore approved by me as genuinely required.

Corporate Director	Date
Name	
Signature	

Strategic Procurement Manager/Senior Procurement Officer	Date
Name	
Signature	

I have considered the reasons for the waiver and I am satisfied that the circumstances are genuinely exceptional as allowed for in CSOs and is therefore approved by me as the Section 151 officer.

Section 151 Officer	Date
Name	
Signature	

ALL SIGNATURES (X 4) MUST BE PRESENT FOR THIS APPLICATION TO BE VALID

Where a CSO waiver application has been fully approved this will “cover off” increases in contract value as long as, any subsequent increase/s does not take the contract value over the “value threshold” that the original waiver application was approved for i.e. value threshold £10,000-£99,999.99 applied, therefore, if the value increased over this threshold, say to £101,000 a new waiver application would need to be sought.

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DIRECTORATE	2023-2024	2022-2023	2021-2022	2020-2021*	2023-2024		2022-2023		2021-2022		2020-2021*	
					Below 100k	100k and above	Below 100k	100k and above	Below 100k	100k and above	Below 100k	100k and above
CHIEF EXECUTIVE	1	7	8	1	1	0	7	0	7	1	1	0
CORPORATE SERVICES (Previously named Deputy Chief Executives Directorate and included department areas now within the Place Directorate)	8	29	20	18	8	0	25	4	17	3	16	2
CORPORATE GOVERNANCE	n/a	0	3	6	n/a	n/a	0	0	2	1	4	2
ENVIRONMENT (Previously Operational Services)	7	9	22	29	4	3	8	1	19	3	27	2
EK SERVICES	n/a	n/a	n/a	n/a	n/a	n/a	0	0	0	0	0	0
EAST KENT HOUSING	n/a	n/a	n/a	1	n/a	n/a	0	0	n/a	n/a	1	0
PLACE (New directorate - was previously under Deputy Chief Executives Directorate, also now known as Corporate Services)	4	n/a	n/a	n/a	4	0	n/a	n/a	n/a	n/a	n/a	n/a
	20	45	53	55	17	3	40	5	45	8	49	6

*Now includes contracts previously under EKH, EK Services and Corporate Governance Directorates
*Includes some additional Waivers due to Covid impact
*Not a complete year - up to 9 Nov 2023 only
*Includes 2 waivers that were not included on the previous April to June 2023 Schedule of Waivers Report
*Now includes contracts previously under Deputy Chief Executive Directorate

Comparison of totals July to 9 November 2023/2024 same period in 2022/2023

DIRECTORATE	2023-2024 - (July to Nov)	2022-2023 - (July to Nov)	2023-2024 - (July to Nov)		2022-2023 - (July to Nov)	
			Below 100k	100k and above	Below 100k	100k and above
CHIEF EXECUTIVE	0	1	0	0	1	0
CORPORATE SERVICES (Previously named Deputy Chief Executives Directorate and included department areas now within the Place Directorate)	6	8	6	0	7	1
CORPORATE GOVERNANCE	n/a	0	n/a	n/a	0	0
ENVIRONMENT (Previously Operational Services)	2	3	1	1	2	1
PLACE (New directorate - was previously under Deputy Chief Executives Directorate, also now known as Corporate Services)	4	n/a	4	0	n/a	n/a
	12	12	11	1	10	2

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Service	Contract Name	Reason for Waiver	Contractor	Value of total Contract	Date (S151 Officer)	Category
CHIEF EXECUTIVE						
	Ramsgate Harbour : Conservation Management Plan to support levelling up funded projects	In addition to work already being undertaken by the appointed supplier via a compliant Dynamic Purchasing System route to the market, it has recently been identified by a Stakeholder that a Conservation Management Plan is required to support all the projects within the surrounding areas of the Ramsgate Harbour listings. This requirement was not known about at the time the original contract was commissioned, however, would have been included in the initial project had the Council been aware of its requirement. The waiver was requesting to add this additional work to the current contract, with a supplier who has the skills required and significant background knowledge as well as continuity of approach and information, which will reduce costs and help achieve value for money.	Curl La Tourelle Head Architects	£14,995.00	22/05/2023	Unforeseen additional requirements identified during contract
DEPUTY CHIEF EXECUTIVE'S DEPT						
	Unoccupied property security - Winter Gardens - Waiver Refresh No3	The Waiver is for the continued security provision at the winter gardens for another 12 months. To go out to appoint a different supplier via a competitive process could incur a potential period of time the security provision is not provided, increased costs and risk of further damage to the building to put up and take down current security measures.	Citiguard	£69,421,44.00	27/04/2023	Full competitive process cannot be undertaken due to extreme urgency
	Harbour Arm UKPN New Electricity Supply	This Waiver is for a direct award to a supplier for a new electricity supply to be able to deliver the current/future electricity supply requirements for the Harbour Arm. The current supply via Droit House is no longer fit for purpose with the increasing energy demand for users on the Harbour Arm and has resulted in instances of loss of power to all connected due to overloading and increase Health & Safety risks. The supplier is the only supplier in the region who can deliver the requirement due to exclusive rights to install new metered electrical supplies to properties both domestic and commercial.	UK Power Networks	£60,450.51	17/05/23	Requirement can only be delivered by a particular supplier
	Hosting, support and development of corporate	A new contract was required to be put in place, however, it was identified that additional costs would be incurred for migration and onboarding, along with additional resources required to support should the Council move to a new platform. A direct award to the incumbent supplier was, therefore, requested via a Waiver, to mitigate the additional costs involved to move, risk of delay with the incumbent should they withdraw support/hosting of the current platform, and when considering the platform is currently fit for purchase with no real need identified to undertake this amount of development work again at this time.	LUV Corp Ltd	£99,750.00	13/07/2023	In the best interest and most expedient to the efficient management of the service/Council

Service	Contract Name	Reason for Waiver	Contractor	Value of total Contract	Date (S151 Officer)	Category
	Microsoft User Client Access Licenses (CAL) 2022	It was identified Perpetual Microsoft Client Access Licenses (CALs) were required urgently to support security updates, compliance and business continuity and the Council could be subject to fines if not put in place. The licenses are part of wider dependencies and other work was also unable to start on the new servers until the licenses were in place. The existing servers would be de-supported in early October, which left insufficient time for a full ITQ process to be undertaken and completion of the work before this deadline, with the new servers would take an estimated timeframe of 2 months to build. A waiver was, therefore, requested for a direct award to a supplier who could meet the requirement and strict timescales for completion.	Softcat Ltd	£14,435.00	25/07/2023	In the best interest and most expedient to the efficient management of the service/Council
	SAN (Storage Area Network) & Fibre Switch Infrastructure for Data Centre	A compliant process was undertaken via a Framework, which unfortunately achieved no viable bids which being considered cost prohibitive. Due to the urgent nature of getting the requirement in place, it was considered undertaking a further competitive process would negatively impact the requirements being able to be delivered in time and a direct award to a supplier that could meet the full requirements in terms of both Quality and Cost was requested via a Waiver.	Nexstor Ltd	£65,000.00	06/09/2023	In the best interest and most expedient to the efficient management of the service/Council
	Firewall Replacement	It was the Council's intention to use a compliant framework via a Mini Competition, however, the provider of the firewall was not able to provide pricing to any bidders for a 3 week period or longer due to a business transformation project they were starting. For fairness to bidders, the Council could not start the live process until the firewall provider's project was complete. With a 1 month mobilisation period needed and a start date required of 4 December 2023 to meet a April 2024 end date with no flexibility, there was insufficient time to undertake a process with this framework or another competitive process to be undertaken. A direct award was, therefore, requested via a Waiver to appoint a supplier that already had received pricing from the firewall provider and that could meet the Council's timescales.	Phoenix Software Ltd	£31,836.71	25/09/2023	In the best interest and most expedient to the efficient management of the service/Council
	OKTA Licenses	A compliant framework process was undertaken via a government Framework and a bidder identified that best met the requirements and cost, however, there was no provision to include TDC Standard Clauses, therefore, the waiver was requested to waive this requirement in the Council's CSOs.	Cloud Technology Solutions Limited	£21,891.17	28/9/2023	TDC Terms and Conditions not being used
	Office 365 for Civica (EK Services)	This waiver was requested to waive inclusion of TDC Standard Clauses, where there was no provision within the framework to include them. A compliant process was undertaken via a Framework to appoint a supplier that was identified that could meet the full requirements.	Planet IT Limited	£45,300.00	19/10/2023	TDC Terms and Conditions not being used
ENVIRONMENT						

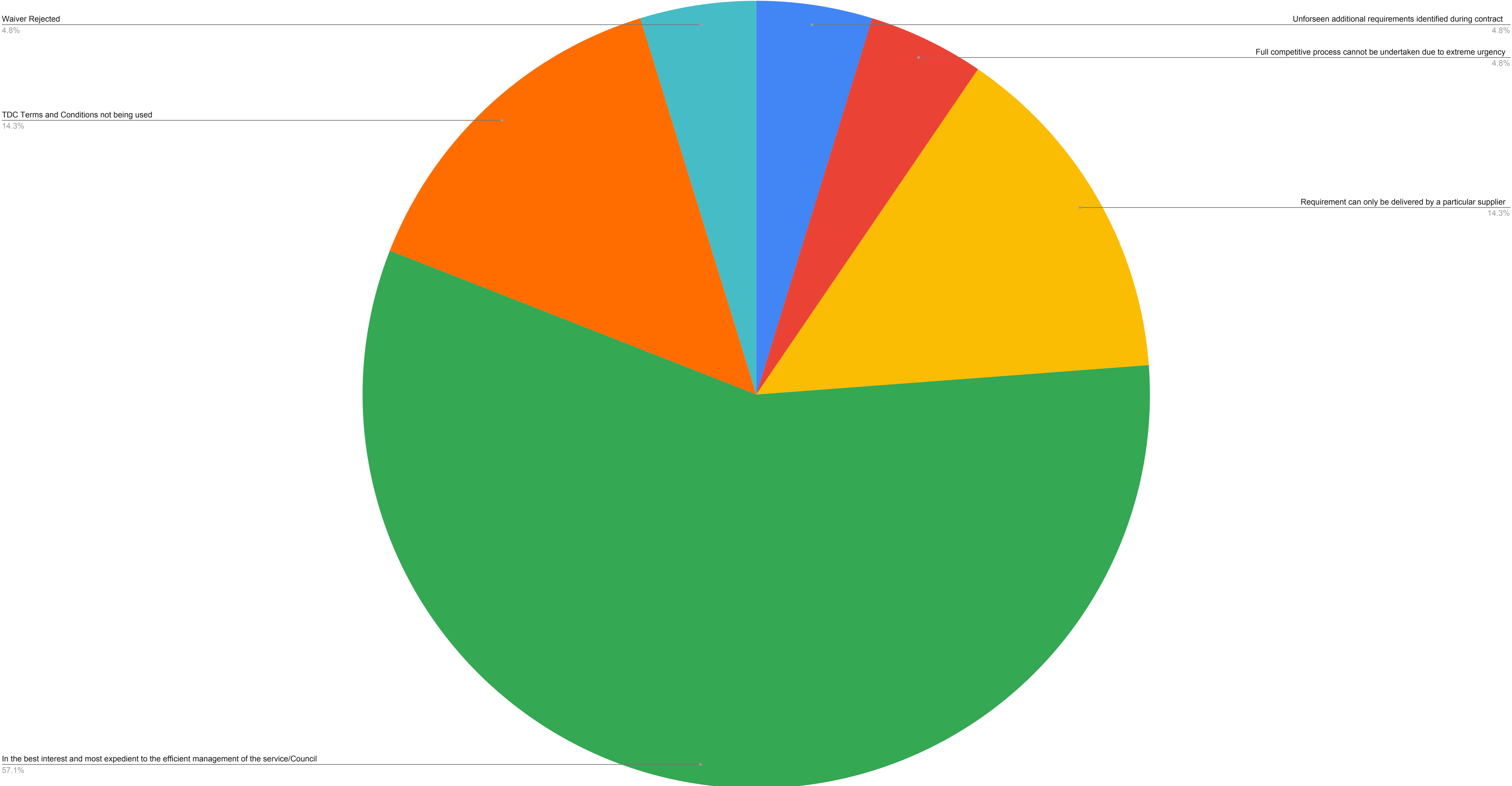
Service	Contract Name	Reason for Waiver	Contractor	Value of total Contract	Date (S151 Officer)	Category
	Electricity SMART Metering Solution - Licensing, Support and Cloud Hosting	The introduction of the Electricity SMART Metering Solution was agreed during the Star Chamber process, to upgrade the existing smart metered system currently in place. The proposed supplier was identified as there is no initial cost of equipment upgrade, which would reduce costs and the equipment is warranted for 5 years. It was considered there was also a risk if the upgrade was not implemented in that the present obsolete system becomes defective and customers would be able to access unmetered electricity. Going with another supplier would increase costs as the Council would have to pay additional costs for the equipment.	Meter-Macs Ltd	£158,490.00	27/04/2023	In the best interest and most expedient to the efficient management of the service/Council
	Commercial Waste Collections	A Cabinet decision was made to terminate the Commercial Waste service on 31st May 2023. This did not allow sufficient time to follow the full procurement process and issue a contract to start by 1st June 2023. The waiver enabled a 6 month contract to be put in place via a direct award to allow sufficient time to follow the full procurement process and meet the Council's obligations to comply with Section 34 of the Environmental Protection Act 1990.	Lili waste Service Ltd	£18,400	03/05/23	In the best interest and most expedient to the efficient management of the service/Council
	Legal Work relating to Port Of Ramsgate	The waiver is for a direct award to a previous supplier who provided initial advice and a proposal to inform a report agreed at cabinet, to progress the Port delivery project. With the tight timescales for delivery and the specific nature of this project being complex, external advice would be required anyway in order to facilitate if it had been delivered in-house. Agreement was, therefore, given for the work to be commissioned externally on this occasion, with a supplier who has demonstrated understanding of TDC requirements and specific experience and capability in the nature of work required (maritime/port/procurement and legal aspects).	Ashfords LLP	£142,730.00	10/05/2023	In the best interest and most expedient to the efficient management of the service/Council
	4 x Walk Behind Sweepers	The specific equipment can only be provided by one supplier. No compliant routes to the market could be found, therefore, this waiver is for a direct award to the identified supplier who can provide the equipment.	Commercial Services Trading Ltd - Supplier of vehicle is AddeX Group (Gatwick)	£98,378.98	31/05/2023	Requirement can only be delivered by a particular supplier
	Capital MEWO - Cherry Picker	Due to two cherry picker machines being returned under warranty, alternative cherry pickers were being hired in the interim. This enabled an alternative brand to be tested that met the required standard. A Second hand machine was then identified, with the options of new machines explored and continuing to hire being deemed too costly. The waiver enabled a direct award to a supplier which could offer the required machine, with 12 month service, a 6 month LOLER certificate and a 30 day warranty to protect the purchase, along with the machine being examined by a TDC Mechanical engineer to confirm it was in satisfactory condition.	AFI-Uplift Limited	£28,000.00	01/06/23	In the best interest and most expedient to the efficient management of the service/Council

Service	Contract Name	Reason for Waiver	Contractor	Value of total Contract	Date (S151 Officer)	Category
	Purchase of 4 x 12t Open Back Mini RCV vehicles	A compliant framework process was undertaken via a government Framework under a direct award process, where the supplier was identified as being the only supplier that met the requirements. The framework, however, had no provision to include TDC Standard Clauses, therefore, the waiver was requested to waive this requirement in the Council's CSOs.	Dennis Eagle Limited	£559,530.00	30/10/2023	Requirement can only be delivered by a particular supplier
	Virtual Permits	A Framework was used as a compliant route to the Market and a direct award option chosen to appoint the incumbent supplier, as it was deemed that changing and implementing a new system at this time would incur additional costs along with the purchase of the licenses. The current system is fully integrated with the Council's Parking system and therefore, it would also require additional time and resources if the Council were to change to another system, with the additional impact to the public of changing to a new process when there would be no additional benefit for them at this time. The framework, however, had no provision to include TDC Standard Clauses, therefore, the waiver was requested to waive this requirement in the Council's CSOs.	Cadence Innova Ltd	62,500.00	30/10/2023	TDC Terms and Conditions not being used
REJECTED	Marine Toilet Pod	A requirement for a new Marine Toilet Pod to replace the existing pod in poor condition was identified back in April 2023, however, a waiver was received in July 2023 notifying of an urgent requirement and requesting to waive a competitive ITQ process. It was considered that too much time was taken under engaging with the market between April-July, which could have been spent undertaking a competitive process ready for implementation of the pod in the summer period. The waiver was not approved, however, it was also deemed that there was a reputational risk to the Council if the pod was not replaced and the purchase was made under non-compliant spend.	Mitanium Ltd.			Waiver Rejected
PLACE						
	Ramsgate Future High Street Projects	A design requirement was identified, however, it had not been possible to include the requirement in a previous contract or earlier than at this point, as there was no guarantee the Council would be awarded the funding. Cabinet approvals and property owner approvals were needed to design the property and further project approvals were required after this, along with the Council being in the process of acquiring 5a Broadstreet (Aug/Sept). This put further time constraints on the delivery of the full project in time by March 2024. A direct award via a waiver was, therefore, requested to appoint a supplier who could meet the requirements and within a tight timeframe.	Engineers Haskins Robinson Waters Ltd	£19,750.00	08/09/2023	In the best interest and most expedient to the efficient management of the service/Council

Service	Contract Name	Reason for Waiver	Contractor	Value of total Contract	Date (S151 Officer)	Category
	Unit 1 Blenheim Close, Pysons Road Industrial Estate, Broadstairs - Lining or new internal gutter provision	An internal gutter repair was required due to gutters being identified in poor condition during investigative works and which would prevent the Council moving an existing tenant into this unit until the repair work was completed and rent to be lost whilst vacant. To identify the works required scaffolding was needing to be erected and it was identified that additional costs would be incurred for another supplier to put up their own scaffolding, therefore, continuing with this supplier who could meet the requirement would reduce further costs. It was also considered that moving the tenant into this unit would also free up the unit they were currently in, which was smaller and easier to market in the current climate.	J Rospo Building Contractors Ltd	£15,514.25	22/09/23	In the best interest and most expedient to the efficient management of the service/Council
	Selective Licensing Feasibility Study (including financial modelling and options appraisal)	It was identified that only one consultancy was set up to provide the service to develop and implement selective licensing designations requiring Government approval. As the skill of the contractor was of primary importance and in the absence of any other multi-disciplinary specialist consultancy operating in what was considered a niche area of work, a direct award was requested via a waiver.	Cadence Innova Ltd	£32,000.00	12/10/23	In the best interest and most expedient to the efficient management of the service/Council
	Structural Survey Roofs at Ramsgate & Margate Sports Centres (PV Bids)	An urgent requirement was identified for a Consultant Structural Engineer was needed to determine the suitability of the existing roof structures at Hartsdown and Ramsgate Leisure Centers, to support a bid application for proposed Solar PV panels. The Council was unable to apply for the bid, unless it was able to provide confirmation on the Bid Application that the existing structures were suitable. Whilst a number of suppliers were approached for a quote, only one bidder responded and was able to meet the requirement in the limited timeframe left available. A waiver was therefore requested for a direct award to this supplier.	BSF Consulting Engineers Ltd	£12,400.00	23/10/2023	In the best interest and most expedient to the efficient management of the service/Council
REJECTED	Civils & Structural - Fishing Facilities	A previously combined contract opportunity for these 6 contracts was captured under Public Contract Regulations 2015, and achieved no viable bids over two competitive processes. 6 waiver applications were subsequently requested to be reviewed for 6 direct award appointments. Without sufficient evidence to justify the disaggregation was lawful in regard to PCR2015 and in compliance with FPRs and CSOs, the waiver applications were not in a position to be approved. It was deemed that alternative compliant routes would have been an option for consideration, via a further competitive process if time would allow, however, it was decided undertaking a further competitive process could not be achieved without impacting other programmed work downstream and the risk of not delivering related projects was a high risk. On this occasion the waivers were not approved, however, with the risk of not delivering was still high, and therefore, the purchases were continued to be made under what is considered non-compliant spend.				
REJECTED	Civils & Structural - Green Campus					
REJECTED	Civils & Structural - Heritage Projects					
REJECTED	MEP Consultant - Fishing Facilities					
REJECTED	MEP Consultant - Green Campus					
REJECTED	MEP Consultant - Heritage Projects					

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Appendix 5 - Category of Waivers 2023-2024 (April to Nov)



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External Auditor's Annual Audit Report on Value for Money

Governance and audit	29 November 2023
Report Author	Chris Blundell, Director of Corporate Services and Section 151 Officer
Portfolio Holder	Cllr Rob Yates, Portfolio Holder for Corporate Services
Status	For Decision
Classification:	Unrestricted
Key Decision	No
Ward:	All wards

Executive Summary:

The Council's external auditor Grant Thornton is required to report its audit findings from its audit of the accounts to G&A, but this year, due to the fact that this report covers 3 years rather than 1, it has been taken to Cabinet for endorsement.

Recommendation(s):

1. The External Auditors Annual Report covering Value for Money for the years 20/21 through to 22/23 be approved as set out in Annex 1

Corporate Implications

Financial and Value for Money

There are no financial implications arising directly from this report.

Legal

This is a statutory requirement in accordance with the Local Audit and Accountability Act 2014 and, Accounts and Audit Regulations 2015 and The Code of Audit Practice

Corporate

This is part of the external audit process.

Risk Management

No action on this item would result in non delivery of the statutory requirement pertaining to the accounts, this could result in:

- Loss of confidence

- Reputational damage

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.

Corporate Priorities

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities

1. Introduction and Background

- 1.1. The auditors are required to reach a formal conclusion on whether the council has put in place proper arrangements to secure value for money.
- 1.2. The council received a number of objections to the accounts on the grounds of the council's arrangements to secure value for money which has delayed reporting.
- 1.3. The report on value for money covers the 3 years from 2020/21 to 2022/23. It therefore covers a period in the council's history of significant upheaval and revisions to its senior leadership and governance arrangements.
- 1.4. It would be fair to say that the report concludes that the first two of those three years were a period in which the necessary steps were being taken to identify and address the problems. The last of those years, 2022/23, is a period in which significant progress has been made to resolve the problems. The details of this process are set out below.
- 1.5. The Council's External Auditors, Grant Thornton, issued a report under Section 24 of the Local Audit and Accountability Act 2014 on 12 October 2021. That report is a formal report to a Council that requires the Council to take necessary steps to resolve perceived failures of governance and leadership. It is a most unusual step, and significant to the difficulties the Council was facing.

- 1.6. Following on from this and directly as a result of the recommendations of the External Auditor's report, an Independent Monitoring Officer (IMO) was appointed by the Council, with a remit to investigate the issues raised by the External Auditor, and to look more broadly at the governance of the Council. The IMO produced his report, which was considered by Council on 19th May 2022. The recommendations made by the IMO were approved by Council.
- 1.7. As a result of the recommendations, the Council appointed Chris Blundell as Director of Corporate Services and Section 151 Officer. Sameera Khan was appointed as the Interim Monitoring Officer on 18 July 2022, and Colin Carmichael was appointed as Interim Chief Executive (and Head of the Paid Service) on 20th July, and is under contract until at least the end of July 2024. As the Council's Statutory Officers, they have worked with the Service Directors (now Heads of Service) to form the Council's Corporate Management Team (CMT). One of the remits of the CMT has been to work with Councillors to implement the recommendations of the External Auditor and the IMO.
- 1.8. The Chief Executive reported to Cabinet and to full Council last March to advise Councillors of the progress made on implementing the recommendations of the Section 24 report from the external auditor, and those from the IMO. Those reports were noted by Council. They are available to Councillors as the agendas for both meetings were public. We will not, therefore, go into detail about the content of the reports.
- 1.9. The issues that remained outstanding, when the reports were considered last March, were:
 - improving the ability of Councillors to get appropriate information from Officers
 - Improving the Council's approach to Project Management and Procurement
 - Training for Councillors to enable them to carry out their duties more effectively.
 - Taking each of these in turn
- 1.10. Progress is being made on the flow of information, but we acknowledge that there is still much to do. The emergence of hybrid working after the pandemic has caused problems which CMT is working hard to resolve. Councillors will note that the budget proposals contain a post to be created that will support Councillors in carrying out their Ward duties and improving the information flow.
- 1.11. We are making substantial progress on Project Management and Procurement. One of the recommendations of the IMO was to conduct a review of the process used to reconstruct Berths 4 and 5 at Ramsgate Port. That review was conducted by the Internal Auditor, and her report was also presented to Cabinet and Council last March. CMT accepted all her recommendations. We have commissioned a review of our procurement processes, and have also engaged a consultant to work with us on a complete review of our project management processes, coupled with across the board training for relevant officers.

- 1.12. We deferred the recommendation on training for Councillors until after our election last May. Since then a comprehensive training programme has been delivered for all newly elected Councillors.
- 1.13. In addition to these actions, two other changes have been made.
- 1.14. The Chief Executive has conducted a complete review of the senior management structure. That was approved by General Purposes Committee in January. The posts of Director were filled by the Appointment Panel, and the posts of Head of Service have been filled by the Chief Executive.
- 1.15. The Chief Executive has reviewed the functioning of CMT. Perhaps unusually, it comprises not only the CE and Directors, but also all Heads of Service. The purpose is to include all senior managers in the corporate direction and strategy of the Council.
- 1.16. However, there are some issues which require more specific membership, and the contribution of Officers who are not members of CMT. We have, therefore, created three sub groups of CMT to do this. They are:
- a Project Management Working Group - which will commission, monitor, take officer decisions on, and oversee the completion of major projects.
 - a Governance Working Group - which will look in detail at reports from Internal Audit, ensuring that recommendations made by the Auditor are properly considered and implemented - which has been a problem in the past. It will also look in detail at Health and Safety monitoring.
 - Property Working Group - to reach conclusions at Officer level on issues relating to property owned by the Council.
- 1.17. Cabinet was asked to consider and endorse the management action outlined above relating to the Auditors Annual report at its meeting of the 16 November, which it has done..

Contact Officer: Chris Blundell Director of Corporate Resource and Section 151 Officer

Annex List

Annex 1 External Auditors Annual Report

Background Papers

None

Corporate Consultation

Finance: N/A

Legal: N/A

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Interim Auditor's Annual Report on Thanet District Council

2020/21, 2021/22 and 2022/23

September 2023

Consultation Draft

Contents

Section	Page
Executive summary	03
Key recommendations	10
Use of auditor's powers	15
Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources	16
Governance	17
Improvement recommendations	22
Improving economy, efficiency and effectiveness	24
Improvement recommendations	29
Financial sustainability	30
Improvement recommendations	36
Covid-19	42
Follow-up of previous recommendations	44
Summary of objections to accounts	47
Opinion on the financial statements	49
Appendices	
Appendix A – Responsibilities of the Council	51
Appendix B – Risks of significant weaknesses, our procedures and findings	58
Appendix C – An explanatory note on recommendations	61



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting, on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary



Value for money arrangements and key recommendation(s)

	No significant weaknesses in arrangements identified or improvement recommendation made.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weaknesses in arrangements identified and key recommendations made.

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria. 2020/21 was the first year that we reported our findings in this way. The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. We have reported a combined commentary on the Council's arrangements for 2020/21, 2021/22 and 2022/23 as this provides a current position of the arrangements in place and enables the Council to take timely effective action. If our findings relate only to one year this will be clearly stated, where we do not refer to a year it covers all years. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgement	2021/22 Auditor Judgment	2022/23 Auditor Judgment	Direction of travel	
Governance	Risk identified in the 2020/21 Plan due to complex grievance issues apparent in 2019/20 requiring external support. Our work identified that weaknesses in governance arrangements at the top tier of the Council were apparent in all years. Improvements were made by 2022/23 to suggest however until these are fully embedded there is no evidence to suggest the weaknesses have been eradicated.		Two significant weaknesses in arrangements identified and two key recommendation made as a result. Two further improvement recommendations made.		Two significant weaknesses in arrangements identified and two key recommendation made as a result. Two further improvement recommendations made.	↕
Improving economy, efficiency and effectiveness (3E's)	No potential risks of significant weakness were identified within our Audit Plan, however potential risks became evidence around project management and performance reporting in the course of our work. When investigated in 2020/21 both provided evidence of weaknesses in arrangements and were therefore considered risks for subsequent years.		Two significant weaknesses in arrangements identified and two key recommendation made.		One weakness in relation to performance monitoring addressed. One significant weakness in arrangements remains and one key recommendation made.	↕
Financial sustainability	Risk identified in the 2021/21 Plan because of the Council's comparatively low level of reserves when compared to other Kent District Council's. Our work in 2020/21 did not identify a weakness and therefore no risk, at risk assessment stage, considered relevant for 2021/22 or 2022/21. We did identify a weakness in reporting arrangements for outturn and budget monitoring which was not identified as a risk due to no issues prior to or within 2020/21 being evident.		No significant weakness identified, five improvement recommendations made.		One significant weakness in arrangements identified and eight improvement recommendations made.	↓

Annex 1
Agenda Item 7

Page 69

Executive summary



Governance

Council-Wide Governance and Transparency

Following our 2019/20 Value for Money work statutory recommendations were raised to the Council as a result of poor governance arrangements concerning the ability of senior officers to work together and make decisions for the benefit of the Council. This resulted in inadequacy of, and non-compliance with, policies and in relation to whistleblowing, grievances and disciplinary actions and the ultimate financial impact of each of these issues. One of the statutory recommendations included a requirements to undertake a review by an Independent Monitoring Officer (IMO). The Council developed an action plan to the statutory recommendations and engaged an IMO immediately, this produced further recommendations and a separate action plan. By the end of 2022/23 the actions in both plans are substantially completed with the exception of a people strategy and behavioural framework being developed and training in relation to those frameworks having been undertaken to address the recommendations related to improving member and officer relationships. The Council has elected new members in early 2023/24 and undertaken a restructure of its senior management team which is due to complete when all staff are in post by October 2023. It is expected that the remaining points will be addressed when this restructure is complete so incoming officers can be included. Therefore, there is sound rationale for the Council's judgement to pause this element of the plan.

The statutory recommendations and IMO findings were indicative of a weakness in governance arrangements in the years they relate to, 2020/21 and 2021/22. Although a strong progress in producing, monitoring and substantially responding to the recommendations has been observed in 2022/23, until the action plans be fully completed and there is evidence the updated arrangements are well embedded following the management restructure a weakness is apparent in 2022/23 also. As such we have raised a key recommendation aimed at addressing this weakness going forwards, see page 10.

Service Level Governance

Whilst governance arrangements at the top tier of the organisation have improved, governance arrangements within individual service lines are an area of concern. As noted there has been an increasing number of Limited and No Assurance Internal Audit reports in 2021/22 and 2022/23 and low confidence in corporate governance arrangements in all three years, as a result of the council-wide issues and the individual Internal Audit reviews each year. A common casual theme has been a lack of underlying policies, procedures and compliance. As such we believe there to be a weakness in the standards of several services due to the lack of underlying governance and have raised a key recommendation in this area on page 11.



Annex 1
Agenda Item 7

Executive summary



Governance

Risk Management

The Council has reviewed and updated its Risk Management Strategy in 2022/23. Under both the old and updated strategies members focus their attention on the highest rated risks from Corporate Risk Register, however transparency has increased in the period and the number of risks being reviewed has increased. Developments in risk management are taking place regularly and iterative improvements are seen throughout the three-years covered by our reporting. We have made some improvement recommendations aimed at ensuring best practice is achieved in this area.

The Council is well supported by the Internal Audit function, which is provided by East Kent Audit Partnership, which is evidenced via their fair and open reporting to members in relation to their reviews. This has led to an increasing number of Limited and No Assurance rated reviews over the period as the function ensure they provide an objective view of the Council's services. There is evidence as the three-year period has progressed of Internal Audit, Members and the current Chief Executive and Section 151 Officer working closely together to respond to findings and a good level of communication has been observed. This is an improvement noted since the 2019/20 year. Although positive relationships and regular detailed reporting have been observed the Council should now seek a review of the function against the Public Sector Internal Audit Standards, required every 5 years, to provide assurance to the Council over the effectiveness of the service to ensure compliance with this requirement.



Annex 1
Agenda Item 7

Executive summary



Improving economy, efficiency and effectiveness

Performance Reporting

It is an expectation that members, as decision makers, receive information on and pay equal attention to the non-financial performance of the Council as well as financial. The two are directly correlated. It was noted that in 2021/21 Cabinet did not receive any reporting in relation to the non-financial performance of the Council and therefore did not have the required information with which to make decisions to target underperforming services, or learn from services that were performing well. This has been badged as a significant weakness in arrangements and a key recommendation raised on page 12.

At the start of the 2021/22 year the Council introduced a live tool which monitors operational performance across a number of Key Performance Indicators (KPIs) which was made available, and remains available, on the Council website. This is a significant improvement and addresses the weakness in 2020/21 as the information is available publicly, however there was still no reporting on a summary basis to members. This has since been rectified in 2022/23 at members' request. We believe further improvement could be made to this reporting to ensure the actions being taken in relation to underperforming areas is clear, can be monitored and responsible individuals can be held accountable and that there is effective monitoring of, not only Council performance, but that of key partners the Council works with.

When looking at Council performance reporting and financial information provided to central government it is clear that homelessness is a key area of pressure for the Council. This is a demand led service, over which the Council has limited control. However, it is also an area of high cost and therefore there is the opportunity for the Council to address the supply, rather than demand, aspect of the service. The Council has begun to take positive action to reduce unit costs converting a disused Council-owned building into temporary accommodation to reduce the costs of using private sector provision. This work was shortlisted for an industry award due to its successes and therefore the Council is now seeking to extend projects of this kind to reduce costs and respond to demand at the same time.

Project and Contract Management

During the course of the investigations by the Independent Monitoring Officer, noted in the Governance section previously, the investigator became aware of several concerns in relation to a key capital project on berths 4 and 5 of the Ramsgate Port and therefore recommended that a detailed review into the project took place. A post-implementation review by internal audit identified failings in the Council's project management processes in relation to this project and more widely within the Council. The report was provided in March 2023 and therefore there has been limited time with which to fully respond to the findings. The findings of the report and the fact that a key piece of governance, a Project Management Framework, have not been in place we believe there to be a weakness in project management arrangements and have raised a key recommendation in response. See page 13 for further details of the weakness and recommendation raised.

Executive summary



Improving economy, efficiency and effectiveness (continued)

Project and Contract Management

An objection was raised concerning the same project and our investigations into the specific issues raised has not identified the need for a Public Interest Report (as requested in the objection) or unlawful decision making, and therefore the weakness is limited to the underlying project management governance arrangements and expertise.

Internal Audit have also undertaken a review on contract management which has highlighted an emerging potential fraud issue. The issue was highlighted by whistleblowing to the Internal Audit function and was not identified by the performance or contract management arrangements in place for this particular contract. The issue is currently being investigated and the Council is encouraged to undertake a wider review across more contracts to understand if the issues are more pervasive. As contracts are a key part of any project this is linked to the weakness identified in project management arrangements on page 13.



Financial sustainability

Outturn Position and Reporting

The Council reported its 2020/21 outturn position to Cabinet in July 2021 and this confirmed a deficit position of £3.6m as a result of the pressures of responding to the pandemic, such as in relation to car parking income, and other non-Covid-19 related issues such as legal costs associated with disciplinary matters and revenue cost overspends in relation to the Berth 4/5 project. Risks have been recognised elsewhere in relation to the non-Covid related issues. The 2020/21 accounts production was delayed, however these have since been produced and audited with the anticipated outcome being an unmodified opinion, which provides some certainty over the accuracy of this position.

Members have not received an outturn report for 2021/22 or 2022/23 nor have draft accounts for these been published, and subsequently audited, and as such there is limited certainty in relation to the financial positions in these years with which to help members make financial decisions. It is estimated that in 2021/22 the Council made a £1.1m surplus and in 2022/23 made a £1.99m deficit. The reason for the lack of reporting has been a result of capacity within the Finance Team, particularly at the senior level, due to the impact of departure of statutory officers amid the governance issues highlighted previously. This has caused senior finance staff to have to undertaken multiple roles at the top level of the Council and hindered the ability to produce the usual reporting.

Quarterly budget monitoring has also been impacted and members have not received a budget monitoring report since quarter 2 of 2022/23. Members are due to receive the 2022/23 outturn report alongside the 2023/24 quarter 1 report in September 2023. As there is a significant time lag between the date the information relates to and the time of reporting this reduces the reliability of the decisions that can be based on this. A weakness and key recommendation has been raised, see page 14, due to the lack of reporting and time-lag in the information, should the required improvements not be evident as planned in September 2023 further escalation of the issue via a more serious statutory recommendation is anticipated.

Executive summary



Financial sustainability (continued)

Reserves and Savings

Despite the estimated deficits in 2021/22 and 2022/23 which has been met from reserves the Council has been able to increase its earmarked reserves from a historical low in 2015/16. The Council medium term financial planning includes a gap over the next 4 years of £5.8m. The plans already include savings and therefore, currently, if the gap is left unaddressed would cause additional pressure of reserves and potentially divert them away from the purposes they were set aside for. The Council, at current estimates, does have sufficient reserves, however it has also identified a series of risks in its medium term planning which could increase reliance on these further. Reserves are a finite resource which protect the Council against future unbudgeted for risks, and so the Council should seek to increase the timeframe and scope upon which it plans savings, explore opportunities for greater income generation and look into alternative options to respond to the medium term gap as a priority to avoid depletion of reserves.

As well as increasing the scope and time frame when planning savings the Council would also benefit from more detailed oversight of savings schemes to allow members to hold officers to account and actions to be taken in advance of year end where slippage is noted. This is considered an area of improvement and is noted as such in the report.

Budget Setting Process

The Council approves its budget in February each year, ahead of the start of the financial year. The process for developing and approving the budget is well understood and established. Improvement has been seen in the setting of the final 2022/23 and 2023/24 budgets, compared to prior years, in that a 'Budget Prioritisation' process has been implemented which involves greater collaboration between service leads, finance and members and a greater level of challenge on proposals which are developed at service level. This is a move away from the top-down approach led by the Corporate Management Team and the Director of Finance observed in prior years and increases the probability of achieving the budget due to more realistic estimates, consideration of operational viability and greater buy in from services. There are still further improvements that could be made in the budget setting process which have been raised as improvement recommendations, these are aimed at achieving best practice as opposed to taking corrective action.

Executive summary



Financial sustainability (continued)

Capital Programme

The Council's capital programme has increased significantly between 2021/22 and 2023/24, from £18.5m to £55m. This is due to successful bids for additional central government funding for Town Deal and Levelling Up Fund projects. A report from external consultants in 2020/21 highlighted that the Council had a poorly profiled capital programme and slippage has been seen each year. Some of the slippage is due to poor project management which remains a concern and a weakness in arrangements raised. The Council has engaged a project management expert to assist in some ongoing projects and they have assisted in reprofiling the programme based on their own detailed analysis, the Council should now and is now seeking further project management support and this will be vital in enduring that the programme remains correctly profiled and deliverable. The funding gained from the Town Deal and Levelling Up Fund has conditions attached which include that it should be spent on projects by March 2025, the slippage in the capital programme suggests a delayed start to many of these projects due to the underlying project management issues and lack of capacity and framework in place. Steps are now being taken to engage external support to respond to the lack of capacity, the framework is still in development and the Council has joined a pilot scheme which extends the deadline to March 2026.

Key recommendations

The range of recommendations that external auditors can make is explained in Appendix C.



Governance

Key Recommendation 1

Council Wide Governance and Transparency

Reports from Grant Thornton and an Independent Monitoring Officer (IMO) covering the period from 2019/20 to 2021/22 highlighted a series of governance issues at the Council in this period, including the below, and raised several recommendations between these reports to rectify the significant weaknesses identified in arrangements:

- Inability of the management team to work together in a way that optimises effectiveness and builds a healthy management culture, in the best interests of the Council
- A high number of grievances raised formally and by whistleblowing and subsequent disciplinary action, some against senior officers
- This highlighted that the policies and procedures in place to manage such issues were inadequate
- A financial impact as a result of these issues

The above is indicative of a weakness in arrangements in 2020/21 and 2021/22.

In 2022/23 the key statutory officers of the Council, who were at the heart of concerns around culture and inability to work together, have left and a restructure is nearing completion. The Council has put in place an action plan to respond to the concerns from the reports and has substantially completed these, with those areas still in progress due to the fact that all new senior officers are not yet in post. The remaining response required to fulfil the action plan relates to implementation of the people strategy, behavioural framework and training in these areas which require all new officers to be in post. This is expected by October 2023. We have also seen improvements in the transparency of information that is being provided to members to aid them in their decision making. There is no further evidence of widespread whistleblowing or grievance procedures.

Internal Audit have determined their to be low confidence in corporate governance between 2020/21 and 2022/23. With the caveat that in 2022/23 this is due to the fact that newly implemented governance improvements have not yet had time to embed.

Therefore, although substantial improvement has been made in Council-Wide arrangements a weakness remains in 2022/23 as the action plan to respond to the Grant Thornton and IMO reports is yet to be fully complete pending new senior officers being in post as part of the Council restructure. Therefore our key recommendation is that, following completion of the Council senior management restructure, the Council should prioritise developing the people strategy, behavioural framework and evidence of training on these key foundational frameworks so that they can be implemented as soon as all staff are in post, with no lag, so they can be mobilised and having the desired impact immediately.

Agenda Item 7
Annex 1

Audit years

2020/21, 2021/22 and 2022/23

Why/impact

Robust governance arrangements are the backbone of an organisation and allow it to make effective decisions for the benefit of the staff and residents the Council serves.

Management Comments

We welcome that GT have identified substantial improvements here and we will look to prioritise these workstreams now that all new Heads of Service have been appointed.

Key recommendations



Governance

Key Recommendation 2

Service Level Governance

The Council has received several Limited and No Assurance rated reviews from Internal Audit in 2021/22 and 2022/23, and due to the retrospective nature of these reports are indicative of arrangements in 2020/21 also. Although improvements have been observed in governance arrangements at the top tier of the organisation as a result of responding to the recommendations within the IMO and Section 24 reports, individual services' governance still appears to be a challenge due to:

- a significant increase in the number of no assurance reports in both 21/22 and 22/23
- across a range of operations/services and so suggest pervasive issues
- a common theme being a lack of underlying governance arrangements, such as policies and procedures leading to risk of non-compliance
- a significant increase in the number of critical and high priority recommendations escalated to Governance and Audit Committee not addressed as expected in the time expected
- a lack of engagement from management in some directorates with Internal Audit recommendations
- evidence of lack of governance arrangements, specifically in Corporate Priority areas
- evidence of lack of improvement in some services over a sustained period

Key causal themes noted in relation to the service level governance issues was a lack of capacity of staff, with many undertaking dual roles as a result of staff departures, and a lack of robust policy and procedure documentation to ensure compliance. Service levels are unaffected but lack of underlying governance arrangements are a pervasive issue a cause of the weakness identified.

It is expected that the completion of the Council restructure in 2023/24 should have a positive impact on capacity. Increasing capacity of services, particularly where Limited and No Assurance ratings have been received and relate to Corporate Priorities, should be an urgent priority. It would be beneficial if the individuals recruited were experienced in developing and monitoring the required underlying governance arrangements in each service.

Audit years

2020/21, 2021/22 and 2022/23

Why/impact

Robust governance arrangements are the backbone of an organisation, and the individual services within it, and ensure that these service are run in an effective and compliant manner.

Management Comments

We note GT's findings here and will look to prioritise these workstreams now that all new Heads of Service have been appointed.

Key recommendations



Improving economy, efficiency and effectiveness

Key Recommendation 3 Performance Reporting

There were no performance reports taken to Cabinet during 2020/21. This is a weakness due to the fact that:

- decision makers at the top tier of the organisation are not cited on performance
- there are red rated areas of performance that are far from target left unaddressed at the top level of the organisation as a result
- there is a significant time lag between when the data is related to when it is received impacting its usefulness in decision making
- there is no clear mechanism for Overview and Scrutiny Committee to raise performance issues by exception since there is no escalation of the performance to Cabinet noted
- the objectives being reported against are outdated (using the Corporate Statement from 2015-2019 when reporting in the 2020/21 year)

Steps should be taken to formalise, and monitor with sufficient regularity, the performance of the organisation.

Audit years

2020/21

Why/impact

Performance reporting is a vital tool in allowing the Council to assess if it is successfully meeting its corporate objectives and therefore it should be reviewed with sufficient regularity, in a timely manner and sufficiently detailed to allow this assessment to be made.

Management Comments

Performance reporting is now being taken on a regular basis, but we acknowledge these findings and will ensure that work continues here.

Key recommendations



Improving economy, efficiency and effectiveness

Key Recommendation 4 Project and Contract Management

As a result of the Internal Audit review of the Berth 4/5 project, recommendations were made and there is not yet sufficient evidence to confirm the recommendations have been implemented in relation to new and ongoing capital projects within the significantly increased capital programme.

The Council should strengthen project management and contract management arrangements by:

- seeking additional support from project management experts across more projects to ensure there is the required capacity and expertise and limit further delays
- prioritising developing and training on the new project management framework as projects are currently ongoing without the underlying governance yet in place

Ongoing Internal Audit work in relation to Contract Management has led to further investigations into the accuracy of the costs being paid by the Council under these arrangements and potential overpayments. The investigations in relation to contract management issues lead us to raise the following points since contracts are a key element in the capital projects that the Council undertakes the two are directly linked. The Council should prioritise:

- developing and implementing a contract management framework which includes performance monitoring. This will ensure that all contracts, contractors and projects can be effectively managed without reliance on external contractors doing this on the Council's behalf - this would be a proactive control to ensure underperformance (or overpayments) were identified prior to the Council incurring a cost
- implementing a second layer of control by undertaking post completion reviews and inspections of works by contractors on projects so that a retrospective control is in place to identify any under-performance or potential overpayments, these reviews are rare with only Berth 4/5 as an example
- reviewing all contracts to identify similar overpayment failings, implement required controls and seek compensation as required.
- reviewing all contracts to ensure that any threats and risks to effective arrangements are removed
- ensuring effective escalation mechanisms are in place internally within departments to ensure that issues raised in relation to projects and contracts can be dealt with in a timely manner, removing the need to whistle blow

Audit years 2020/21, 2021/22 and 2022/23

Why/impact In order to avoid repetition of the issues causing time delays and cost overruns highlighted from review of the Berth 4/5 project the Council should seek to immediately apply the lessons learned. The lack of underlying governance arrangements which need to be rectified also apply to the contract arrangements within each project.

Management Comments We note GT's findings here and can confirm that work has already begun to implement improvements in these areas.

Key recommendations



Financial sustainability

Key Recommendation 5 Outturn and Budget Monitoring Reporting

Members have not received reporting on the 2021/22 and 2022/23 outturn position or quarterly budget monitoring since December 2022, this covers both the revenue and capital positions. Nor has the Council been able to produce and publish the financial statements for these financial years either. This is due to lack of capacity within the finance team at all levels and is expected to be rectified from September 2023 onwards. Where budget monitoring information has been presented, or is expected to be received, there is a significant time-lag. A similar timing issue also exists within the Council's treasury performance reporting. This is deemed a weakness in arrangements as it does not provide members with sufficient information with which to make reliable, effective and up to date financial decisions. Therefore, the Council should ensure the following to improve the weaknesses identified:

- budget monitoring is reported each quarter and a year-end outturn report which allows members to make financial decisions effectively
- budget and treasury monitoring information should be presented to members in a timely manner with no more than a 2-month time lag between the date of information and the date of reporting to ensure reliable decisions can be made on up-to-date information

Audit years

2021/22 and 2022/23

Why/impact

Members, as the decision makers of the organisation, currently have a gap in their knowledge as to the true financial position of the Council as a result of the lack of reporting of year end outturn position for two years running. As such their ability to make financially sustainable decisions may be impaired as they do not have the information available to identify the financial impact of their decisions. Should the required improvements to transparency of the financial position not improve we would be required to escalate the issue further, via a more serious statutory recommendation, as there would be no evidence to confirm the Council remained financially viable.

Management Comments

We note GT's findings here and will ensure that future reporting is more timely.

Use of auditor's powers

We bring the following matters to your attention:

	2020/21	2021/22	2022/23
<p>Statutory recommendations</p> <p>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly</p>			Statutory recommendations were made in October 2021 as a result of the 2019/20 VFM work and so are relevant to all years covered in this report. See pages 39 to 41 for details of the recommendations made. These have been followed up as part of our work. We consider the points to have been substantially addressed in the 2022/23 year but a weakness remains until the senior management restructure completes in October 2023 and our key recommendation reflects this.
<p>Public Interest Report</p> <p>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.</p>	We have not issued any such reporting	We have not issued any such reporting	We have not issued any such reporting
<p>Application to the Court</p> <p>Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.</p>	We have not made any such applications.	We have not made any such applications.	We have not made any such applications.
<p>Advisory notice</p> <p>Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:</p> <ul style="list-style-type: none"> is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or is about to enter an item of account, the entry of which is unlawful. 	We have not issued any such notices.	We have not issued any such notices.	We have not issued any such notices.
<p>Judicial review</p> <p>Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.</p>	We have not made any such applications.	We have not made any such applications.	We have not made any such applications.

Securing economy, efficiency and effectiveness in the Council’s use of resources

All Council’s are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council’s responsibilities are set out in Appendix A.

Council’s report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office’s Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial Sustainability

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



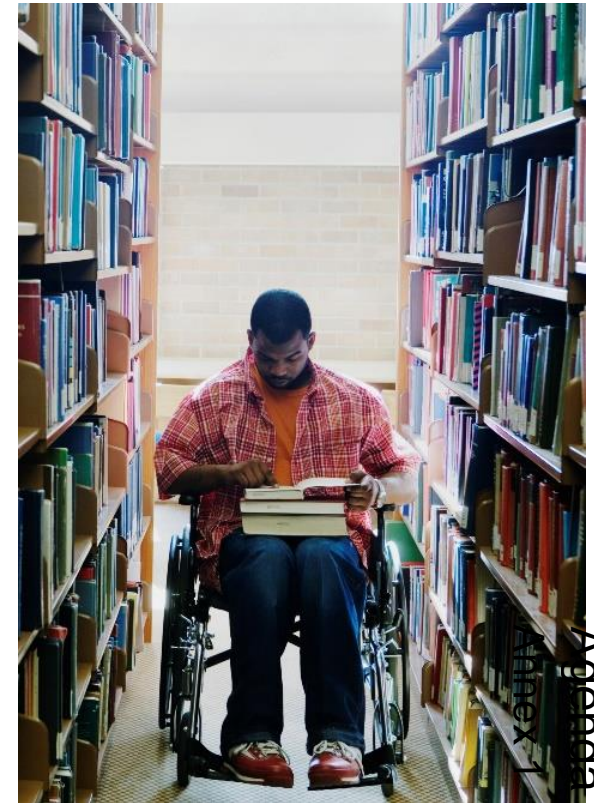
Governance

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



Improving economy, efficiency and effectiveness

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



Annex 1
Agenda Item 7



Our commentary on the Council’s arrangements in each of these three areas, is set out on pages 17 to 43.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Council Decision Making and Appropriate Standards

During our 2019/20 Value for Money work we became aware of governance issues relating to the conduct of senior management and reported these to members in July 2021 via a letter. We undertook additional work in relation to governance to understand the issues more deeply and this resulted in a Section 24 notice being released in October 2021 to raise our significant concerns. We found that there was an inability of the management team to work together in a way that optimised effectiveness and built a healthy management culture, in the best interests of the Council, due to a breakdown in relationships between those officers.

This then resulted in a number of grievances raised formally, and by whistleblowing, and some of which concerned those senior officers indicating that their behavior had fallen below expected standards on several occasions and casts serious doubt over the appropriateness of tone from the top of the organisation. Subsequent disciplinary action highlighted that the policies and procedures in place to manage such issues were inadequate.

The Section 24 notice raised four recommendations we felt were required to rectify the issues identified. One of those recommendations was that the Council should engage an Independent Monitoring Officer (IMO) to investigate the issues further and produce a report which would enable the Council to learn lessons from the evidence and themes collated. The Council acknowledged the severity of the findings and immediately engaged the IMO following the release of the Section 24 notice.

The final IMO report reviewed arrangements retrospectively to December 2021 and was released in May 2022, the themes around senior officer behaviour, mis-handling of grievances and ineffective decision making culture concurred with our own work and nine further recommendations were made to improve member and officer relationships, transparency, senior officer restructure, training of members and officers and review of a specific project impacted by poor decision making under previous arrangements.

During this time Internal Audit continued to provide their Annual Report and Opinion, one area they comment on specifically each year is in relation to Corporate Governance. For 2020/21, 2021/22 and 2022/23 this stated that there was low confidence in this area of arrangements. Therefore it is clear that there was a weakness in governance arrangements related to decision making and maintaining appropriate standards as a result of the outcomes of these reports (**Key Recommendation 1**).

In the meantime, between October 2021 and June 2022, the four senior officers at the heart of the issues identified left the Council through various means including mediated talks, dismissals and suspensions (one of which was later revoked with public apology). Their positions were filled with a combination of interim staff, promotions from within the organisation and a new Chief Executive with a wealth of public sector and local experience. We note that due to the Chief Executive's success in supporting the Council to respond to these reports that it was unanimously agreed to extend his interim appointment until at least July 2024 to assist in embedding the arrangements that have been implemented.

The Council quickly mobilised action plans to respond to the recommendations within the Section 24 notice and the IMO report.

This has been monitored by the Corporate Management Team and shows evidence of actions being taken immediately in many cases and was reported to members at Cabinet in March 2023 to ensure they were made aware of progress. At that date the actions contained within both plans were substantially implemented. The Council has initiated a restructure at Senior Officer level and this was approved by members in January 2023. Recruitment began in March 2023 with all officers expected to be in post by October 2023, as this recruitment process was finalised early in 2023/24. The recommendations from the action plans yet to be completed centre around updating the constitution, developing a people strategy, developing a behavioural framework and evidence of training on each of these policies.

Governance

Council Decision Making and Appropriate Standards (continued)

We have seen evidence of the Constitution being updated in July 2023 and accept that the decision to pause the finalisation and training of these key people policies until the senior officer restructure has been completed is a sound judgement to ensure that new officers undertake the requirements of these policies with immediate effect, however finalising these policies so they can be mobilised as soon as all officers are in post should be a priority **(Key Recommendation 1)**.

Internal Audit's Annual Report for 2022/23 continues to express low confidence in Corporate Governance arrangements, however this includes the caveat, for the first time in the three-year period, that this is due to the fact that arrangements have not yet embedded and does note the positive action taken to respond to the issues raised in previous years. Our conclusions are consistent with this sentiment.

Matters linked to the disciplinary issues in years covered by this report have been reviewed again following a whistleblowing in 2023/24 and further investigations are ongoing. We will consider the impact of this as part of our 23/24 work.

Service Level Governance

As well as providing an overall opinion across Corporate Governance, Risk Management and Internal Control Internal Audit report quarterly and annually on individual service reviews included in their Audit Plan. They provided ratings on scale where Limited Assurance and No Assurance are the most significant ratings denoting poor performance and tend to generate critical and high priority recommendations for the Council to respond to make the required improvements to arrangements. The Council has experienced an increasing number of Limited and No Assurance ratings between 2020/21 and 2022/23, and therefore while improvements have been noted in governance at the top-tier of the organisation attention now needs to be focused on arrangements within individual services. To provide some context in relation to the No Assurance rated audits there were no such results in 2020/21, one in 2021/22 and increasing significantly to six reviews with this rating in 2022/23. In addition Internal Audit escalate to the Governance and Audit Committee any high and critical priority recommendations that are unaddressed by the Council, in 2020/21 there were no such escalations, in 2021/22 there were 18 and in 2022/23 there were 35.

Within the results there are some specific services of concern, one of which is the Street Cleansing service. The 2019 Internal Audit review of this service was of Limited Assurance and when followed up in 2021/22 the rating had not improved. This was reviewed in full as a stand-alone exercise in 2021/22 with the rating worsening to No Assurance. This service is a specific Corporate Priority within the Council's Corporate Statement and so is seen as vital to the success of the Council meeting its objectives. A follow up did not improve the result until a second follow up review was undertaken and reported an improvement to Limited Assurance at the end of 2022/23. Key issues identified in this area were related to a lack of timely progress of action plans, issues not being prioritised by senior management, high turnover of staff in the service causing a lack of continuity and capacity and a lack of underlying governance such as performance monitoring and compliance with regulatory Codes.

The Street Cleansing service is one example, however we believe there to be a more pervasive issue in relation to meeting appropriate standards due to:

- the significant increase in the number of No Assurance reports since 2021/22
- the ratings being associated with a range of services and operations and therefore not an isolated issue
- the significant increase in the number of critical and high priority recommendations escalated to Governance and Audit Committee
- lack of engagement from management in certain directorates with No Assurance reports due to lack of capacity
- continuing evidence of failures in Corporate Priority areas (Litter Enforcement)
- lack of improvement in some services over a sustained period (East Kent Opportunities recommendations repeated from 2018 are repeated in the 2022/23 review)

Overall, across the three-year period Internal Audit have not demonstrated an adverse opinion in relation to Internal Control or Risk Management. Therefore, the decline in service level performance has been captured via the low confidence expressed in Corporate Governance in all three years and so suggests a weakness in each year.

Governance

Service Level Governance (continued)

This is due to the fact that a key theme within the Limited and No Assurance rated services is a lack of underlying governance arrangements such as the creation, updating and adherence to key policies and procedures. We note that level and quality of service has not been raised as a recurring issue.

Throughout our work capacity of teams has been noted as a challenge at the Council, some of which has been created by the departure of senior officers and the need for remaining officers to undertake dual roles until the restructure is complete in October 2023. Another factor has been that the Council reviewed vacant posts as part of the 2022/23 budget setting process and removed these, it has since been noted that some services have been left at low capacity and additional budget for the most impacted teams to restore these posts has been included in the 2023/24 budget. Increasing capacity of services, particularly where Limited and No Assurance ratings have been received and relate to Corporate Priorities, should be an urgent priority. It would be beneficial if the individuals recruited were experienced in developing and monitoring the required underlying governance arrangements in each service *(Key Recommendation 2)*.

Risk Management

The Council's approach to identifying, monitoring and reporting risk is set out in the Risk Management Strategy 2019-23 which was approved by the Governance and Audit Committee at its meeting on 6 March 2019. The Strategy was updated in 2022/23 and so are satisfied the committee is fulfilling their role of keeping the framework up to date and fit for purpose. We would expect a key strategy such as this to be updated every 3-5 years or when any significant changes occur in the operating environment and so the Council are within this expectation.

As per the Strategy the Corporate Management Team oversaw a quarterly process of updating detailed operational risk registers throughout the three-year period and escalated top-rated corporate risks to the Council's Governance and Audit Committee. In both 2021/22 and 2022/23, at the request of the Committee for greater risk oversight, the Council reduced the score above which risks were escalated to the Committee compared to the prior year. Although this demonstrates positive improvement towards increased risk oversight, we believe that the Committee would benefit from reviewing the full strategic risk register to allow review and challenge of lower rated risks which may need updating. In addition we note that there is no escalation of risks to Cabinet, it is good practice for the top-tier of the organisation to be aware of the risks being faced and the risk appetite in order that this can inform key decisions and ensure these are made in line with agreed appetite.

The approach of escalating risks from operational risk registers does mean that there are examples of risks which are not necessarily strategic in nature, and more operational, being reviewed by the Committee such as building legislation, watercraft and burial related risks. More examples have become apparent as the threshold for escalation has decreased. We would expect the Governance and Audit Committee to focus their attention on only those risks which have potential to impact the Council's ability to meet its strategic objectives.

A by-product of the reduction of the threshold for escalation is also an increasing number of risks being reviewed by the Committee, this has reached 29 in total. We would suggest that the optimum number of strategic risks for the Committee to review for a District Council such as Thanet would be between 10 to 20 to allow members to undertake meaningful discussion on each and ensure they are only those strategic risks. Despite the increasing number of risks there is a good level of discussion and challenge from members in relation to the risk register and this is well supported by presentation from the Director of Finance and narrative in the report to highlight changes in risks each quarter.

The Council's Internal Audit team concluded a review of risk management arrangements in May 2022 and provided "Reasonable Assurance" on risk management arrangements overall but noted that risk reports to the Governance and Audit Committee lacked detail. As the format of the risk register being presented to the Governance and Audit Committee has developed and improved over the period more detail has been included to help members evaluate risk. There are some minimum standards we would expect to be met in an effective risk register as below, we believe the current format to fulfil each of these requirements, with the exception of a clear mapping to the relevant corporate objective.

- relevant key controls and sources of assurance are set out
- they are RAG-rated, including impact and likelihood
- they are mapped to corporate objectives
- they are allocated to a responsible senior officer
- direction of travel for each key risk is provided

The Council may consider continuing to make iterative improvements to the format of the risk register it presents to members to ensure they have a full suite of information to help aid decision making including mapping risks to corporate objectives, assigning a target risk score to each risk and demonstrating the current score before and after mitigating actions to help assess how successfully the Council is managing each risk.

Governance

Risk Management (continued)

The Annual Report from Internal Audit provides commentary on Risk Management each year in determining their overall opinion, in each year no issues have been noted with procedures and positive opinion given in this respect.

Our findings in relation to risk management have culminated in an improvement recommendation (**Improvement Recommendation 1**) covering several factors identified, including improvements to:

- Distinguishing between strategic and operational risk
- Reviewing the number of risks in the strategic risk register
- Ensuring oversight of all strategic risks by the Governance and Audit Committee with sufficient regularity
- Ensuring annual oversight of strategic risks by Cabinet
- Ensuring the strategic risk register includes sufficiently detailed information to aid decision making

Internal Audit

Internal Audit services have been provided by East Kent Audit Partnership (EKAP) throughout the three-year period, under a shared services arrangement, for which the other Councils are Canterbury, Dover and Folkestone. They report progress on their work to the Governance and Audit Committee sufficiently regularly (quarterly) and ensure that they follow up their reviews in a timely manner to be able to provide assurances on whether the Council have effectively responded to recommendations. There is evidence that the Council has been well supported by the function across the period due to them developing an audit plan in each year which has sufficient coverage of a range of the Council's operations and services. The ability of EKAP to complete the planned audits was hindered in 2020/21, in particular, with 77% of the planned work completed. Audits were deferred and in each subsequent year there has been improvement in completion of the plan, with 91% in 2021/22 and 103% in 2022/23 (due to deferrals and additional days added after the plan was initially approved. EKAP have been able to sufficiently complete the Plan in each year, despite the impact of the pandemic on resourcing and availability of Council staff, to be able to provide a robust opinion each year. In addition completion of the plan is included in the metrics Internal Audit monitor themselves against in performance KPI's to demonstrate their effectiveness to the Governance and Audit Committee.

The Public Sector Internal Audit Standards (PSIAS) expect that the Council conducts an external review every five years to provide assurances on the compliance of the Internal Audit function against the PSIAS's. Internal Audit complete a self assessment against the standards each year. There is, however, currently no appetite with the Client Officer Group to undertake an External Quality Assessment of Internal Audit's level of compliance, relying on a review by the Director of Finance of the self-assessment which is informal and not presented to members (**Improvement Recommendation 2**).

The Committee considers the effectiveness of the internal audit arrangements by reviewing the quality of reports, actions and follow-ups through the quarterly reports submitted during the year to the Committee. We have reviewed these documents throughout our work, reviewed minutes and attended the committee itself with no issues raised in relation to the Internal Audit function. The year end reporting notes that 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, currently no appetite with the Client Officer Group to undertake an External Quality Assessment of the EKAP's level of compliance, relying on a review by the s.151 officers of the self-assessment which is informal and not presented to the Governance and Audit Committee.

We note that the Internal Audit function embodies appropriate principles and prioritises 'doing the right thing' as evidenced by the increasing number of Limited and No Assurance reviews and associated critical and high priority recommendations aimed at improving the Council's arrangements for the benefit of its staff and service users.

It is the follow-up and fair reporting approach that has been vital in highlighting pervasive challenges in governance arrangements across services, currently, and at the top tier of the organisation in prior years. Internal Audit's willingness to highlight low confidence in Corporate Governance in their annual report in 2020/21, and in each year since, led to an attempt to initiate disciplinary procedures against the Head of Internal Audit. These were not followed through and the Internal Audit function has continued to act independently and professionally. Following changes in the Council's statutory officer structure we have observed strong collaborative relationships between the Head of Internal Audit, the Director of Finance, the Chief Executive and members which is built upon open, honest and regular communication and a common purpose to meet the Council's objectives.

Governance

Conclusion

Our Audit Plan for 2020/21 noted a risk of significant weakness in governance arrangements in relation to grievances and concerns. We reported a number of key deficiencies in the Council's governance processes in October 2021 and made a series of Statutory Recommendations via a Section 24 notice. This resulted in a subsequent Independent Monitoring Officer (IMO) review to investigate the issues further and make a series of further recommendations. These retrospective reviews are evidence of a weakness in governance arrangements at the top tier of the organisation in the 2020/21 and 2021/22 years and we raise a Key Recommendation that the recommendations from these reviews are urgently prioritised. This weakness has continued to be recognised for the 2022/23 year as although actions have been taken these are yet to be fully implemented and embedded.

We also identified a significant weakness in relation to service level governance arrangements in 2021/22 and 2022/23 due to an increasing number of poorly rated Internal Audit reports, the issues identified focus on policy and procedure documentation and adherence to these but service levels and quality remain unaffected.

Two improvement recommendations have been noted in relation to risk management, internal audit compliance review and prioritising the remaining recommendations from the Section 24 notice and IMO review. These are aimed at the Council achieving best practice and do not constitute a weakness in arrangements in the same way our key recommendations do.

Improvement recommendations



Governance

Improvement Recommendation 1

Over the years being audited the Council has amended Risk Management processes and this has demonstrated an upward improvement journey. Following these changes there are some further improvements the Council should consider to ensure best practice is demonstrated in the risk management process. They should review the process to ensure that:

- Governance and Audit Committee focus on only those risks which are strategic in nature, ensuring that operational risks are overseen at a more appropriate level of the organisation
- Governance and Audit Committee have a manageable number of strategic risks with which to undertake meaningful discussion, we would suggest between 10-20 is commonplace
- Governance and Audit Committee have sight of all strategic risks sufficiently regularly, as opposed to just high rated risks, to ensure they have a full picture of the risk facing the organisation and can challenge effectively
- Cabinet have sight of strategic risks at least annually to help inform their decision making and allow them to act with the Council's risk appetite
- Governance and Audit Committee receive a sufficient level of detail in the risk reporting with which to understand the impact of the risks and mitigating actions on the Council's ability to meet its objectives these would include assigning each risk to a corporate objective, assigning a target score and including the impact of mitigating actions on the current scoring

Audit years

2020/21, 2021/22 or 2022/23

Why/impact

The Corporate Risk Register is a key mechanism for managing risk to the achievement of the Council's strategic objectives and therefore it is important that there is a clear link between those objectives and the risk being faced, and that the content of the register appropriately informs decision makers.

To ensure that the risks within the register, supporting actions and scoring remain appropriate it is important it undergoes regular scrutiny at the top tier of the organisation and is included in Cabinet meeting papers for transparency to the entire organisation and to ensure that decisions approved at this level are acceptable within the Council's risk appetite.

Effective risk management ensures that both the strategic and operational risks of the organisation are managed consistently.

Management Comments

We welcome that GT have identified the improvements that have been made here and we will look to improve further by implementing these recommendations as soon as it is practical.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Governance

Improvement Recommendation 2

An external five yearly review is required to assess if Internal Audit conform to Public Sector Internal Audit Standards (PSIAS). We have seen no evidence of this taking place in the three years covered by our work and note in each year end Internal Audit report that there is no intention of management to undertake this. Management should consider undertaking this early in 23/24 to ensure that members can be assured of the effectiveness of this service and ensure compliance with the standards.

Audit years

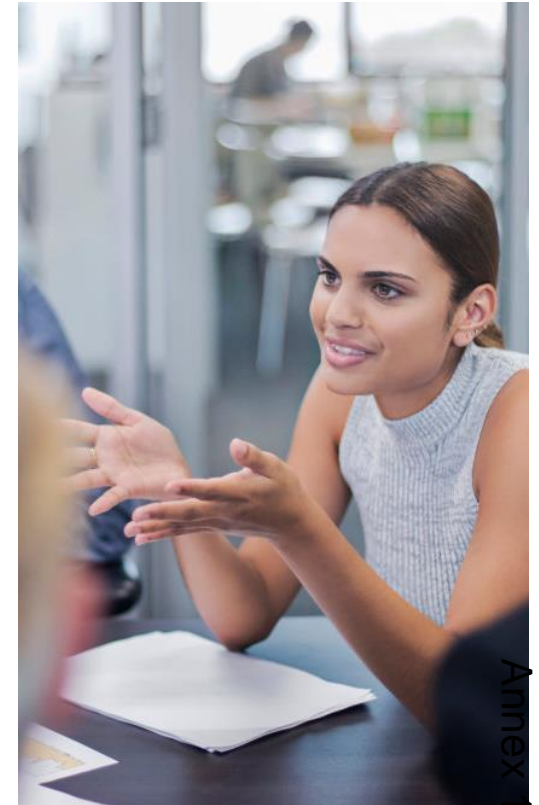
2020/21, 2021/22 or 2022/23

Why/impact

External assurances provide a view on and recommendations for improvements that ensure Internal Audit continue to be effective in their role. This type of review is also a requirement, every five years, under the Public Sector Internal Audit Standards with which the service must comply

Management Comments

Noted and Agreed.



Annex
Agenda Item 7

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Performance Reporting

For 2020/21, arrangements were put in place for corporate performance to be monitored against the 2015-19 Corporate Priorities by way of quarterly performance reporting to the Council's Overview and Scrutiny Committee and Cabinet. New performance measures had been planned for April 2020 but were delayed due to resource redeployment to deal with the impacts of Covid-19. Instead, the measures which had been in place since 2015 continued in interim use. As the year 2020/21 progressed, however, it was not only the updating of the measures themselves which was delayed. The actual process of reporting on them also deteriorated. By the end of 2020/21, only two quarterly performance reports had been reviewed by the Overview and Scrutiny Committee (Q1 and Q2) and none had been reviewed by Cabinet, meaning that decision makers at the top tier of the organisation were not sighted on performance and therefore did not have the opportunity to take decisions to impact areas of poor performance. This would have been beneficial given that the latest report in 2020/21 showed 7 of the 24 Key Performance Indicators (KPI's) were red-rated and so demonstrating below target performance where actions were needed to facilitate improvement.

In addition, it is noted that the latest performance reporting in the 2020/21 year was taken to the Overview Scrutiny Committee in January 2021, however it included performance data up to September 2020. This is a significant time lag and renders the data somewhat obsolete, reducing the reliability of the decisions that could be made based on this.

During 2020/21, whilst Cabinet and Overview and Scrutiny Committee level performance reports were delayed, directorates were still required to maintain performance data. The Internal Audit service was scheduled to review the performance data reporting system as a whole and was expected to include substantive consideration of performance within service lines sampled for detailed reviews.

With the Covid-19 pandemic causing delays to Internal Audit's programme of work, we note that there was no internal audit of the performance reporting system in 2020/21 or 2021/22 and although planned in 2022/23 this has again been deferred. As such the Council does not have any assurance as to whether arrangements in relation to performance monitoring are effective, however the issues noted in 2020/21 coupled with this lack of assurance lead us to believe there is a weakness in arrangements in the financial year *[Key Recommendation 3]*.

In April 2021 a refresh of corporate performance reporting was endorsed by Cabinet and introduced new KPIs for the Council to assess their performance across a range of services against. Overview and Scrutiny Committee made several recommendations in the update of performance reporting prior to their endorsement which were considered or accepted by members, this shows the role of the committee in challenging and improving arrangements working effectively in practice.

The KPIs are directly linked to the Council's priorities in their updated 2019-23 Corporate Statement and so reflect the up to date objectives of the organisation. In completing the refresh the Council agreed a number of changes to their approach, one of which was reducing the number of metrics to 31 from 47 (this has since been revised again to 35). The evidence suggests that no key areas of operations appear to be omitted and thus enables focus on a fewer number of key areas for members, which leads to more effective monitoring of performance.

The refresh included the development and implementation of a new data tool, available via the Council website, providing retrospective performance across each of the KPI's which are clearly linked to the Council's objectives. This has dramatically increased transparency when compared to 2020/21. However, in 2021/22, there was still a 6 month time lag between the date the information is reported and the date it related to and no evidence of reporting the information to members via Cabinet or Overview and Scrutiny Committee and as such this would continue to require improvement.

Improving economy, efficiency and effectiveness

Performance Reporting (continued)

From March 2023, following a request by members, a six monthly report of the council's Corporate Performance will be shared with the Cabinet to provide an opportunity to more closely review the direction of travel of key service areas and so the improvement in terms of oversight by Cabinet has already been addressed. There continued to be a time lag in information at the start of 2022/23 but this has reduced two 2 months in the final quarter and therefore has been addressed.

The Council should consider keeping the performance management process under review to ensure that members have a full suite of information with which to make decisions as we note that currently the information they receive does not include any information related to the actions that are being taken, especially where there are declines in performance, and who is responsible to allow them to hold the relevant manager to account. Engaging with Internal Audit to ensure that the deferred Performance Management review is undertaken in 2023/24 will be a vital source of information as to the effectiveness of the updated arrangements and further improvements that could be made (*Improvement Recommendation 3*).

The KPI monitoring tool and reporting focusses on establishing the effectiveness of the Council's performance by focusing on an inward looking view. In order to gain an alternative perspective the Council could also undertake an outward view to gauge performance relative to other similar organisations and learn from those organisation where they may be comparatively worse, or provide assurances where comparatively better. This is especially useful as the Council has opted not to include a target within the KPI tool and so there is little information with which to understand comparative performance (*Improvement Recommendation 4*).

East Kent Housing

There is evidence of the Council reacting appropriately when faced with below target performance. One key example is the Regulator of Social Housing issuing adverse findings in 2019 in relation to the service. In 2020/21 the Council response included development of a detailed action plan, weekly monitoring, Internal Audit reviews and, ultimately, bring the housing service back in house from April 2021. Since then the Council has set up the Tenants and Leaseholders Service which aims to address the failings leading to the initial regulatory notice now the service has reverted to an in-house provision. KPI's related to this service are reported quarterly to members with improvements seen throughout the period, therefore there is effective monitoring of the performance of this service. The regulatory notice was withdrawn in February 2022 as a result of the actions taken and so provides evidence of the effectiveness of the improvements made to arrangements.

Your Leisure

Your Leisure is a not-for-profit leisure trust which manages many of the district's leisure and entertainment facilities. This includes Northdown House, Margate Winter Gardens, Hartsdown Leisure Centre and Ramsgate Leisure Centre on behalf of the Council. Government restrictions in place as a result of the COVID-19 pandemic, including the closure of local gyms in 2020/21, led to a significant financial impact on the financial performance of Your Leisure. The arrangements in place included the Council as a guarantor to two loans that the Trust has taken out and therefore financial pressures are not only a concern for the Trust but for the Council as there is a risk they would need to fund those loan liabilities. The Council has provided £160k to the Trust in 2021/22 and 2022/23 to support them in reducing their financial pressures, assisting them in the response to the impact of the pandemic and reducing the risk of defaulting on their loans. The council is working with colleagues from Your Leisure to find a mutually beneficial resolution for the refinancing of loans in order to make a £160k per year saving included in the 2023/24 budget, which demonstrates the Council is looking to mitigate the risks associated with this arrangement whilst maintaining leisure services in the district. These negotiations are still ongoing. In understanding the arrangements with the Trust we have noted that members do not report on the performance of this, or any other, key partnership within its performance reporting or as a separate exercise. Given the financial issues being faced by Your Leisure, which are directly linked to operational performance, this should be of benefit (*Improvement Recommendation 3*).

Benchmarking Analysis

Council's across England submit annual returns on their financial performance to Department for Levelling Up, Homes and Communities (DLUHC). For 2020/21 and 21/22 RO (Revenue Outturn) data is available, for 22/23 only RA (Revenue Account Budget) data has been submitted. Using Grant Thornton benchmarking tools, which makes use of these returns, we have compared unit costs of Council services with all other district councils. This is a tool designed to highlight potential opportunities for savings where unit costs may be high, with the caveat that the information does not account for regional variances between districts or differences in the categorisation and completion of the underlying returns by different councils.

This analysis has identified that the Council's housing services are performing at a comparatively high unit costs based on both the outturn and budget positions, further investigations notes that the key driver of this performance is specifically within homelessness services.

Improving economy, efficiency and effectiveness

Benchmarking Analysis (continued)

The challenge within this service is well documented and understood throughout the Council. The cause is high and unpredictable demand which is commonplace across Kent and the country and an area of overspend we have seen over the last few years across several councils, it is also very much out of the Council's control. Demand impacts the total cost of the service, but our analysis shows that unit cost is also high and therefore even if the Council were able to impact the demand side of the equation total costs could still be high if actions are not also taken to reduce the unit cost of homelessness provision. Our work has highlighted that the Council has taken significant actions to address the issue and time lag is expected between the action taken and the impact being evidenced, as such at this stage we have no recommendations to make. The Council's approach is focused on increasing the supply of accommodation to help meet the demand with £3.5m additional spend included in the 2023/24 budget for temporary accommodation.

There are much higher unit costs associated with different types of temporary accommodation, with private provider costs being much higher than that of Council owned accommodation. As such to make the investment included in the budget most effective the Council would need an action plan in place to increase Council owned provision and reduce reliance on private provision. Steps have already been taken to shift accommodation provision in this direction, in October 2020 the Council made the decision to convert a disused building in Margate, Foy House, into temporary accommodation that was Council owned. This was completed in January 2023 and cost £1.6m. Ongoing operating costs for housing management and support service, repairs and maintenance and other associated costs are expected to be £25-30,000 per year, significantly less than private provider provision. The project was recognised as a finalist in the 'Best Social Housing Initiative' of the MJ Achievement Awards 2023. The industry-leading awards recognise outstanding achievements by local authorities. One of the factors in the recognition was that the project and redevelopment has been 'innovative, enhancing the Council's ambitious homelessness prevention strategy through provision of council-owned and managed temporary accommodation; reducing costs while increasing control and management of the service', therefore reduced costs are a factor in this being an effective arrangement. The 23/24 Capital programme demonstrate that the Council has already approved £2.22m of funding to support a further project of this kind and therefore appropriate steps are being taken and success of Foy house being learned from.

Berth 4/5

The Council operates the Port of Ramsgate. As part of this, it has a long-term contract with an aggregates company to provide a berth for their use. The Council began looking at options to replace the existing berths, 4 and 5, in 2015/16. A capital allocation was approved of £1.5m for the project and it was expected to take 12 months to complete. Between 2015/16 and 2018/19 several options were considered to replace the berth and complete the project but all exceeded the capital allocation. As a result, rather than building a new fixed berth, the Council began to explore suitable second hand options, which are scarcely available.

This project is still ongoing in 2022/23 and during the Independent Monitoring Officer (IMO) review of governance arrangements challenges with the project were raised by staff at the Council. As such the IMO felt it pertinent to include a recommendation that this project have a detailed post implementation review take place to identify the key issues and recommendations so that, ultimately, the same mistakes were not carried forward into other significant capital projects. Internal Audit undertook this review and it was completed in January 2023, and reported to members in March 2023 with a 'No Assurance' rating, the lowest rating Internal Audit provide and so indicative of weaknesses in arrangements.

Internal Audit's review has highlighted several issues that have caused significant delays and cost overruns with the project. Some of the delay and cost overruns are a result of the council-wide governance arrangements around risk averse culture and transparency of decision making noted by the IMO report and therefore are covered by the weaknesses in governance arrangements highlighted via that report.

During 2020/21, following completion of the procurement, the Council submitted its application of relevant planning permission to commence the project, but did so without having undertaken an Environmental Impact Assessment which is requirement of the relevant regulations, but was originally advised by the Marine Management Office (MMO) as not being required.

Improving economy, efficiency and effectiveness

Berth 4/5 (continued)

The Council was notified of this requirement in October 2020 from the Planning Authority and therefore took steps to undertake this work. This caused a delay of 20 months to the start of the project, with it eventually commencing in June 2022. This also had a significant effect on the costs as the total expected cost of the scheme to date is £2.322m, which is an overspend on the original provision of £825,000.

The post-implementation review of the project highlighted, that aside from the council-wide governance arrangements, that the cause of the delays and cost overruns were also related to poor project management as a result of unrealistic time allocations, unrealistic budget allocations, lack of effective communication strategy and not identifying certain requirements such as assessment or expertise required early enough in the project. These are all underpinned by a lack for a project management framework in place. Our discussions with management have also highlighted that lack of capacity within teams to manage such projects is a challenge. Given the project is still ongoing we would suggest the project management weaknesses were apparent in all years 20/21, 21/22 and 22/23 and that the Council need to urgently prioritise seeking additional support from project management experts to ensure there is the required capacity and expertise and limit further delays and prioritising developing and training on a project management framework, as projects are currently ongoing without the underlying governance yet in place **(Key Recommendation 4)**.

The External Audit team received an objection on In September 2021 that related to the Berth 4/5 project and requested that External Audit produce a report in the Public Interest. Our investigations covered both whether it was appropriate for a Public Interest Report to be made and whether decision making in relation to the project was unlawful. The conclusion of this work is that there was no unlawful decision making relating to the issues raised in the objection and that in relation to the two concerns that were raised in the objection that the Council acted appropriately. As part of our review, we also considered as part of our discretion if there is a need to issue a public interest report into the wider circumstances of the project. We noted that the Internal audit report identified weaknesses in arrangements of the project and provided a "no assurance opinion", our consideration of this was that given the significant deficiencies in the project had been reported in the public domain and accepted by management that it was not appropriate to issue a report in the Public Interest on this matter.

As a result of securing government funding, from the Levelling Up Fund and Margate Town Deal, the Council's capital programme has significantly increased.

The bids for this funding were submitted with high level plans for each of the projects, however these were not fully drawn up and since the funding has been received the Council have reprofiled many of the projects delaying the start and use of this funding and suggesting that similar project management issues are continuing to occur. The Council has applied to be part of a pilot scheme in relation to this funding which extends the deadline with which it can be used and so has mitigated some of the risk of the delay caused by a lack of underlying governance arrangements.

Other steps have been taken to learn lesson from the Berth 4/5 project such as engaging a project management firm to run some projects, a Levelling Up and Town Deal Board to oversee project arrangements for the scheme as a whole, a Project Board to review each project individually and regular discussion at Corporate Management Team meetings.

However, we note that the key factor which still requires development is the underlying project management framework which is yet to be completed. In addition, many of these arrangements have been implemented in the 2023/24 year and therefore highlight that weakness did exist in the years our reporting covers.

Contract Management

In early 2023/24 Internal Audit has undertaken a planned review of Contract Management arrangements at the Council. This is a backward looking review and so concerns arrangements in the prior year. At the time of writing this has yet to be reported to members as work is still ongoing. However, discussion with Internal Audit has highlighted emerging findings within this review as their investigations continue. Potential overcharging on a contract has been brought to Internal Audit's attention directly, prompting further ongoing work. Internal Audit's work to date highlights similarities with a lack of underlying governance arrangements within project management of Berth 4/5 and performance monitoring identified elsewhere in this report and therefore suggests a pervasive issue across project management and the contracts being managed to deliver those projects. Potential issues include a lack of monitoring arrangements of post completion reviews at the Council to review performance in line with contract arrangements with reliance being placed on the contractor to undertaking necessary checks. There is potential that the issues highlighted could pertain to multiple contracts and therefore the Council should prioritise working with Internal Audit to understand the depth of the issues highlighted by this current review **(Key Recommendation 4)**.

Improving economy, efficiency and effectiveness

Conclusion

2020/21 saw a significant gap in performance reporting to Cabinet during the Covid-19 pandemic, this has been highlighted as a significant weakness in arrangements and a Key Recommendation raised. This was at a time of pressure on services, and since then a new continuous, live system has since been introduced, and further improvements to ensure that the outputs from this are reported to Cabinet going forwards, as such the weakness does not exist beyond 2020/21.

Internal Audit have provided a 'No Assurance' rating in relation to the project management of the Berth 4/5 project and other reviews by the function have highlight similar issues within contract management. The overriding theme is a lack of effective underlying governance arrangements and therefore a weakness and Key Recommendation have been raised to this effect.

Improvement recommendations



Improving economy, efficiency and effectiveness

Improvement Recommendation 3

Improvements in performance reporting have occurred since 2020/21, which was unable to be evidenced, which included greater transparency of performance using live data tool, link to updated corporate objectives and retrospective performance data available. As such the previous weakness identified is able to be lifted for subsequent financial years.

However some improvement recommendations were still noted for 2021/22:

- Time lag between date being reported on and the date at which is being reported being around 6 months, this should be reduced to improve reliability of decisions that can be made based on the information
- Explicit presentation of performance data to Cabinet with sufficient regularity so that there is clear mechanism for discussion rather than placing reliance on members to use the live data

2022/23 identified further improvements made as a summary of performance is now reported to Cabinet every 6 months to address point two above. Improvement recommendation in relation to the time lag remains for the first half of the 2022/23 year but has been addressed in the final two quarters.

The Council should now consider demonstrating best practice and strengthening performance management processes by:

- including details of actions being taken and who is responsible in the KPI reporting to allow members to track progress effectively
- working with Internal Audit to prioritise the output of the Performance Management review to ensure useful information is available with which to assess, and make further improvements to, new performance management arrangements while they are embedding into the organisation
- developing a Council wide approach to service performance benchmarking, opportunities exist to formalise this as part of the iterative improvements being made to the performance reporting
- ensuring that reporting on the performance of key partnerships is regular and based on up to date information, particularly in relation to Your Leisure where negotiations are ongoing and challenges have been faced

Audit years

2022/23

Why/impact

Performance reporting is a vital tool in allowing the Council to assess if it is successfully meeting its corporate objectives and therefore it should be reviewed with sufficient regularity, in a timely manner and sufficiently detailed to allow this assessment to be made.

Management Comments

I am pleased that GT have noted the improvements that have been made over the last few years and we will look to make further progress by implementing the additional recommendations as soon as is practical.

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Outturn and Medium-Term Outlook

For 2020/21, a balanced budget was anticipated but a £3.6m deficit outturn was incurred, although covid-19 pressures accounted for a proportion of this overspend it was, in part, also attributable to factors which were specific to the Council. The most significant unbudgeted costs were £733k in legal costs related to whistleblowing, grievance and disciplinary matters and £445k of project costs related to the Berth 4/5 project. Both issues are noted as weaknesses elsewhere in our reporting and resulted in additional pressures to the financial position of the Council as noted in our Statutory Recommendations in October 2021.

Again in 2021/22 and 2022/23 the Council set a balanced budget, as is legally required. The outturn position for 2021/22 was a £1.1m surplus and for 2022/23 the final outturn is estimated at a £1.99m deficit as this has not yet been produced. The key reasons for this deficit are the cost of living crisis causing additional demands on the need to place homeless and rough sleepers in temporary accommodation, staff sickness causing the use of agency staff in the street cleaning department and income shortfall compared to budget within Port operations due to restricted opportunities. Homelessness and street cleaning are covered in the 3E's section of the report and assessed in more detail, the shortfall in port operations is being responded to via the capital programme investing significantly in future port of Ramsgate over the medium term. This programme is again covered in more detail later in this section.

Each of these outturn positions is provided with the caveat that the supporting accounts are yet to be produced and audited for material accuracy nor has supporting reporting or documentation been able to be provided, this is noted as a weakness later in this report. As this is an interim report we will update our review of this section once this information is available for review.

The Council updates its Medium-Term Financial Plan (MTFP) alongside the annual budget each year. The latest MTFP for 2023/24 spans a 4-year planning horizon and is within the expected timeframe for a Council of Thanet's size and nature. Per this latest plan the Council expects to have a budget gap of £5.8m between 2024/25 and 2026/27. The gap has improved since the MTFP was updated as part of the 2022/23 budget setting process.

This is due to a continuation of current funding levels in 2024/25 and a delay to funding reforms, which are expected to reduce funding from business rates growth, Revenue Support Grant and New Homes Bonus from 2025/26. Currently the mechanism at the Council's disposal to respond to the gap is the use of reserves, as savings are already built into the MTFP. Savings and opportunities for additional income generation within the MTFP are, predominantly, planned for on a one-year basis and therefore there is the opportunity for the Council to plan for savings on a longer-term horizon in order to reduce the gap and increase financial sustainability.

The Council should prioritise extending the savings planning horizon alongside exploring alternative options to reduce reliance on reserves, which are a finite resource and may be diverted away from the purposes they were set aside for, should they be required to fulfil future budget gaps. **(Improvement Recommendation 4).**

Budget and Treasury Monitoring Process

Cabinet and Overview and Scrutiny Committee (OSC) receive budget monitoring reports within the financial year. The format of the reports provides the forecast outturn position compared to budget and therefore allows decision makers to assess the full potential impact of the current variance by year end and take action accordingly. The report effectively explains why the variance in each case has occurred, and therefore ensures members can understand the underlying operational factors impacting the budget. However, there is limited information included on next steps and actions being taken. This information would be particularly beneficial for underperforming services and would allow decision makers to track progress at each meeting against the proposed actions, ultimately increasing accountability **(Improvement Recommendation 5).**

The Council commits to undertaking budget monitoring each quarter, with a final outturn report presented to confirm the year-end position in the fourth quarter.

Financial sustainability

Budget and Treasury Monitoring Process (continued)

This was successfully upheld in 2021/22 with the final outturn presented to Cabinet in July 2021. Quarters 1-3 were reported in 2021/22 and quarter 1-2 reported in 2022/23, there is no reporting to date in 2023/24. The Council did not formally report the 2021/22 outturn to Cabinet and at the time of writing the 2022/23 outturn reporting has not yet been prepared. It is expected to be reported to members in September 2023. Therefore, members have not had sight of the Council's financial performance since December 2022, which related to the position at September 2022, and are now due to receive the 2022/23 outturn position with a significant time-lag. It is of particular importance that members receive timely financial information given that the Council are also delayed in publishing their financial statements.

In addition, of the reporting that has been provided to members, there is an increasing time lag between the date the information relates to and the time at which it is reported of up to 3 months for those reports available to date, with a much longer gap anticipated for the 2022/23 outturn. The lack of information and time lag combined are deemed to be a weakness in arrangements as it does not provide members with sufficient information with which to make reliable and up to date financial decisions. The reason for the lack of reporting is due to a variety of staffing capacity issues, noted in the Governance section, which led to key officers including the Director and Deputy Director of Finance covering multiple roles. In addition to this, there were also further issues within the finance department due to staff turnover and the departure of key staff that meant that they were not able to complete the closure of the 2021/22 accounts in a timely manner. The senior management restructure is expected to be fully completed in October 2023 which is expected to respond to the challenges observed as key staff members will no longer be fulfilling multiple roles and key interim finance staff have now also been replaced by permanent team members. However should the required improvements to transparency of the financial position not improve we would be required to escalate the issue further via a more serious statutory recommendation as there would be no evidence to confirm the Council remained financially viable if timely reporting is not restored. **(Key Recommendation 5).**

The Council updates its Treasury Management Strategy Statement and Annual Investment Strategy annually in line with the budget setting timetable. Full Council and Cabinet also receive a mid-year and year-end review of Treasury Management performance and therefore are sighted on activity 3 times a year, this is deemed sufficiently regular and representative of the level of investments, borrowing and risk being faced in this area. There are no gaps in the monitoring reports, as has been observed with budget monitoring, however a time-lag issue also exists within this area reporting of up to 6 months. The year-end performance is reported in September the following year, for example. More up to date information would be beneficial for decision makers in ensuring their decisions can be made on relevant and reliable information **(Key Recommendation 5).**

Budget Setting Process

The 2021/22 budget setting process began in November 2020 and concluded with final approval by Full Council in February 2021. There was discussion by Cabinet and Overview and Scrutiny Committee prior to this. The same process and timeline was followed for the 2022/23 and 2023/24 budgets and is deemed provide multiple opportunities for engagement and challenge in the process at the top-tier of the organisation. Concerns were raised internally regarding the lack of service level engagement in the initial stages of developing the 2022/23 budget and as such the budget process was considered to be a top-down approach, predominantly led by the top-tier of the organisation with concerns around the engagement of the finance team and services being raised by the Director of Finance at the time.

As the 2022/23 budget process progressed, as well as a change of Director of Finance, a 'Budget Prioritisation' approach was implemented which involved services in proposing their own budgeted revenue, expenditure and savings which was subject to a detailed scrutiny process. As such the previous challenges in lack of involvement and engagement have been rectified in the 2022/23 and 2023/24 budgets **(Improvement Recommendation 6)**. There is clear involvement of residents in setting budgets in all years, and although the reporting of this is implicit within the 2021/22 budget, there is clear analysis of resident feedback included within future budgets.

In each year the budget has been set using the prior year budget as a starting point and adjusting for known changes in funding, expenditure and assumptions. This then determines the reserves strategy and savings programme required to set a balanced budget. This is presented at Council-wide level and therefore there is no information presented to members at service or directorate level. The in-year budget monitoring is presented at directorate level and so does provide more granular detail. Councils are required, by law, to provide certain services with all other services representing discretionary spend. Although the Council currently has no plans to reduce or remove any discretionary services, they are facing a medium-term financial gap, which may result in the need to evaluate the cost effectiveness of such services. Designing the budget and MTFP around directorates or services to allow this analysis to take place would be beneficial to facilitate any future discussions around the cost effectiveness of services **(Improvement Recommendation 7).**

With regards to funding and income assumptions the Council has demonstrated robust and realistic assumptions being made in the years reported on. Two key expenditure assumptions impacting the budget in all years are pay awards and non-pay inflation. A range of rates of inflation are used depending on the type of expenditure, to estimate these a specific modelling exercise is undertaken each year by the Finance Team during the budget setting process. The average rates of inflation used in each year were 2% for 2022/23, 2% for 2022/23 and 6% for 2023/24.

Financial sustainability

Budget Setting Process (continued)

Although the increase in the assumption between budgets does demonstrate that the Council has responded to rising inflation in the UK, the rates used in the budget are considered to be optimistic, and therefore presenting a risk of overspend in the actual outturn when compared to the CPI rates in the relevant years. For context, at February 2023 the CPI rate was 9.2% and therefore above the assumption made. A similarly optimistic assumption exists in relation to the annual pay award. The Council allowed for 1%, 2% and 4% increases in 2020/21, 2021/22 and 2022/23 respectively. Announcements in relation to the pay award are made after the date the budget is set and determined that the average uplift would be in the region of 2% and 7% in 2020/21 and 2021/22 and the proposed 3.88% increase for 2023/24 was rejected nationally. The Council would benefit from ensuring a mechanism is in place for updating the budget for key assumptions as updated information becomes available ([Improvement Recommendation 7](#)).

It is commonplace for Councils to undertake scenario planning as part of the budget and MTFP setting process to enable them to effectively plan for a range of opportunities and challenges that could realistically be faced before they occur. Optimistic, pessimistic and neutral scenarios are considered in the 2021/22 budget from an operational perspective but with no analysis of the potential financial impact. The 2022/23 budget improves its analysis in this respect provides the total financial impact over the life of the MTFP of the three scenarios, but with limited information on a line-by-line or service basis. In each year the budget is based on the neutral scenario as this is deemed the most likely, the 2022/23 budget therefore reduces the scenario planning analysis to focus solely on this potential outcome. To ensure the budget is most beneficial to decision makers at a time when the Council is facing financial risks the Council should consider planning for a range of scenarios at service level to ensure a range of outcomes can be planned for in advance. ([Improvement Recommendation 7](#)).

Financial risks facing the Council are considered implicitly throughout the 2021/22 budget and Medium-Term Financial Plan (MTFP) but improvement has been seen in the presentation of risk in the 2022/23 and 2023/24 documentation where there is a standalone specific section on risk to allow members to fully understand these when approving the budget for the year ahead. The risks identified are those expected of a District Council and are commonplace in the sector. Other potential risks facing the Council, which are specific to their circumstances and could have a financial impact, such as the potential impact of a loan guarantor agreement with the Council's leisure provider, impact of specific projects such as the Port of Ramsgate delays and any revenue impact and legal costs which are noted in our statutory recommendation on financial sustainability.

These risks are not explicitly set out in the budget papers and therefore transparency of risk could be improved. Further improvement could be made to ensure decision makers fully understand how risks may crystallise by estimating the financial impact of each on the MTFP, this is linked to the recommendation around scenario planning as the different scenarios are based on how much/many of the risks occur in reality ([Improvement Recommendation 7](#)).

The most significant area of spend for the Council is staff costs and as such it is good practice for a Council to have a forward looking workforce strategy, and associated plan, which covers the same time period as the MTFP, to ensure that the Council has the workforce required to provide planned service levels and that these can be afforded within resources the Council has available. We have not identified a workforce plan being developed and presented alongside the 2021/22 budget. As part of the 2022/23 budget an exercise was undertaken to review and remove vacant posts providing savings totalling £248k.

This shows some consideration of the direct impact of the workforce on the budget but this was not informed by a forward looking workforce plan. In 2023/24 the Council has identified that some departments, as a result of the removal of vacant posts, are experiencing issues with low capacity and growth in budgets has been required to rectify this. A forward looking plan to help plan for the costs of the expected workforce going forwards would be beneficial to avoid any further unbudgeted costs as a result of decision making in relation to the workforce and to avoid removing posts that are required for the smooth running of certain services ([Improvement Recommendation 8](#)).

Savings

The 2020/21, 2021/22, 2022/23 and 2023/24 budgets all include a savings target broken down by the individually identified project/actions to make these savings. Savings targets the respective years were £730k, £840k, £667k and £852k with additional support from income generation in the form of fees and charges. Savings and efficiencies are narrow in scope and rely on small spending cuts across several services, while this is positive and so does not place pressure on just one area of operations the Council has the opportunity to explore other ways of making savings across a greater range of cost and income drivers ([Improvement Recommendation 9](#)).

We have been unable to review the Councils saving target against their actual outturn due to the latest information having not been reported to members. As this is an interim report, we will review this position once available in our final report.

Financial sustainability

Savings (continued)

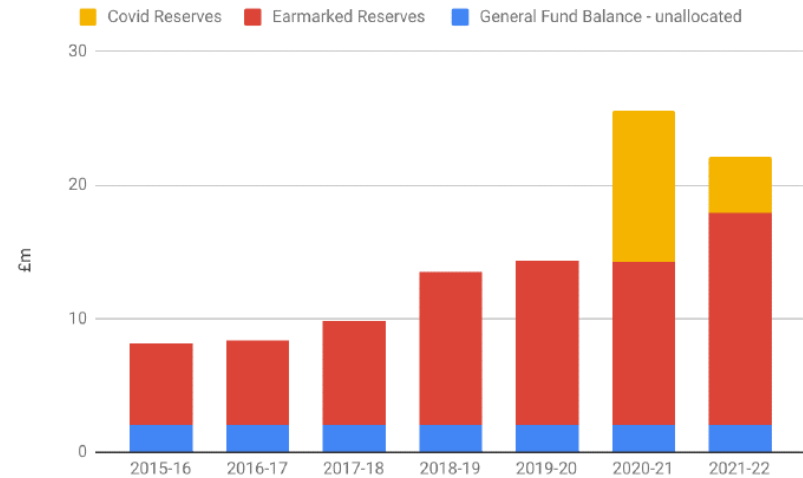
Cabinet and OSC have sight of the budget, including savings, before Full Council approval. As such there is a simple and well-established method of approval of savings in place. As noted, changes to the budget process in 2022/23 and 2023/24 to include a 'Budget Prioritisation' process have ensured that service lead are at the forefront of identifying their own savings schemes and gaining approval for these through a detailed challenge process. In theory, this should increase the probability of the required savings being achieved and ensures that the savings identified are through specific programmes of work as opposed to simple cost cutting, which tend to be non-recurrent and place pressure on services each year.

Once savings are approved, they form part of the base budget and are monitored as part of the monthly monitoring undertaken by Managers throughout the organisation. Financial performance is then reviewed at Council-wide level and reported to Members accordingly, through the budget monitoring reports. Although there is consideration of the impact of savings performance within the variance analysis in the budget monitoring reports there is no granular level detail available to members on individual savings schemes, with the exception of quarter 1 of 2021/22, to assist them in monitoring the success of these in the year and allowing them to take actions prior to year end to progress slippage in savings [\(Improvement Recommendation 9\)](#).

Where savings are successfully delivered there is no evidence of a post implementation review process taking place to enable the Council to learn lessons from these success, extend such schemes or apply to other services to maximise savings across the Council [\(Improvement Recommendation 9\)](#).

Reserves

It has been well reported in prior years that the Council has historically held relatively low reserves, especially when compared to other district councils. This was supported by analysis undertaken within the Chartered Institute of Public Finance and Accountancy's financial resilience index which confirmed that at 2019/20 the Council were the 29th lowest out of the districts in England and the second lowest in Kent, based on total General Fund reserves (including general fund earmarked reserves). Reserves were at their lowest point in 2015/16 when general fund and earmarked reserves balances stood at £8.2m, which equated to only 42% of the council's net revenue budget.



Over recent years the Council committed to increasing reserve holdings and these have steadily increased, at the time of setting the 2023/24 budget reserves stood at £17.9m (excluding Covid reserves), which is more than double the level held at the end of 2015/16. This represents approximately 85% of planned net revenue expenditure for 2023/24. As such the Council's reserves are now in a much stronger position.

It is noted that the Council's total reserve balances reduced by £3.5m during 2021/22. This was a result of usage of Covid-19 reserves, which relate to Section 31 grant payments made to the Council from government in order to compensate for lost business rate income due to pandemic related business rate reliefs and cannot be spent on anything else.

Therefore, their usage is deemed to have been for the purpose they were provided and negated the need to use existing earmarked reserves and divert them away from the specific projects they were set aside for, to respond to the pandemic. The ongoing increase in earmarked reserves demonstrates robust planning for the mitigation of future specific risks and projects. Therefore, the underlying position tells a positive story of the Council's continuing improved financial standing and planning for the future.

Grant Thornton recently published a paper entitled 'Lessons from recent Public Interest reports' and it includes a strong emphasis on the importance of maintaining an adequate level of reserves. There is no formal definition as to what constitutes adequate, but Grant Thornton's view is that reserves should be a minimum of 5% of net spending and preferably be somewhere between 5% and 10%. Using the audited 2020/21 accounts, CPI inflation and the reserves information available we can conclude that for 2021/22 reserves would be approximately 13% of the net cost of services. This would not reduce below the threshold based on the 2022/23 draft position.

Financial sustainability

Reserves (continued)

Earmarked reserves are proposed to be used on a number of occasions for the 2023/24 budget, however the section 151 officer is satisfied that these allocations are appropriate; the contributions are of a one-off nature and are in keeping with the intended purpose of the reserve, in that they will either help smooth or mitigate emergency expenditure pressures or will help to generate additional income or reduce costs in the future.

The Council identifies several risks in the budget each year. The potential risks, track record of poor savings performance and a budget gap in the medium term of £5.8m within the 2023/24 Medium Term Financial Plan (MTFP) would eradicate reserves if all came to fruition in the 23/24 year. In reality these risks and budget gap would occur over several years, in the meantime the Council is looking to increase savings, which links with our previous improvement recommendation. The Council does need to continue to work to reduce unbudgeted risks, continued efforts in relation to governance to avoid further legal action and addressing financial risks such as savings delivery to reduce the medium-term gap in order to continue on the positive trajectory in terms of reserves that has been observed in recent years (*Improvement Recommendation 4*).

Section 25 of the Local Government Act 2003 requires that when a local authority is agreeing its annual budget and precept, the chief finance officer must report on the adequacy of the proposed financial reserves. This requirement is met in the 2021/22 budget, however for 2022/23 although there is detailed historical analysis of reserves usage and benchmarking there is no explicit statement as to their adequacy. This has been rectified for 2023/24 in setting the budget which includes the confirmation that 'the section 151 officer is satisfied with the adequacy of the council's current reserve holdings and the robustness of the estimates that have been applied to the 2023/24 budget'. Our work has noted a strengthening position and therefore concurs with this statement in all years (*Improvement Recommendation 7*).

Capital Programme

The Council produces its capital programme each year as part of the budget setting process and sets out its plans across a 4 year medium term time frame in line with the MTFP. The capital programme is informed by the Asset Management Plan which outlines the Council's approach to its material asset holdings. The Plan spans 2017-2021 and therefore is outdated and requires updating to ensure that capital decisions remain relevant to the changing capital programme (*Improvement Recommendation 10*).

In May 2021, an external consultant was engaged to review the effectiveness of its financial management. The consultant's final report (received in September 2021) included significant observations around the poor time-phasing of the 2020/21 capital programme and as such reprofiling was required when producing the 2021/22 programme (*Improvement Recommendation 11*).

The capital programme for the four years from 2021/22 totalled £18.5m. However, after successful bids for additional funding the Council, in 2021/22, secured £40m from the Margate Town Deal and Levelling Up Funding from central government to support regeneration projects in the district. As a result of this capital programme has increased substantially with the 2023/24 programme totalling £55m over 4 years. Slippage in the capital programme has also been noted in each financial year which is likely linked to poor project management identified as a weakness earlier in the report.

Discussions with officers has noted that when the project plans were produced to include in the proposals for additional funding that these were at a high level, with further work needed after the funding was secured to enable projects to be successfully mobilised. This has caused some delays to commencing these projects and has led to reprofiling of many of the projects into later years of the capital programme and contributed to the slippage observed.

The Town Deal and Levelling Up funding has conditions attached to it which includes that it should be spent on the projects it was intended for by March 2025, therefore the delayed start and reprofiling has a potential risk to the Council of not meeting this deadline and funding being clawed back. The Council, in early 2023/24, has secured a place within a pilot scheme associated with this type of funding and one of the benefits of this scheme is that there is an extension to this deadline to March 2026. As such the risk associated with the delayed start is somewhat mitigated. In addition, there is evidence of some projects having now commenced, the Council has engaged external project management support in relation to some of projects and have liaised with these consultant regarding the profiling of the projects to ensure the timeline is more realistic than the initial estimates made by the Council. It would be beneficial to extend this support and analysis across the remaining programme to ensure the profiling remains realistic across all projects (*Improvement Recommendation 11*).

The risk of future potential profiling issues due to poor project management remain a cause for concern and a key recommendation has been raised in that respect earlier in the report. The Council is looking to seek additional external project management support as capacity of the procurement and legal teams is low, and as such capacity and expertise required for such a large programme is limited. Initial discussion have begun to progress this engagement.

Financial sustainability

Conclusion

A significant weakness has been highlighted in relation to the reporting of financial performance to members via budget monitoring and outturn reporting. Cabinet have not received financial performance reporting since December 2022 which related to quarter 2 of the 22/23 financial year, nor have they received the final outturn position for 2021/22 or 2022/23. The financial statements for these financial years are also yet to be produced and published and as such there is a lack of awareness of the Council's financial standing by its decision makers.

We have also noted several improvement recommendations concerned, predominantly, with ensuring best practice in the production and reporting of the budget setting process.

Improvement recommendations



Financial sustainability

Improvement Recommendation 4

The latest MTFP demonstrates that the Council has a £5.8m financial gap in the medium term, which the Council plans to meet from reserves. Sufficient reserves are available in the medium term based on current projections as the Council has built these up since 2015/16. However, this would divert those reserves away from the purposes they were set aside for and therefore the Council should prioritise identifying alternative mitigations to the risks identified in the budget each year.

Notably, the Council predominantly plans for savings and additional income generation on a one-year basis, planning these areas of the budget over a longer-term horizon would be beneficial in identifying potential opportunities to reduce the medium-term gap and improve financial sustainability.

Audit years

2020/21, 2021/22 and 2022/23

Why/impact

Reserves are a finite resource and to ensure that the Council can protect itself, and its services, from future uncertainties and as such the Council should reduce reliance on reserves to meet financial gaps.

Management Comments

We note and agree GT's recommendations.



Annex 1
Agenda Item 7

Improvement recommendations



Financial sustainability

Improvement Recommendation 5

The Council report their budget and treasury performance to members via the OSC and Cabinet, this is also reviewed by CMT. The Council could improve the information provided to these decision makers by updating the financial monitoring reports to include, not only causes of individual variances, but also actions being taken to address negative variances.

Audit years

2020/21, 2021/22 and 2022/23

Why/impact

Information relating to the actions proposed to tackle variances provides members with a mechanism with which to track progress and impact of those actions and ultimately hold the responsible officers to account.

Management Comments

Noted and agreed.

Improvement Recommendation 6

There is limited evidence of individual services being involved in the initial setting of the 2022/23 budget which was a top-down approach led by the top-tier of the organisation. The Council should seek to improve processes to ensure better service level engagement in the budget setting process. However, this has been rectified in setting both the latter stages and finalisation of the 22/23 budget and throughout the 23/24 budget via a 'Budget Prioritisation' process

Audit years

2021/22

Why/impact

Budget holders are ultimately the officers who are responsible for delivering the budget at an operational level and therefore greater collaboration with budget holders could be of benefit as this can identify new opportunities for efficiencies, more robust assumptions and more buy in from teams to deliver budgets as they have a greater sense of ownership.

Management Comments

Noted and agreed.

Improvement recommendations



Financial sustainability

Improvement Recommendation 7

The Council should review the budget setting process each year to ensure it remains effective, including:

Risk Documentation - further improvement could be made to how risk is considered in the budget documentation to ensure decision makers fully understand how risks may crystallise by estimating the financial impact of each on the MTFP.

Many of the risks are generic, common risks to the sector, the Council would benefit from reviewing the financial risks to the budget and MTFP for completeness to ensure Thanet specific risks are included considered.

Scenario Planning - in 2021/22 risk analysis and scenario planning was implicit in the budget, improvements have been seen in the 2022/23 budget where planning was based on three scenarios, however only a neutral scenario has been planned for in the latest 2023/24 budget. To ensure the budget is most beneficial to decision makers at a time when the Council is facing financial risks the Council should consider planning for a range of scenarios at service level to ensure a range of outcomes can be planned for in advance.

Assumptions - There is evidence that some key assumptions, such as the pay award and inflation, are overly optimistic at the time of the budget setting. The Council should review assumptions used within the budget, and allow these to be updated via budget updates, to ensure that the budget remains realistic in light of changing external factors.

Section 25 Statement - this statement is a requirement of budget setting. The 22/23 budget does not include a specific Section 25 S151 statement and it is recommended to be included in budget documentation to members going forwards. This is rectified with further explanation and justification in the 2023/24 budget report.

Identification of Discretionary Spend - The Council should consider making a clear distinction between statutory and discretionary spending in the budgetary information provided to members. Although the Council currently has no immediate plans to consider removing or reducing services, a medium-term financial gap exists and therefore this information would be beneficial to facilitate potential future discussions as to the cost effectiveness of services..

Audit years

2021/22 and 2022/23

Improvement recommendations



Financial sustainability

Improvement Recommendation 7 (continued)

Why/impact

Financial risks have the potential to impact the achievability of the budget, as such it is imperative that the risks identified are complete and relevant to the Council's specific circumstances.

Scenario planning is commonly used in the sector as a way of planning ahead for potential challenges and limiting the need to make reactive decisions should such challenges occur, as they already have an action plan in place for a range of possible scenarios ahead of time.

Assumptions which are overly optimistic in the budget setting process can lead to additional financial pressures higher than expected unplanned variances occur in year.

The section 25 statement from the S151 officer is a regulatory requirement and provides decision makers with appropriate assurance as to the integrity of the budget they are asked to approve.

To ensure that decision makers can easily identify those services which are underperforming financially and the actions that will be taken to address that underperformance. This allows members to more easily track progress and impact of those actions on underperforming services and hold relevant budget holders to account where required.

Management Comments

Noted and where possible, this will be fed into the 2024/25 MTFS process.

Improvement recommendations



Financial sustainability

Improvement Recommendation 8

The Council should develop a forward-looking workforce plan setting out the establishment required for the smooth running of each service, this can then be aligned to the budget and MTFP.

Audit years

2020/21, 2021/22 and 2022/23

Why/impact

A workforce plan ensures that the Council has the appropriate capacity to fulfil its operations, does not remove vacant posts that it will require in future and understands the cost impact of the required workforce over the medium term.

Management Comments

Service by service salary estimates are already produced to sit alongside the MTFP.

Improvement Recommendation 9

The Council identifies the savings required for each year during the budget setting process and these are monitored by finance throughout the year. The Council may wish to improve this process by:

- **Increasing the Scope** - Savings and efficiencies are narrow in scope and rely on small spending cuts across several services, while this is positive and so does not place pressure on just one area of costs savings the Council has the opportunity to explore other ways of making savings across a greater range of cost and income drivers.
- **Monitoring Processes** - greater oversight at individual scheme level and more frequent monitoring is needed of the savings. Cabinet, in particular, should have greater oversight and ability to hold services to account.
- **Post Implementation Review** - there is no evidence of such reviews taking place in relation to savings schemes. The council should perform post implementation reviews to ensure that lessons can be learned and savings maximised.

Audit years

2020/21, 2021/22 and 2022/23

Why/impact

Maximising savings delivery is imperative to the achievement of the budget each year and reduces the reliance on reserves.

Management Comments

Noted.

Improvement recommendations



Financial sustainability

Improvement Recommendation 10

The Council should update its Asset Management Policy as this latest version expired in 2021 despite the fact that asset disposals have continued into the 2022/23 year and the capital programme has significant increased in value.

Audit years

2021/22 and 2022/23

Why/impact

Updates required to ensure that disposals and additions to the Council estate remain relevant to objectives.

Management Comments

Work is already underway to review the scope of Asset Management and associated policies.

Improvement Recommendation 11

An external review noted that the capital programme for 2020/21 was poorly time phased and therefore it would be recommended that the Council undertake more realistic reprofiling of the programme in subsequent years.

The Council has now engaged a project management expert in relation to some projects who have assisted in profiling projects based on their own analysis. It is recommended that this approach is extended across the programme.

Audit years

2020/21, 2021/22 and 2022/23

Why/impact

The Council has increased its capital programme significantly as a result of the Town Deal and Levelling Up funding. This funding has conditions attached which include a deadline by which projects should be completed, as such poor profiling of projects and slippage creates a risk to achieving this deadline and funding potentially being clawed back.

Management Comments

Noted.

COVID-19 arrangements



Within the 2020/21 year COVID-19 had a significant impact on the population as a whole and how local government services are delivered.

We have considered how the Council's arrangements in the 2020/21 financial year adapted to respond to the new risks faced.

Financial sustainability

The impacts of the Covid-19 pandemic were felt widely across the General Fund by Thanet District Council. Examples of budget pressures in 2020/21 as costs increased and revenues fell included:

- £747k Council tax recovery income not realised;
- £282k property income not realised because of slower tenancy turnover;
- £191k lower building control income as fewer planning permission applications were made;
- £160k additional cost to waive Your Leisure management and additional fees, to support the leisure sector through the crisis;
- £569k parking enforcement income not realised as car parks and town centres stayed closed;
- £218k increased costs of waste and staff cleaning to contain virus spread;
- £150k port income not realised as travel and transport activity contracted; and
- £81k fall in income from licencing applications.

The Council received Covid grants from the UK Government of £3.371m during 2020/21. Of these, £2.558m was used to fund the corporate overspend incurred as a result of the pandemic and the balance was transferred to reserves. The Council also received £8.642m of section 3 grant to compensate it for business rate income foregone due to the covid reliefs granted to retail, hospitality & leisure businesses and nurseries.

Governance

A by-election was postponed by Thanet District Council from March 2020 to May 2021, but most routine governance processes within the Council itself continued to operate over the period of delay. Between 4 April 2020 and 7 May 2021, all meetings were held online. Thanet District Council's Democratic Services team provided support with online meetings not only to Thanet's Committees by also to support the work of other East Kent Districts

The Finance Team set up new activity codes on ledgers to capture covid costs. Costs and lost income were reported as separate items in all monitoring reports to Cabinet and the Corporate Management Team through 2020/21 as well as in monthly returns to central Government. The overall size of the finance team expanded as in-house teams took on new grant paying functions that could not be absorbed within Civic's Revenue and Benefits services. Most officers worked online/ remotely during 2020/21 though. Even now, Council use office space has declined by around 50%, adding impetus to discussion around what the long-term future of the Council head office building should be.

A significant amount of Internal Audit resource was redeployed in the first Quarter of 2020/21 to support the Council's Covid-19 response. By the end of 2020/21, 77% of the Internal Audit days planned for the year had been provided. Enough to provide opinion although we note that work following up Limited Assurance opinions in three areas from 2019/20 could not be completed.

COVID-19 arrangements

Improving Economy, Efficiency and Effectiveness

New corporate performance measures that were due to be implemented from 1 April 2020 were delayed due to the redeployment of Council resources to support the response to Covid-19. As an interim measure for April 2020 - March 2021, corporate performance continued to be monitored against the previous corporate priorities the council has seen overall performance impacted by the increased demands of responding to the COVID-19 pandemic. For context, the last quarter of performance reported in 2019/20 was 5 red, 3 amber and 16 green

Conclusion

Arrangements were disrupted during the Covid-19 pandemic but there are no new issues identified as a result.

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
<p>1 Commission an independent, experienced Monitoring Officer (IMO) from a large local authority to report to the General Purposes Committee on:</p> <ul style="list-style-type: none"> - A risk assessment of the current employment tribunal claims and propose actions which safeguard the Council's best interests including a detailed financial analysis of the options available to the Council - An assessment of the status of all outstanding grievances, alleged whistleblowing complaints and any continuing suspensions and propose a plan of action to address them - A lessons learnt report collating themes and recommendations from all externally commissioned reports and any other appropriate evidence. 	Statutory	October 2021	<p>In terms of the risk assessment, a provision for expected costs associated with the disciplinary and legal proceedings was included in the 2020/21 statement of accounts, based on a risk informed assessment of probable costs. Cabinet were also updated in June 2021 of the provision. The adequacy of this provision is periodically reviewed by the S151 Officer as part of the production of the Council's financial statements. As such this element of the recommendation has been fulfilled.</p> <p>The assessment of outstanding grievances was taken to the General Purposes Committee in April 2022. The Committee received evidence which was not received at the time of the allegations and should have been, along with a response from the Chief Executive at the time, Madeline Homer. In addition, the Committee also received independent investigations from August 2021, details of the settlement agreed with the former Chief Finance Officer and outstanding matters still to deal with in respect of these investigations. As such the recommendation has been fulfilled in early 2022/23.</p> <p>The Council engaged an IMO in December 2021, shortly after the Statutory Recommendations were presented to Council. His work concluded in May 2022. It made 9 recommendations and action plan was developed to address these by the Council. At March 2023 progress was presented to members and noted that the response to the recommendations of the IMO were substantially complete. Our work has reviewed the response and noted those still in progress are predominantly due to the fact that the Council's senior management restructure will complete in October 23 when all staff, that have already been recruited, will be in post. Our key recommendation reflects this but we are satisfied that the requests of the recommendation have been addressed.</p>	Yes	<p>To follow up in 2023/24 whether the actions taken to complete the IMO action plan have been completed and that updated arrangements are fully embedded in order to consider the recommendations closed.</p>

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
2 Bring the current Investigations and Disciplinary Sub-Committee (IDSC) process to a conclusion with clear actions that are reported and action monitored	Statutory	October 2021	<p>The Council developed an action plan to respond to the statutory recommendation which states that this item was considered fully responded to in April 2022. The item was restricted from the public when presented to members, given its sensitivity, we are satisfied this was appropriate and not indicative of transparency issues. The report includes several appendices to ensure that members were provided with a full suite of information with which to make the decision including an independent investigation into the individual and recommendations from the IDSC.</p> <p>The Monitoring Officer was dismissed with immediate effect in April 2022 and therefore concluded in the 2022/23 year.</p> <p>One specific case, where an employee raised grievances against the former Chief Executive, eventually resulted in redundancy of the complainant. Actions taken to progress this redundancy continued following our statutory recommendation being raised. It resulted in the pausing of the process following legal advice, therefore delaying the conclusion of the case. The case continued with three employment tribunals being raised against the Council in total, linking the redundancy to unfair dismissal and the initial grievance raised. The case was eventually settled in July 2023 at a cost to the Council. This is indicative that poor decision making in relation to this specific grievance continued after the statutory recommendation was raised, despite a positive response to the recommendation to settle other cases. As such the recommendation in relation to this case was not addressed in the period being reviewed. Although it has now concluded and settled the value forms part of the financial statements provisions. Given that 2021/22, 2022/23 and 2023/24 financial statements have not yet been published the recommendation cannot be considered fully closed until the public have had the opportunity to exercise their right to challenge the accounts.</p>	Partially	Follow up of the statutory recommendation as part of the 2021/22 and 2022/23 financial statements audit process.

Follow-up of previous recommendations

3	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
3	Revisit financial plans and identify additional savings plans to address the further cost pressures created in resolving the grievances and whistleblowing complaints	Statutory	October 2021	The 2022/23 Budget Strategy was approved by Cabinet on 18 November 2021. Within this was a proposal to make a £180k contribution to reserves over the life of the MTFP in order to restate the reserves that were used to fund the cost pressures.	Yes	No
4	Agree an approach where the Council demonstrates that it is responding to the substance of concerns raised including a clear agreement of where Officer and Member responsibilities lie	Statutory	October 2021	<p>This recommendation remains in progress. It requires an update to specific sections of the Constitution related to member and officer protocols, development of a behavioural framework and training on the new framework.</p> <p>As at March 2023 when the Council action plan was last presented to members progress had been stalled due to the fact that the Council senior officer restructure had not yet completed and local elections would result in a change in members. It was felt that new policies and training would be most effective if implemented when new staff and members were in post, we would agree with this sentiment. All officers have been recruited under the restructure and are expected to be in post by October 2023.</p> <p>We have noted some ongoing updates to the Constitution and have therefore included in our improvement recommendations to prioritise the development of the behavioural framework and associated training so it can be mobilised immediately once all officers are in post.</p>	Partially	To follow up in 2023/24 whether the behavioural framework and training have been completed and that updated arrangements are fully embedded.

Summary of objections to accounts

Year of Objection	Open/ Closed Status September 2023	Objection	Auditor assessment and conclusion	Status in September 2023
2018-19	Closed	Parking charges and claims the Council was not acting in line with the "Road Traffic Regulation Act (1984)"	No public Interest report or declaration to the Court for an unlawful item of account was required.	Complete- this means we are able to issue our Audit Certificate following this meeting. This opinion will include and except for highlighting issues around East Kent Housing. Note this service has in subsequent years been brought in house.
2019-20	Open	Related to the Councils use of Non-Disclosure Agreements.	Work ongoing- we are unable to provide interim views on our review of objections until we issue our statement of reasons.	Work is ongoing on this matter. We require further documents from the Council to enable us to complete our review regarding this matter.
2020-21	Open	We received an objection in relation two specific matters on the Berth 4-5 project.	We received one formal objection on this matter. In relation to this our Statement of reasons has been sent to the objector: No public Interest report or declaration to the Court for an unlawful item of account was required. We also received in the inspection period other requests on this matter and we still in the process of liaising with these individuals regarding this matter.	Work is complete and was responded to formally in our Statement of Reasons to the objector.
2020-21	Open	Objection in relation to the Sale of Dreamlands.	Work ongoing- we are unable to provide interim views on our review of objections until we issue our statement of reasons.	Work is nearing completion, and we will update the Committee in November on our findings.

Summary of objections to accounts cont.

Year of Objection	Open/ Closed Status September 2023	Objection	Auditor assessment and conclusion	Status in September 2023
2020-21	Open	We received an objection raising specific concerns regarding the Governance of the Margate Town Deal Board.	Work ongoing- we are unable to provide interim views on our review of objections until we issue our statement of reasons.	Work is ongoing in relation to this objection.
2020-21	Open	We received an objection regarding the fact the Council did not have an active Lottery license holder.	Work ongoing- we are unable to provide interim views on our review of objections until we issue our statement of reasons.	Work is nearing completion and we will update the Committee in November on our findings.
2020-21	Open	We received an objection regarding the fact the Council did not have an active Data protection officer.	Work ongoing- we are unable to provide interim views on our review of objections until we issue our statement of reasons.	Work is nearing completion and we will update the Committee in November on our findings.
2020-21	Open	Objection in relation to the procurement of RCV Diesel vehicles considering the Council declaring a climate change emergency.	Work ongoing- we are unable to provide interim views on our review of objections until we issue our statement of reasons.	Work is nearing completion, and we will update the Committee in November on our findings.

In relation to the outstanding objections, we will issue an updated version of this report following the finalisation of our work on these matters.

In doing so we will also consider if any of the findings impact on our Value for Money findings for the 3 years in this report.

We also note due to the fact the Council has not issued the 2021-22 or 2022-23 accounts we have not had a chance to consider potential objections in these financial years. From discussions with members of the public we are expecting to receive objections in relation to the 2021-22 financial year.

Opinion on the financial statements



Audit opinion on the financial statements

We have substantially completed our audit of the Council's financial statements for 2020/21 and plan to issue an unqualified audit opinion following the Governance and Audit Committee meeting on 27 September 2023.

Production, and subsequent audit, of the 2021/22 and 2022/23 accounts has been delayed and notified via the Council's website. The 2021/22 accounts are due to be completed and ready for audit shortly.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Governance and Audit Committee on 27 September 2023.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Thanet District Council is not a sampled component in the WGA accounts.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



Annex 1
Agenda Item 7

Appendices

Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

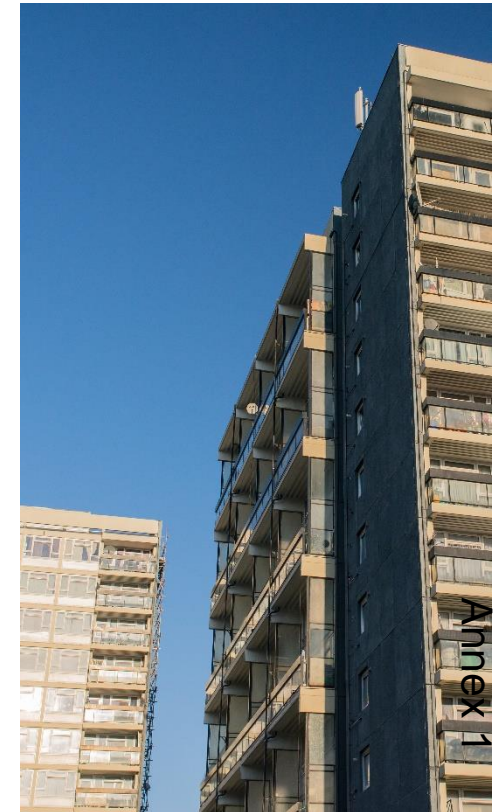
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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



Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work. Some risks were identified in the course of our work, these are also noted below:

Year of audit	Risk of significant weakness	Procedures undertaken	Findings	Outcome
All years	Governance - risk identified in the 2020/21 Audit Plan due to complex grievance issues apparent in 2019/20 requiring external support. This resulted in us raising statutory recommendations in October 2021.	Review of the Council's action plan to respond to the statutory recommendations, discussions with key officers and review of supporting evidence to determine if the recommendations had been effectively responded to.	<p>The actions taken to respond to the statutory recommendations raised as a result of the grievance issues were substantially complete at the end of 2022/23. Those remaining actions required all new members and senior managers to be in post, which is expected in the 2023/24 year. As such we believe the Council has shown commitment to responding to the issues and the weakness identified at risk assessment stage. However, to fully address the weakness the Council should prioritise the remaining actions required to fully respond to the statutory recommendations.</p> <p>In undertaking our work in this area we reviewed wider governance arrangements and noted that whilst there had been improvement in governance at the top-tier of the organisation weaknesses were apparent at service level. This was identified via review of Internal Audit reports and discussion with the Head of Internal Audit.</p>	Our work identified that weaknesses in governance arrangements at the top tier of the Council were apparent in 2020/21 and 2021/22 and improvements were made by 2022/23. However, until the Council completes its senior management restructure and associated policies and training the weaknesses are not fully responded to. Our work identified that whilst improvement had been made at this level, at service level further improvements were required to ensure that policies and procedures were effective in order to ensure compliance of those services. A weakness in arrangements and key recommendations have been raised relevant to all years

Appendix B – Risks of significant weaknesses, our procedures and findings (continued)

Year of audit	Risk of significant weakness	Procedures undertaken	Findings	Outcome
All years	3E's - No potential risks of significant weakness were identified within our Audit Plan, however potential risks became evident in relation to ineffective project and contract management in the course of our work.	Review of the Council's post implementation findings in relation to the Berth 4/5 project, application of lessons learned to date from the review and liaison with officers and internal audit to understand arrangements in relation to contract management and emerging issues within specific contracts.	<p>The Council does not have sufficient capacity or a robust project management framework in place with which to manage large scale projects or a large number of projects and as such requires additional support from project management experts.</p> <p>An emerging contract issue has highlighted potential fraudulent activity which was not picked up via existing performance monitoring arrangements. The Council now needs to investigate whether this is a more pervasive issue. This is of particular importance as the Council's capital programme has substantially increased in terms of the volume of projects and total value. This is a result of successful bids for Levelling Up and Town Deal funding totalling c.£40m. Should the appropriate governance arrangements to monitor projects not be in place then there is a risk of overruns, overspends and further fraudulent activity on a much larger scale.</p>	Significant weakness identified in all years and a key recommendations raised.

Appendix B – Risks of significant weaknesses, our procedures and findings (continued)

Year of audit	Risk of significant weakness	Procedures undertaken	Findings	Outcome
2020/21	3E's - No potential risks of significant weakness were identified within our Audit Plan, however a risk was identified in the course of work in relation to a lack of performance reporting	Review of changes in performance reporting arrangements in following years, 2021/22 and 2022/23, to ensure arrangements were implemented following a period of no reporting. This included reviewing the Council's live reporting tool and the content and frequency of reports to members to summarise information from the tool.	No performance reporting was presented to members of the Cabinet in 2020/21. In 2021/22 the Council implemented a live tool which monitored performance against KPIs linked to the Council's objectives. This was a marked improvement from the prior year. A time-lag between the information and the date of reporting was identified and although the tool was available publicly no papers related to the outcomes were taken to Cabinet to challenge, discuss and propose actions to respond. In 2022/23 Cabinet requested that reporting on the performance be provided every 6-months and this has been implemented. There still remains a time-lag in the information and an improvement recommendation has been raised to prompt the Council to review this.	Significant weakness identified in 2020/21 and a key recommendation raised. The issue was effectively responded to in 2021/22 and 2022/23 and therefore the weakness and key recommendation not relevant in later years. An improvement recommendation raised aimed at achieving best practice raised to include greater information on actions being taken

Appendix B – Risks of significant weaknesses, our procedures and findings (continued)

Year of audit	Risk of significant weakness	Procedures undertaken	Findings	Outcome
2020/21	Financial Sustainability - risk identified in the 2021/21 Plan because of the Council's comparatively low level of reserves when compared to other Kent District Council's. We did identify a weakness in reporting arrangements for outturn and budget monitoring which was not identified as a risk due to no issues prior to or within 2020/21 being evident	<p>We reviewed the arrangements for:</p> <ul style="list-style-type: none"> the Council's arrangements for identifying and monitoring risks to financial delivery the robustness of the council's medium term financial strategy and savings plans level and use of reserves. <p>In undertaking this work we identified that the Council had not reported its outturn position to members for 2021/22 or 2022/23 or quarterly budget monitoring beyond quarter 2 of 2022/23. To follow up this finding and identify if there was a risk we liaised with officers to understand the reasoning for this and obtained alternative financial information to review the draft outturn position in each year.</p>	<p>The Council has built up its reserves over a number of years since 2015/16. Although medium term plans include a financial gap of £5.8m at the latest MTFP the Council has sufficient reserves based on their current estimates to support the gap as a last resort. We have raised improvement recommendations for the Council to prioritise seeking longer term savings, income generation opportunities and alternative methods to plug the gap so as not to divert reserves away from the purposes they have been set side for.</p> <p>We identified that the capacity of senior management within the finance team following the departure of key officers at the top tier of the Council was the reason for the lack of reporting on financial performance.</p>	Our work did not identify a weakness in arrangements due to the Council's level of reserves. Our work did identify a weakness in arrangements as a result of a lack of financial reporting to members.

Appendix C – An explanatory note on recommendations

A range of different recommendations can be raised by the Council’s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No – Section 24 notice and statutory recommendations were raised in October 2021 following the 2019/20 Value for Money work and have been followed up as part of our work in proceeding years as documented in this report.	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	Yes	See relevant sections of the report and pages 9 to 13.
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the [type of body]’s arrangements.	Yes	See relevant sections

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External Audit Plan 2021/22

Governance & Audit Committee	29 November 2023
Report Author	Chris Blundell (Director of Corporate Services - S151)
Portfolio Holder	Cllr Rob Yates, Cabinet Member Corporate Services.
Status	For Information
Classification:	Unrestricted
Key Decision	No

Executive Summary:

The External Audit Plan 2021/22 has been developed by our appointed external auditor, Grant Thornton LLP, and sets out the proposed external audit work and fee relating to the 2021/22 annual audit at Thanet.

Recommendation(s):

1. That the external audit plan be noted.

Corporate Implications

Financial and Value for Money

The proposed fee for the annual audit can be met from existing budget provision.

Legal

The audit of the Council's accounts is governed by the Accounts and Audit Regulations 2015

Corporate

The audit of the accounts is a statutory requirement

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 Grant Thornton, the Council's appointed external auditor, has submitted their final External Audit Plan for the 2021/22 annual audit, attached at Annex 1, following consultation with the Section 151 Officer and his deputy.
- 1.2 The report also sets out the proposed fees for the 2021-22 audits, which can be met from existing budget provision. Any variation to the fees must be approved by the independent Public Sector Audit Appointments body.
- 1.3 The committee is asked to note the report and make comments as appropriate.
- 1.4 A representative from Grant Thornton will attend the meeting to present the report.

Contact Officer: Matthew Sanham (Head of Finance, Procurement and Risk)

Reporting to: Chris Blundell (Director of Corporate Services - S151)

Annex List

Annex 1: External Audit Plan

Corporate Consultation

Finance: N/A

Legal: N/a

External Audit Plan

Thanet District Council

Year ending 31 March 2022 – Final Plan

29 November 2023



Contents



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Section	Page
Key matters	03
Introduction and headlines	04
Significant risks identified	05
Accounting estimates and related disclosures	08
Other matters	11
Materiality	12
IT audit strategy	13
Updated Auditing standards for 2022-23	14
Audit logistics and team	15
Audit fees	16
Independence and non-audit services	17
Digital Audit	18
Appendix 1 – Progress against prior year recommendations	20

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Annex 1

Agenda Item 8

Key matters

Factors

Governance

The council has had several internal challenges in relation to Governance and Grievance issues, the severity of these issues came to the auditor's attention during the prior financial year, resulting in statutory recommendations being raised in October 2021. These recommendations concerned the appointment of an Independent Monitoring Officer (IMO), to review the situation. Following the appointment of the IMO, significant changes have taken place with respect to the council's Corporate Management Team (CMT), all four key offices held in position at the time of the statutory recommendations being issued have since left the authority, enabling new leadership to be established.

Infrastructure Assets

Since the start of 2021-22, issues have been raised over the valuation of Infrastructure Assets included within all Local Authorities Accounts, particularly relating to how assets are written out when they reach the end of their useful life and are replaced. Whilst most Local Authorities, have a policy for depreciating these assets over their useful life, there is often no policy on the formal write out of these assets at the end of that useful life. What this leads to is an overstatement of the gross book value of these assets in the Accounts, which could potentially have an impact on our audit opinions where material. As a result of these challenges, CIPFA have updated the code to amend the disclosure requirements on the disclosure on gross cost and accumulated depreciation for infrastructure assets. The Update allows local authorities temporary relief from disclosing gross cost and accumulated depreciation until 31 March 2025.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We will follow up on our recommendations made in the prior year Audit Findings report. Progress on recommendations is reported in Appendix 1.
- We will continue to review the governance of the council against the recommendations raised. Our current assessment for 2021-22 has not identified any new matters which we were unaware of that would impact the Council's financial statements.
- We will take account of the recent changes to the disclosure requirements detailed within the CIPFA code as part of our audit testing on infrastructure assets.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Thanet District Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Thanet District Council.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance the Audit and the governance and Audit Committee; and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Governance and Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The revenue cycle includes fraudulent transactions – this risk has been rebutted as documented on page 5
- The expenditure cycle includes fraudulent transactions – this risk has been rebutted as documented on page 5
- Management over-ride of controls
- Valuation of Land and Buildings including Council Dwellings
- Valuation of the Pension Fund Net Liability
- Valuation of Investment Properties

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined materiality to be **£2.37 million** (PY £2.6 million) for the Council, which equates to approximately 2% of the gross expenditure for the 21-22 unaudited financial statement year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £118k (PY £130k).

Value for Money arrangements

Our Value for Money Work in respect of 2021-22 is complete, as part of a joint piece of work covering the years from 2020-21 to 2022-23. We have prepared a joint interim Auditor's Annual Report in respect of these years, which is included on the Agenda as a separate item.

This remains an interim report as we are required to consider the impact of any objections that may be received in this work.

Audit logistics

Our interim visit took place in October 2023 and our final visit will take place between October and December 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £102,799 (PY: £183,579)] for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Thanet District Council, mean that all forms of fraud are seen as unacceptable <p>Therefore, we do not consider this to be a significant risk for Thanet District Council.</p>	<ul style="list-style-type: none"> • We will rebut the presumed risk of fraud in revenue, and as such there is no specific work planned for this risk. • To gain assurance over revenue, we will: <ul style="list-style-type: none"> • Document our understanding of the revenue business process. • Test a sample of revenue to gain assurance over the accuracy and occurrence of revenue recorded during the financial year. • Perform testing over post year-end receipts to assess completeness of revenue and receivables recognition
The expenditure cycle includes fraudulent transactions (rebutted)	<p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially if an entity is required to meet financial targets.</p> <p>Having considered the risk factors relevant to the Council, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed above relating to revenue recognition apply. We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests mentioned and our testing in relation to the significant risk of Management Over-ride of Controls as mentioned on page 8</p>	<p>To address this risk, we will:</p> <ul style="list-style-type: none"> • Perform testing over post year-end transactions to assess completeness of expenditure recognition. • Test a sample of operating expenses to gain assurance over the accuracy and occurrence of expenditure recorded during the financial year

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of Land and Buildings including Council Dwellings	<p>The Council revalues its land and buildings on a rolling five-yearly basis and an annual basis for Council Dwellings using the Beacon principle.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£252.5 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or fair value (for surplus assets) at the financial statements date.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We will engage our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • test revaluations made during the year to see if they had been input correctly into the Council's asset register • Assess the value of a sample of assets in relation to market rates for comparable properties. • Test a sample of beacon properties in respect of HRA dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group. • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the Pension Fund Net Liability	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£98.4 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.
Valuation of Investment Properties	<p>The Council revalues its Investment Properties on an annual basis to ensure that these assets are held at Fair Value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£24.8 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2022.</p> <p>We therefore identified valuation of Investment Properties, particularly revaluations and impairments, as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, which will include engaging our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

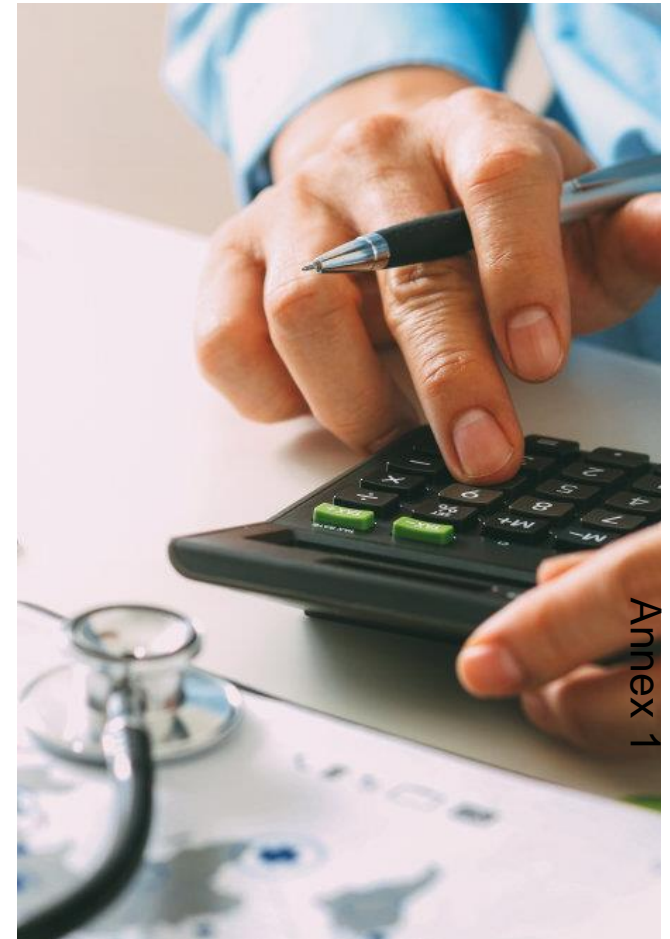
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty or require significant judgement.

Specifically do Governance and Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 investments

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, such as its asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures, we have shared a questionnaire with Management to obtain their responses over these Accounting Estimates. This document is on the Committee Agenda for approval by Those Charged with Governance in advance of including on our audit file

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

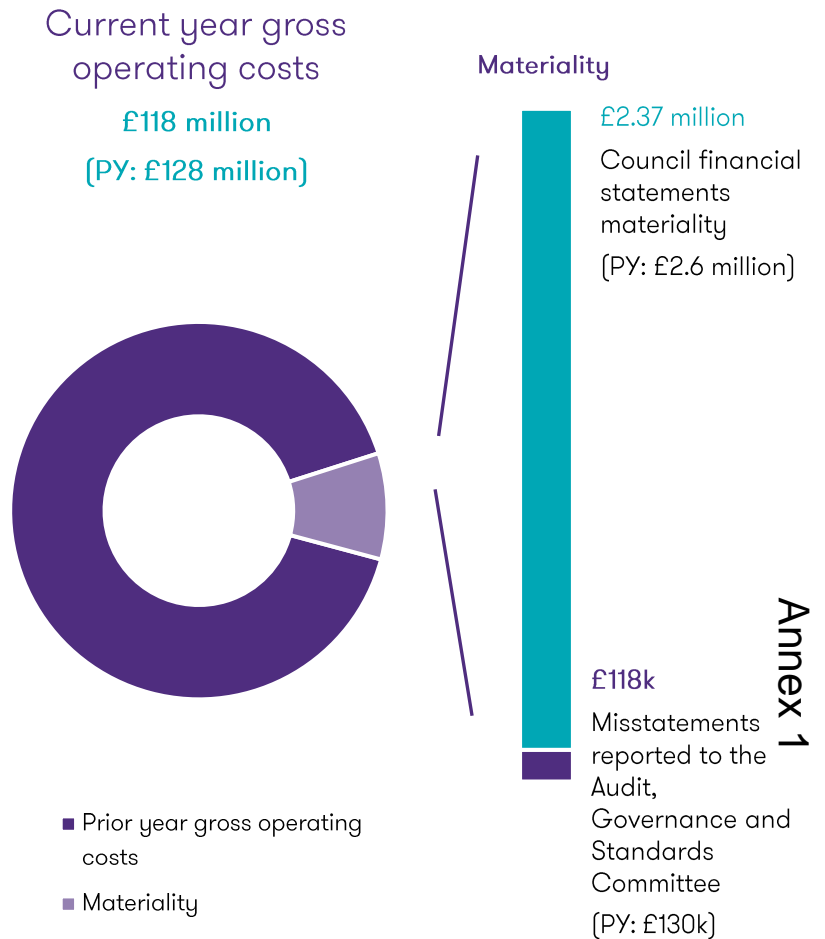
Materiality

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. In our indicative audit plan presented to the committee in September 2023 we communicated Materiality for planning purposes as £2.7 million. We have reconsidered materiality for final audit to be **£2.37 million** (PY £2.6 million) for the Council, which equates to approximately 2% of your gross expenditure for the year.

Matters we will report to the Governance and Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than **£118k** (PY £130k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Audit Committee to assist it in fulfilling its governance responsibilities.



Annex 1
Agenda Item 8

Page 138

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

Our work on IT audit is still ongoing and dependant on the responses from the Council, at this stage, the following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
E-financials	Accounts Payable, Accounts Receivables, Ledger and Reporting	<ul style="list-style-type: none"> Streamlined ITGC design assessment
Civica	Council Tax, NNDR and Housing Benefits	<ul style="list-style-type: none"> Streamlined ITGC design assessment
iTrent	Payroll	<ul style="list-style-type: none"> Streamlined ITGC design assessment

Updated Auditing Standards ISA 315 and ISA 240 – Impacting 2022-23 Financial year

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an Council of your size, we estimate an initial increase of £3,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf [and has been agreed with the Director of Finance].

Audit logistics and team



Matt Dean, Key Audit Partner

Matt will be the main point of contact for the Chief Executive, Section 151 Officer and Members. Matt will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Members and the Governance and Audit Committee. Matt will ensure our audit is tailored specifically to you and is delivered efficiently. Matt will review all reports and the team's work.



Hameem Gulraiz, Audit Manager

Hameem will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Hameem will attend Governance and Audit Committees, undertake reviews of the team's work and draft reports ensuring they remain clear, concise and understandable to all. Hameem will also work with Internal Audit to secure efficiencies and avoid any duplication across the audit.



Marcella Cato, Audit Supervisor

Marcella will lead the onsite team and will be the day-to-day contact for the audit. Marcella will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Marcella will undertake the more technical aspects of the audit, coach the junior members of the team and review the team's work.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations, we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations, we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2017, PSAA awarded a contract of audit for Thanet District Council to begin with effect from 2018/19. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed fees for 2021/22 are set out below. All fees are subject to PSAA approval as is the case for the 2020-21 fee set out below. For the Council there has been a requirement to undertake a significant amount of additional work on areas relating to our statutory responsibilities via statutory recommendations, objections work and an increased level of work regarding the Council's Value for money arrangements.

	Actual Fee 2020/21	Proposed fee 2021/22
Fee communicated in Audit Plan	£81,548	£92,799
Additional VFM work	£25,000	£10,000
Additional work related to statutory recommendations and objections work (£7,500 relates to 2019-20 objection work)	£57,500	TBC
Technical accounting issues	£10,000	TBC
Additional work required identified from regulator reviews and in response to national issues identified in the sector	£1,750	Included above
Legal costs associated with management challenge of statutory recommendations and objections incurred by Grant Thornton	£7,781	N/A
Total audit fees (excluding VAT)	£183,579	£102,799

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of financial statements, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies. We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit, we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified. No other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member firms will be included in our Audit Findings report at the conclusion of the audit.

The non-audit work we undertake for the Council relates to Grants which is commonly undertaken by the external audit. For this work we are separately appointed to it by the Council who are able to appoint other providers for Grant Certification work.

This work is now undertaken by our specialist Grants audit team and there have been increases to the cost of this work due to increased costs in the market. The above represents the fee for 2021-22's audit with the same fee proposed for 2022-23.

The final fee will be determined on completion of the audit for Housing Benefits as the scope of the work is increased dependent on findings as required by the DWP.

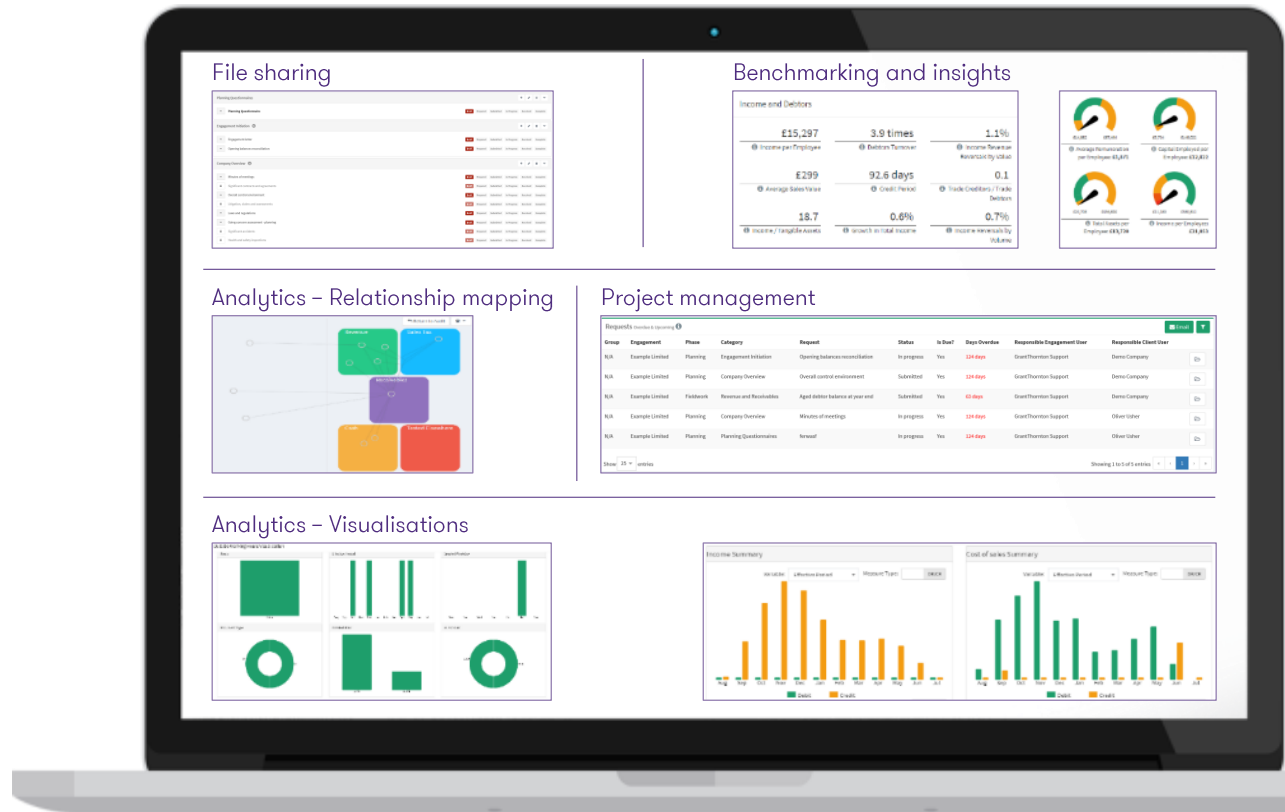
None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit Grant Audit	£60,000	<ul style="list-style-type: none"> Self-Interest (because this is a recurring fee) Self-review Management 	<p>The level of this recurring fee taken on its own is not considered a significant threat to independence in comparison to the total fee for the audit of £102,799 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.</p> <p>Our team have no involvement in the preparation of the forms and considering the nature of our work and previous history of this engagement we do not expect we will identify errors leading to a material correction in financial statements.</p> <p>The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Any amendments made as a result of our work are the responsibility of informed management.</p>
Certification of Housing Capital Receipts Grant	£7,500	As above	As above
Homes England compliance checklist	£5,500	As above	As above

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



Project management

- Facilitates oversight of requests
- Access to a live request list at all times



Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.



We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.




Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix 1: Progress against prior year audit recommendations

We identified the following issues in our 2020/21 audit of the Council’s financial statements, which resulted in 2 recommendations being reported in our 2020/21 Audit Findings Report. The table below details the Council’s progress with implementing the recommendations.

Status	Assessment	Issue and risk previously communicated	Council’s Update on actions taken to address the issue
Manual Adjustments to the Statement of Accounts			
	We will review the manual adjustments posted to assess if they lead to material misstatement.	We note the Council in part due to adjustments required to the accounts resulting from statutory adjustments, Collection Fund adjustments and other factors posts manual adjustments to the Trial balance in producing the accounts. This is not considered best practise. By making the process manual this may not lead to appropriate levels of review of the postings and increases the risk of human error.	The Council is in the process of procuring a new financial management system and it is anticipated that this will eliminate the need for manual adjustments. The procurement of the new system is at the evaluation stage of the process and until implemented manual adjustments will continue to be made and evidenced with supporting documentation.
Valuation Approach of Investment Properties			
	We will review the level of asset not revalued in year and assess Council’s assessment	We identified £3,472K of Investment properties had not been revalued as of the 31st March 2020. This is not compliant with the code which requires all Investment property to be revalued on an annual basis. We noted that this issue was not addressed by the Council in 2020-21-year-end as well and we identified a large number of low value Investment properties totalling £6,261k had not been revalued in 2020-21.	The Council recognises that its adopted approach differs to the CIPFA Code of Practice and can confirm that there has been no change in the adopted methodology in 2021/22. The impact of not complying with the Code, along with the cost and time involved in changing to annual valuations, is reviewed annually to ensure that the Councils approach has been fully considered and continues to present a comparable outcome.

Status

-  Action not yet addressed
-  Action in progress
-  Action completed

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Quarterly Internal Audit Update Report

Governance & Audit Committee	29th November 2023
Report Author	Head of Internal Audit
Portfolio Holder	Cllr Rob Yates, Cabinet Member Corporate Services.
Status	For Decision
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 September 2023.

Recommendation(s):

1. That the report be received by Members.
2. That any changes to the agreed 2023-24 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 2023-24 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.

Risk Management

A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Non completion of the audit plan	Medium	Low	Review of the audit plan on a regular basis.

Non implementation of agreed audit recommendations	Medium	Low	Review of recommendations by Audit & Governance Committee and Audit escalation policy.
Non completion of the key financial system reviews	Medium	Medium	Review of the audit plan on a regular basis. A change in the External Audit requirements reduces the impact of non-completion on the Authority

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 30th September 2023.

Agenda Item 9

- 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 was submitted to the last meeting of this Committee.

2.0 Summary of Work

- 2.1 There have been three internal audit assignments completed during the period, which are summarised in the table in section 2 of the quarterly update report.
- 2.2 In addition four follow-up reviews have been completed during the period, which are detailed in section 3 of the quarterly update report.
- 2.3 For the six-month period to 30th September 2023, 164.50 chargeable days were delivered against the target for the year of 348 days which equates to 47.27% plan completion.

Contact Officer: Christine Parker, Head of the Audit Partnership, 01304 872160
Simon Webb, Deputy Head of Audit

Reporting to: Chris Blundell; Director of Corporate Services

Annex List

Annex 1: East Kent Audit Partnership Quarterly Update Report – 29-11-2023

Background Papers

Internal Audit Annual Plan 2023-24 - Previously presented to and approved in March 2023 at Governance and Audit Committee meeting

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

Corporate Consultation

Finance: Chris Blundell; Director of Corporate Services

Legal: Sameera Khan, Interim Head of Legal & Monitoring Officer

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

1.0 INTRODUCTION AND BACKGROUND

This report provides Members with an update of the work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 30th September 2023.

2.0 SUMMARY OF REPORTS

Service / Topic		Assurance level*	No. of Recs*.	
2.1	EKS - Housing Benefit Admin & Assessment	Substantial	Critical High Medium Low	0 0 0 0
2.2	EKS - Housing Benefit Testing 2022-23	Not Applicable	Critical High Medium Low	0 0 0 0
2.3	Planning Applications, Income and s106	Substantial Limited	Critical High Medium Low	0 8 3 4

*For Assurance and Recommendation priority definitions see Appendix 2

EKS – Housing Benefit Admin & Assessment - Substantial Assurance

2.1.1 Audit Scope

To ensure that the processes and procedures established by CIVICA / EK Services are sufficient to provide the level of service required by the partner authorities of Canterbury City Council, Dover District Council and Thanet District Council to incorporate relevant internal controls regarding the administration & assessment of Housing Benefit claims.

2.1.2 Summary of findings

Between CIVICA and EK Services they are responsible for the administration and assessment of housing benefits on behalf of Canterbury City Council, Dover District Council and Thanet District Council. This ranges from the day to day processing of housing benefit claims to the installation of upgrades and data cleansing to the system and regular back ups to ensure that data is kept secure and is compliant with data security.

Agenda Item 9

Annex 1

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

- The performance of CIVICA is monitored very closely by EK Services Senior Management and the client officers from the partner authorities. Targets have been set (and met) to ensure that CIVICA meet the expectations set by each authority and the commitments agreed in the SLA.
- Established processes and supporting procedure notes are in place for the allocating of work and that the verification framework is complied with when processing housing benefit claims.
- Quality assurance checks ensure that claims are processed in a consistent manner and that any errors are fed back to CIVICA for correction but also are used to feed into training programmes / updates for the claim assessors.
- Established processes are in place for ensuring system access is controlled, backups are taken, data cleansing is carried out and that system upgrades are processed correctly.

EKS – Housing Benefit Testing 2022-23 - Not Applicable

2.2.1 Audit Scope

Over the course of the 2022-23 financial year the East Kent Audit Partnership completed a sample check of Council Tax, Rent Allowance and Rent Rebate and Local Housing Allowance benefit claims.

2.2.2 Summary of findings

For the financial year April 2022 to March 2023a sample of 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 table 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.

For 2022-23 a total of forty-five claims have been checked of which two (4.44%) had a financial error that impacted on the benefit calculation and none had a data quality error.

and Recommendation priority definitions see Appendix 2

Planning Applications, Income & S106 - Substantial/Limited Assurance

2.3.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to:

- Planning Applications and Income: Ensure that planning application procedures, including those in respect of fees and collection of income, are in accordance with Statute, and the organisation's Standing Orders and Financial Regulations.
- Section 106 Agreements: Ensure that Section 106 agreements are used where appropriate in planning applications and that all legal requirements are adhered to. All income / benefits from the agreement are received and obligations imposed are complied with to the benefit of the district.

2.3.2 Summary of findings

Since the last audit review, undertaken in October 2019 there has been a New Local Plan and a New Neighbourhood Plan for Broadstairs. There has also been an introduction of a S106 Monitoring fee, agreed and detailed within the 2023/24 fees and charges schedule and applied in legal agreements from April 2024 (with transition period). Following the introduction of this fee and Star Chamber in 2022, the Council appointed a Section 106 Monitoring and Infrastructure Delivery Officer to record and monitor Section 106 (developer contributions) agreements and secure contributions to facilitate the delivery of infrastructure in conjunction with the priorities of the Thanet Local Plan. The appointed officer has been in post since 12th July 2023.

It should be noted (as these have not been tested or included within this audit process) that the proposed changes to the planning system from the Levelling Up and Regeneration Bill and National Planning Policy Framework are anticipated to be made law this year (September/October) with changes affecting strategic planning, planning applications and planning enforcement. This includes the anticipated new regulations on the infrastructure funding levy to be introduced over the next 10 years, as well as multiple detailed changes to the determination of applications but also fundamental changes to Planning Enforcement (new types of notice, 4 year rule removed). This will result in an assessment of planning enforcement, its function and resources. The changes will bring about an increase in planning fees, to be ring fenced for use on planning resources, with new central performance measures to be introduced to reflect these additional resources. The published fees and measures are anticipated to be published in September.

The assurance for this review has been split. For the Planning Applications and Income, management can place a substantial assurance on the system of internal controls in operation. The primary findings giving rise to the Substantial Assurance opinion in this area are as follows:

- Planning applications are being processed in accordance with Planning Policy and Planning Law, with a good audit trail in place to evidence the process.
- There are good operational and financial controls in place to manage and monitor the system with regular team meetings to ensure all officers are kept up to date.
- Planning fees have been adequately documented within either the fees and charges schedule, which are revised and authorised annually or if set nationally via the planning portal. Those fees set by the Council have been adequately benchmarked.

- The Council's webpages regarding the Planning service are well documented and supported by a wealth of information and library of documents for all to access, view and reference.
- The complaints process is being managed, monitored and filtered down where needed. Learning outcomes have been assessed and implemented where applicable. However, the coding system used could do with a refresh.

Scope for improvement was however identified in the following areas:

- Whilst there are policies and procedures in place to ensure that all planning applications and planning services provided are dealt with in accordance with planning law, these require a review and a refresh to ensure they remain relevant, up to date and have the correct corporate branding.
- Whilst KPI's have been identified and reported on, this could be strengthened by adding to these to provide more relevant information on performance and assist in promoting the planning service.
- Housekeeping regarding paper files needs to be undertaken both within the filing system and files themselves to ensure they are in order and contain the relevant details; a review and decision over having both a paper and electronic file copy needs to be undertaken.

For the S106 processes, management can place a limited assurance on the system of internal controls in operation. The primary findings giving rise to the limited assurance opinion in this area are as follows:

- Whilst procedural notes are in place these require an update to take into consideration the new S106 Monitoring Officer's role and responsibilities. These should also have a change control process in place.
- Financial management and monitoring needs to be strengthened, starting with a reconciliation process between systems to ensure all S106 agreements have been included for monitoring. To provide a complete audit trail, the current spreadsheet set up for this monitoring purpose should be hyperlinked out to the relevant agreements to facilitate in managing values, types of payment and payees, trigger points, interest charges and both due and payment dates.
- In accordance with Community Infrastructure Levy (CIL) regulations which came into force on 01/09/2019, local authorities are required to publish an Infrastructure Funding Statement (IFS) on their website by the end of each year, this is yet to be undertaken. The Council is now required to publish the statement for 2019/20, 2020/21, 2021/22 and soon to be due 2022/23.

Effective control was however evidenced in the following areas:

- A dedicated officer who has responsibility for the overseeing of this function has been in post since July 2023 to facilitate all agreements and income in being effectively managed, monitored and reported on. It is too early to advise on the effectiveness of this post as it needs time to embed.

Management Response - Planning Applications Manager.

Following the appointment of the Section 106 Monitoring and Infrastructure Delivery Officer in July, the planning department and the new officer have been

updating all processes in relation to Section 106 agreements, building on existing communication with the finance section, whilst reconciling planning obligation information using existing systems and the Monitoring spreadsheet. This has meant that the vast majority of “high” risk recommendations have been completed prior to the draft/final audit report being published through the work of the officer, with evidence available and provided to demonstrate the completion of the work. Therefore, whilst I understand the status of “Limited Assurance” from the assessment made at the time it occurred, this was a snapshot in time and I am confident that if the same assessment was carried out today, that “Reasonable assurance” would be the minimum assurance level for the S106 work carried out by the department.

In regard to the action plan, this has been completed for each recommendation and I welcome the opportunity for the follow up review to demonstrate the completion of all “High” recommendations, with progress on recommendation 14 in line with the timeline provided.

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

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

Service/ Topic		Original Assurance level	Revised Assurance level	Original Number of Recs		No. of Recs. Outstanding after follow-up
a)	EKS Business Rates	Substantial	Substantial	Critical	0	0
				High	0	0
				Medium	2	0
				Low	4	0
b)	EKS Discretionary Housing Payments	Substantial	Substantial	Critical	0	0
				High	3	0
				Medium	2	0
				Low	3	0
c)	Risk Management	Reasonable	Substantial	Critical	0	0
				High	0	0
				Medium	2	0
				Low	0	0
d)	Planned Maintenance - Letting & Monitoring	No	Reasonable	Critical	0	0
				High	10	0
				Medium	0	0
				Low	0	0

*For Assurance and Recommendation priority definitions see Appendix 2

- 3.2 Details of any individual Critical and High priority recommendations yet to be implemented at the time of follow-up are included at Appendix 3 (none this period) and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they are now being escalated for the attention of the s.151 Officer and Members of the Governance and Audit Committee.

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

4.0 WORK-IN-PROGRESS:

- 4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings: Cyber Security, Homelessness, Treasury Management, Capital, and External Funding Protocol.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

- 5.1 The 2023-24 internal audit plan was agreed by Members at the meeting of this Committee on 8th March 2023.
- 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 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 1.

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 1.

8.0 INTERNAL AUDIT PERFORMANCE

- 8.1 For the six-month period to 30th September 2023, 164.50 chargeable days were delivered against the target for the year of 348 days which equates to 47.27% plan completion.

Agenda Item 9

Annex 1

- 8.2 The financial performance of the EKAP is on target at the present time.
- 8.3 As part of its commitment to continuous improvement and following discussions with the s.151 Officer Client Group, the EKAP has established a range of performance indicators which it records and measures.
- 8.4 The EKAP audit maintains an electronic client satisfaction questionnaire which is used across the partnership. The satisfaction questionnaires are sent out at the conclusion of each audit to receive feedback on the quality of the service.

Attachments

- Appendix 1 Progress to 30th September 2023 against the agreed 2023-24 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 of Performance Indicators to 30th September 2023

Agenda Item 9

Annex 1

APPENDIX 1

PROGRESS AGAINST THE AGREED 2023-24 AUDIT PLAN THANET DISTRICT COUNCIL

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-09-2023	Status and Assurance Level
FINANCIAL GOVERNANCE:				
Capital	10	10	0.18	Work-in-Progress
Treasury Management	10	10	0	Quarter 3
External Funding Protocol	10	10	0.70	Work-in-Progress
Insurance & Inventories of Portable Assets	10	10	10.87	Finalised - Substantial
HOUSING SYSTEMS:				
Homelessness	10	10	5.64	Work-in-Progress
Void Property Management	10	0	0	Covered by Repairs Audit
Rent Accounting, Accounting & Debt Management	10	10	10.41	Finalised - Reasonable/Limited
Tenancy Fraud	10	10	0	Quarter 4
Resident Involvement	10	10	0	Quarter 3
Anti-Social Behaviour	5	5	0	Quarter 2
HRA Business Plan	10	10	9.15	Finalised - Substantial
GOVERNANCE RELATED:				
Scheme of Officer Delegations	10	10	0.31	Quarter 4
Performance Management	10	10	0	Quarter 3
Corporate Advice/ CMT	2	2	2.3	Ongoing
s.151 Officer Meetings & Support	9	9	9.03	Ongoing
Governance & Audit Committee Meetings and Report Preparation	12	12	10.09	Ongoing
Audit Plan & Preparation Meetings	9	9	0	Ongoing
HR RELATED:				
Payroll	3	3	0.44	Work-in-Progress
COUNTER FRAUD:				
Counter Fraud & Corruption	10	10	0	Quarter 4

Agenda Item 9 Annex 1

ICT RELATED:				
Change Controls	15	15	0	Quarter 4
Network Security	10	10	0	Quarter 4
Cyber-Security	10	10	12.86	Draft Report
SERVICE LEVEL:				
CSO Compliance	10	10	0.34	Work-in-Progress
Community Safety	10	10	3.03	Work-in-Progress
Environmental Protection Service Requests	10	10	12.7	Finalised - Reasonable
Grounds Maintenance	12	12	0.18	Quarter 3
Ramsgate Harbour Accounts	5	5	0	Quarter 4
Planning Applications, Income & s.106	10	12	17.28	Finalised - Substantial/Limited
Building Control	10	10	0	Quarter 4
Your Leisure	10	10	0	Quarter 3
VICs	10	10	0	Quarter 3
Garden Waste	10	10	11.75	Finalised - Substantial
Refuse Collection	10	10	8.97	Finalised - Reasonable
Climate Change	5	5	0	Quarter 4
Employee Health & Safety	10	18	17.59	Finalised - Limited
OTHER:				
Liaison With External Auditors	1	1	1.07	Ongoing
Follow-Up Reviews	15	15	11.33	Ongoing
FINALISATION OF 2022-23 AUDITS:				
Absence Management	5	5	0.23	Finalised - Reasonable/ Limited
Car Parking & Enforcement			5.57	Finalised - No
Ramsgate Harbour Accounts			2.48	Finalised - N/A
RESPONSIVE ASSURANCE:				
LUF Grant - Project Assurance	0	0	0.24	Work-in-Progress
TOTAL	348	348	164.50	47.27%

**PROGRESS AGAINST THE AGREED 2023-24 AUDIT PLAN
EAST KENT SERVICES**

Review	Original Planned Days	Revised Planned Days	Actual days to 30/09/2023	Status and Assurance Level
EKS REVIEWS:				
Housing Benefits Administration	15	13	12.70	Finalised - Substantial
Housing Benefits Testing	20	14	13.55	Finalised - N/A
Council Tax Reduction Scheme	15	15	0.16	Quarter 3
Customer Services	15	8	0.06	Quarter 4
Transition Governance	0	15	0.14	Quarter 3
OTHER:				
Corporate/Committee	4	4	3.10	Ongoing
Follow Up	2	2	0.11	Ongoing
FINALISATION of 2022-23 AUDITS:				
Debtors	2	2	1.45	Finalised - Substantial
Data Management - Desegregation Project	1	1	1.55	Finalised - Reasonable
Total	74	74	32.82	44.35%

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.
None to report this Quarter		

SERVICES GIVEN LIMITED / NO ASSURANCE LEVEL YET TO BE REVIEWED – APPENDIX 4

Service	Reported to Committee	Level of Assurance	Follow-up Action Due
Licensing	July 2023	Reasonable/ No	Work-in-Progress
East Kent Opportunities	September 2023	No	Work-in-Progress
Berth 4-5 Post Implementation Review	March 2023	No	Winter 2023
Car Parking & Enforcement	July 2023	No	Winter 2023
EKS ICT Desegregation Project	September 2023	Limited	Winter 2023
Planning Applications, Income and S106	November 2023	Substantial/Limited	Winter 2023

Balanced Scorecard

<u>INTERNAL PROCESSES PERSPECTIVE</u>	<u>2023-24 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2023-24 Actual</u>	<u>Original Budget</u>
	Quarter 2		Reported Annually		
Chargeable as % of available days	87%	90%	<ul style="list-style-type: none"> • Cost per Audit Day 	£	£403.37
Chargeable days as % of planned days			<ul style="list-style-type: none"> • Direct Costs 	£	£521,918
CCC	36.71%	50%	<ul style="list-style-type: none"> • + Indirect Costs (Recharges from Host) 	£	£10,530
DDC	51.90%	50%	<ul style="list-style-type: none"> • - 'Unplanned Income' 	£	Zero
TDC	47.27%	50%			
FHDC	41.71%	50%			
EKS	44.34%	50%			
Overall	44.91%	50%	<ul style="list-style-type: none"> • = Net EKAP cost (all Partners) 	£	£532,448
Follow up/ Progress Reviews;					
<ul style="list-style-type: none"> • Issued • Not yet due • Now due for Follow Up 	28 44 18	- - -			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Partial			

Annex 1
Agenda Item 9

<u>CUSTOMER PERSPECTIVE:</u>	<u>2023-24 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2023-24 Actual</u>	<u>Target</u>
	Quarter 2		Quarter 2		
Number of Satisfaction Questionnaires Issued;	36		Percentage of staff qualified to relevant technician level	61%	60%
Number of completed questionnaires received back;	11		Percentage of staff holding a relevant higher-level qualification	50%	50%
	= 31%		Percentage of staff studying for a relevant professional qualification	0%	N/A
Percentage of Customers who felt that;			Number of days technical training per FTE	2.21	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)	50%	50%
	100%	90%			
	100%	100%			

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AUDIT COMMITTEE ASSURANCE STATEMENT

Governance & Audit Committee	29 November 2023
Report Author	Chris Blundell, Director of Corporate Services and S151 Officer
Portfolio Holder	Councillor Rob Yates, Cabinet Member for Corporate Services
Status	For Decision
Classification	Unrestricted
Previously Considered by	n/a
Ward	Thanet Wide

Executive Summary:

In accordance with auditing standards, the external auditor needs to establish an understanding of the management processes in place at the council. The Committee is asked to approve the content of the draft responses to the auditor.

Recommendation(s):

1. That the Committee notes and approves the responses to the letter from Grant Thornton as set out in Annex 1 and 2 of this report.
2. That this Committee, delegates future sign off these responses to the Chair of this Group in consultation with the S151 Officer.

Corporate Implications

Financial and Value for Money

There are no direct financial implications arising from this report.

Legal

This is a statutory requirement.

Risk Management

Risk management is as per the provisions of this annual Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy.

Corporate

Failure to undertake this process will impact on the council's compliance with the Auditing standards.

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

- 1.1 To comply with international auditing standards our external auditor, Grant Thornton, need to establish an understanding of the management processes in place to detect fraud and to ensure compliance with law and regulation. The external auditor is also required to make enquiries of management as to their knowledge of any actual, suspected or alleged fraud.
- 1.2 The external auditor also needs to gain an understanding of how the Governance and Audit Committee maintains an oversight of the above processes.
- 1.3 The questions and proposed responses, which are required to come from the Chairman of the Committee, are attached at Annex 1 (21/22) and Annex 2 (22/23).

2 OPTIONS

- 2.1 The requirement to approve the Statement of Accounts is a statutory one and therefore no alternative action is recommended, as the Committee needs to be assured that the information submitted to the external auditor is sufficiently robust for their purposes.

Contact Officer: Chris Blundell, Acting Deputy Chief Executive & Section 151 Officer

Reporting to: Colin Carmichael, Interim Chief Executive

Annex List

Annex 1: Draft Governance and Audit Committee Assurance Statement (21/22)

Annex 2: Draft Governance and Audit Committee Assurance Statement (22/23)

Corporate Consultation Undertaken

Finance: N/A

Legal: Sameera Khan, Interim Head of Legal & Monitoring Officer

Informing the audit risk assessment for Thanet District Council 2021/22

Page 173

Sarah Ironmonger
Director
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Agenda Item 10
Annex 1

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	9
Fraud Risk Assessment	10
Laws and Regulations	15
Impact of Laws and Regulations	16
Related Parties	18
Going Concern	20
Accounting Estimates	22
Accounting Estimates - General Enquiries of Management	23
Appendix A – Accounting Estimates	26

Page 175

Annex 1
Agenda Item 10

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Thanet District Council's external auditors and Thanet District Council's Governance and Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Governance and Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Governance and Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Governance and Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Governance and Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Governance and Audit Committee and supports the Governance Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Thanet District Council's management. The Governance and Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?	Covid has remained a factor in 21/22 as has the impact on resources more widely, linked in part to the transition to hybrid working.
2. Have you considered the appropriateness of the accounting policies adopted by Thanet District Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	A review of the accounting policies has been undertaken and we do not believe that there have been any events or transactions that may cause TDC to change or adopt new accounting policies.
3. Is there any use of financial instruments, including derivatives? If so, please explain	Bank Deposits, Money Market Funds.
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	Settlement agreements

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No
6. Are you aware of any guarantee contracts? If so, please provide further details	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Thanet District Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Browne Jacobson Bevan Brittan

General Enquiries of Management

Question	Management response
9. Have any of the Thanet District Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	N/A
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	No

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Governance and Audit Committee and management. Management, with the oversight of the Governance and Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Governance and Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Thanet District Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Governance and Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Governance and Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Governance and Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Thanet District Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has Thanet District Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>The council operates a robust key control framework within the financial procedures that has received favourable internal audit reports. This includes ensuring that the finance team are adequately skilled and alert to anomalies that could indicate a misstatement due to fraud; a devolved budget management system which means that managers have sight of financial transactions and can therefore identify any rogue payments; senior management reviews of the financial statements are also undertaken to aid the identification of material inconsistencies.</p> <p>There is an Anti-Fraud and Corruption Policy and whistleblowing policy that staff are aware of. Details are easily accessible to all staff on the Intranet.</p> <p>Risk Management is reported quarterly to the council's Governance and Audit Committee of which the S151 Officer is the lead officer and is in attendance.</p> <p>The Risk Management Progress report to 9 March 2022 Governance & Audit Committee can be found on the link below:</p> <p>Risk Management</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Areas identified with a higher risk of fraudulent activity are benefits, payroll, flexi-leave, and annual leave.</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Risk Management is reported quarterly to the council's Governance and Audit Committee of which the S151 Officer is the lead officer and is in attendance.</p> <p>The Risk Management Progress report to 9 March 2022 Governance & Audit Committee can be found on the link below:</p> <p>Risk Management</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Thanet District Council where fraud is more likely to occur?</p>	<p>The Council put measures in place to address the risk of fraudulent support payments during the pandemic. No fraudulent payments were identified as a result of the processes undertaken.</p> <p>There are no heightened concerns at present but we remain aware of risk across a range of areas such as areas such as Housing Benefit, Procurement and Contracting and Supplier and Staffing.</p>
<p>6. What processes do Thanet District Council have in place to identify and respond to risks of fraud?</p>	<p>The Council participates with the National Fraud Initiatives where payments are double checked and reconciled against various governmental data sources.</p> <p>The Council is also a participant in the Kent Intelligence Network, which undertakes similar activities as the NFI but at a County level.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Thanet District Council, including:</p> <ul style="list-style-type: none"> • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>See Annual Internal Audit Report from Head of EK Audit Partnership to the Chair of Governance & Audit in July 2022.</p> <p>G&A Audit info</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>No</p>

Fraud risk assessment

Question	Management response
<p>9. How does Thanet District Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>Regular issues are highlighted as part of the staff development sessions. The council's Intranet system is used to communicate information to staff and policies and guidance can be accessed by staff from here.</p> <p>Monthly meetings are held between CMT and Directors to disseminate any key messages. Managers Forums are held on the last Thursday of each month where key issues are discussed between lower management and Directors. For key messages a member of CMT attends these briefings.</p> <p>Online training packages are available for staff.</p> <p>The Council has a Whistleblowing policy that is published on our internal staff facing website.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Any officer with responsibility for inputting or authorising financial transactions and also the award the award of contracts</p> <p>This is mitigated through the separation of duties, robust Contract Standing Orders and Financial Procedure rules and the requirement for independent oversight of the procurement process for higher value contracts.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No</p> <p>Officers and Members are required to complete declarations of interest.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Governance and Audit Committee?</p> <p>How does the Governance and Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Head of Internal Audit Partnership has a direct line of reporting to the chair of G&A and will report any significant instances to committee meetings</p> <p>Whistleblowing arrangements in place</p> <p>Ability to call in previous decisions and as a result make recommendations to Cabinet.</p> <p>Nothing to report</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Nothing new relating to 21/22</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Governance and Audit Committee, is responsible for ensuring that Thanet District Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Governance and Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Thanet District Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>Acting Monitoring Officer (Estelle Culligan) was in place to review and comment on all matters of Law and Regulation</p>
<p>2. How is the Governance and Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Annual Governance Statement is presented in draft and final form to the G&A committee for approval that covers such matters.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>No</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>A provision is in place for legal costs associated with ongoing grievances and disciplinary matters. Actual costs could vary from this estimate.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Thanet District Council have in place to identify, evaluate and account for litigation or claims?	Council departments are advised to keep legal advised of any possible claims. If claims are received these are quantified and risk established and an appropriate notification is made to finance officers to provide advanced notice of possible liability.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No

Related Parties

Matters in relation to Related Parties

Thanet District Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Thanet District Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Thanet District Council's 2020/21 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Thanet District Council • Whether Thanet District Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	No
<p>2. What controls does Thanet District Council have in place to identify, account for and disclose related party transactions and relationships?</p>	Senior Officers and Members are required to complete annual declarations in relation to related party transactions
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	Separation of duties and a requirement for officers and members with declared interested to excuse themselves from any related party transaction or associated approvals.
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	All changes to the agreed budget are referred to Cabinet/Council

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Thanet District Council will no longer continue?	Section 151 of the Local Government Act 1972 requires a suitably qualified named officer to keep control of the council's finances. For this council, this is the Deputy Chief Executive and the MTFs and budget reports to Council help them discharge this function, by covering budget planning and reserve balances, funding as well as any required contributions to or from reserves. Over and above this, quarterly monitoring reports are provided to Cabinet along with an outturn report, each identifying any events or conditions that will have an impact on this Authorities ability to provide statutory services.
2. Are management aware of any factors which may mean for Thanet District Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	No
3. With regard to the statutory services currently provided by Thanet District Council, does Thanet District Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Thanet District Council to cease to exist?	Yes
4. Are management satisfied that the financial reporting framework permits Thanet District Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Governance and Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Governance and Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Please answer the following in context of all the applicable accounting estimates:

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	See the disclosure for areas of significant uncertainty and estimation in the accounts. As per Note 3. Including: Pensions and Asset Values
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	Risk Management focuses on key service and corporate risks. It is uncommon for key or material accounting estimates to have a real impact on the financial performance or position because of the accounting regime for local authorities. For example, the valuation of pension liabilities in the accounts has no bearing on the Council's financial performance.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Judgement made in the context of accounting policies by relevant officer and agreed with the deputy
4. How do management review the outcomes of previous accounting estimates?	Regular monitoring, monitoring reports taken to CMT for consideration.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	<p>Judgement is made on the materiality and significance of the item to determine if the cost of the advice merits the value provided for the accounts. For example, low valued investment properties are not valued every year do to the costs not representing value for money.</p> <p>Other valuations are required annually, by experts, due to their material and complex nature and the requirement of accounting standards. E.g. actuarial valuations of pension liabilities.</p>
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	<p>A sense or reasonableness check and challenge process is provided back to contracted specialists on the expertise that they provide.</p> <p>Assets not valued annually are assessed by applying indexation to ensure that their valuations are not materially different to the expected valuation had they been subject to a full independent review.</p>
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	<p>Reviewed and monitored in line with individual financial risk and or accounting policies.</p>
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the 	<p>Accounting Policies are approved by Governance and Audit committee in advance of the financial year.</p> <p>This documentation and review process</p> <p>Governance and Audit have established a sub-group to review the accounts in detail including the review of estimation.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	All of these are completed and reviewed by suitably qualified members of staff
12. How is the Governance and Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	<p>Accounting Policies are approved by Governance and Audit committee in advance of the financial year</p> <p>This documentation and review process</p> <p>Governance and Audit have established a sub-group to review the accounts in detail including the review of estimation.</p> <p>Independent experts are engaged with to provide valuations and estimates where required. E.g. Asset Valuations are undertaken by an external firm.</p> <p>GT audit our accounts!</p>

Appendix A - Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Lower of net current replacement cost or net realisable value	External valuations reviewed internally	Yes	As reported in the Accounts - (a) Assumptions made about the Future and other Major Sources of Estimation Uncertainty (b) Fair Value Measurement of Property Assets	No
Council dwelling valuations	Existing use value for social housing	External valuations reviewed internally	Yes	As reported in the Accounts - (a) Assumptions made about the Future and other Major Sources of Estimation Uncertainty (b) Fair Value Measurement of Property Assets	No
Investment property valuations	Open market value	External valuations reviewed internally	Yes	As reported in the Accounts - (a) Assumptions made about the Future and other Major Sources of Estimation Uncertainty (b) Fair Value Measurement of Property Assets	No
Depreciation	Straight line basis over useful economic life	External valuations reviewed internally	Yes	As reported in the Accounts - (a) Assumptions made about the Future and other Major Sources of Estimation Uncertainty (b) Fair Value Measurement of Property Assets	No

Appendix A - Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	As per accounting policy	External valuations reviewed internally	Yes	As reported in the Accounts - Assumptions made about the Future and other Major Sources of Estimation Uncertainty	No
Level 2 investments	Market approach Income approach Cost approach	External valuations reviewed internally	Yes	As reported in the Accounts - (a) Assumptions made about the Future and other Major Sources of Estimation Uncertainty (b) Fair Value Measurement of Property Assets	No
Level 3 investments	Market approach Income approach Cost approach	External valuations reviewed internally	Yes	As reported in the Accounts - (a) Assumptions made about the Future and other Major Sources of Estimation Uncertainty (b) Fair Value Measurement of Property Assets	No
Fair value estimates	Market approach Income approach Cost approach	External valuations reviewed internally	Yes	As reported in the Accounts - (a) Assumptions made about the Future and other Major Sources of Estimation Uncertainty (b) Fair Value Measurement of Property Assets	No

Appendix A - Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	Depends on the particular estimate (see accounting policies)	Any external work reviewed internally	Depends on the particular estimate	As recorded in the Accounts	No
Accruals	Depends on the particular estimate (see accounting policies)	Any external work reviewed internally	Depends on the particular estimate	As recorded in the Accounts	No
Credit loss and impairment allowances	Depends on the particular estimate (see accounting policies)	Any external work reviewed internally	Depends on the particular estimate	As recorded in the Accounts	No

Appendix A - Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Finance lease liabilities	Depends on the particular estimate (see accounting policies)	Any external work reviewed internally	Depends on the particular estimate	As recorded in the Accounts	No
PFI Liabilities	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

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Informing the audit risk assessment for Thanet District Council 2022/23

Page 203

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Agenda Item 10
Annex 2

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	9
Fraud Risk Assessment	10
Laws and Regulations	15
Impact of Laws and Regulations	16
Related Parties	18
Going Concern	20
Accounting Estimates	22
Accounting Estimates - General Enquiries of Management	23
Appendix A – Accounting Estimates	26

Page 205

Annex 2
Agenda Item 10

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Thanet District Council's external auditors and Thanet District Council's Governance and Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Governance and Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Governance and Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Governance and Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Governance and Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Governance and Audit Committee and supports the Governance Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Thanet District Council's management. The Governance and Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?	Residual Covid has remained a factor in 22/23 due to the nature of some of our services, as has the impact on resources more widely.
2. Have you considered the appropriateness of the accounting policies adopted by Thanet District Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	A review of the accounting policies has been undertaken and we do not believe that there have been any events or transactions that may cause TDC to change or adopt new accounting policies.
3. Is there any use of financial instruments, including derivatives? If so, please explain	Bank Deposits, Money Market Funds, LOBO, Short dated Bond Fund.
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	Settlement agreements with senior officers

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No
6. Are you aware of any guarantee contracts? If so, please provide further details	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Thanet District Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Browne Jacobson - Outstanding Staff matters Bevan Brittan - Outstanding Governance advice Ashords - Port projects

General Enquiries of Management

Question	Management response
9. Have any of the Thanet District Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	N/A
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	No

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Governance and Audit Committee and management. Management, with the oversight of the Governance and Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Governance and Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Thanet District Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Governance and Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Governance and Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Governance and Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Thanet District Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has Thanet District Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>The council operates a robust key control framework within the financial procedures that has received favourable internal audit reports. This includes ensuring that the finance team are adequately skilled and alert to anomalies that could indicate a misstatement due to fraud; a devolved budget management system which means that managers have sight of financial transactions and can therefore identify any rogue payments; senior management reviews of the financial statements are also undertaken to aid the identification of material inconsistencies.</p> <p>There is an Anti-Fraud and Corruption Policy and whistleblowing policy that staff are aware of. Details are easily accessible to all staff on the Intranet.</p> <p>Risk Management is reported quarterly to the council's Governance and Audit Committee of which the S151 Officer is the lead officer and is in attendance.</p> <p>The Risk Management Progress report to 8 March 2023 Governance & Audit Committee can be found on the link below:</p> <p>Risk Management</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Areas identified with a higher risk of fraudulent activity are benefits, payroll, flexi-leave, and annual leave.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Thanet District Council as a whole, or within specific departments since 1 April 2022? If so, please provide details</p>	<p>Yes</p> <p>Allegations made in a whistleblow were found to be true - A contractor had overcharged the Council. This led to an independent re-measure of work carried out, Vs Invoices paid, conducted by external surveyors. The Council is seeking to reclaim the value of the overcharge though the final payments due. The contract came to its natural end. The matter was reported to Action Fraud by the Monitoring Officer, the result of which was that the matter would not be progressed by the police.</p> <p>Regular training/issues are discussed at the monthly Managers forum. Members of Governance and Audit all receive a guidance pack and Member training.</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Risk Management is reported quarterly to the council's Governance and Audit Committee of which the S151 Officer is the lead officer and is in attendance.</p> <p>The Risk Management Progress report to 8 March 2023 Governance & Audit Committee can be found on the link below:</p> <p>Risk Management</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Thanet District Council where fraud is more likely to occur?</p>	<p>The Council put measures in place to address the risk of fraudulent support payments during the pandemic. No fraudulent payments were identified as a result of the processes undertaken.</p> <p>There are no heightened concerns at present but we remain aware of risk across a range of areas such as Housing Benefit, Procurement and Contracting and Supplier and Staffing, including the possibility that staff will fail to record flexi time correctly.</p>
<p>6. What processes do Thanet District Council have in place to identify and respond to risks of fraud?</p>	<p>The Council participates with the National Fraud Initiatives where payments are double checked and reconciled against various governmental data sources.</p> <p>The Council is also a participant in the Kent Intelligence Network, which undertakes similar activities as the NFI but at a County level.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Thanet District Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>See Annual Internal Audit Report from Head of EK Audit Partnership to the Chair of Governance & Audit in July 2023.</p> <p>G&A Audit info</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>No</p>

Fraud risk assessment

Question	Management response
<p>9. How does Thanet District Council communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>Regular issues are highlighted as part of the staff development sessions. The council's Intranet system is used to communicate information to staff and policies and guidance can be accessed by staff from here.</p> <p>Monthly meetings are held between CMT and Directors to disseminate any key messages. Managers Forums are held on the last Thursday of each month where key issues are discussed between lower management and Directors. For key messages a member of CMT attends these briefings.</p> <p>Online training packages are available for staff.</p> <p>The Council has a Whistleblowing policy that is published on our internal staff facing website.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Any officer with responsibility for inputting or authorising financial transactions and also the award the award of contracts</p> <p>This is mitigated through the separation of duties, robust Contract Standing Orders and Financial Procedure rules and the requirement for independent oversight of the procurement process for higher value contracts.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No</p> <p>Officers and Members are required to complete declarations of interest.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Governance and Audit Committee?</p> <p>How does the Governance and Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Head of Internal Audit Partnership has a direct line of reporting to the chair of G&A and will report any significant instances to committee meetings</p> <p>Whistleblowing arrangements in place</p> <p>Ability to call in previous decisions and as a result make recommendations to Cabinet.</p> <p>Nothing to report</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistleblowers? If so, what has been your response?</p>	<p>Nothing new relating to 22/23</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Governance and Audit Committee, is responsible for ensuring that Thanet District Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Governance and Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Thanet District Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>Acting Monitoring Officer (Sameera Khan) was in place to review and comment on all matters of Law and Regulation</p>
<p>2. How is the Governance and Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Annual Governance Statement is presented in draft and final form to the G&A committee for approval that covers such matters.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p>	<p>No</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>A provision is in place for legal costs associated with ongoing grievances and disciplinary matters. Actual costs could vary from this estimate.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Thanet District Council have in place to identify, evaluate and account for litigation or claims?	Council departments are advised to keep legal advised of any possible claims. If claims are received these are quantified and risk established and an appropriate notification is made to finance officers to provide advanced notice of possible liability.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No

Related Parties

Matters in relation to Related Parties

Thanet District Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Thanet District Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Thanet District Council's 2021/22 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Thanet District Council • Whether Thanet District Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	No
<p>2. What controls does Thanet District Council have in place to identify, account for and disclose related party transactions and relationships?</p>	Senior Officers and Members are required to complete annual declarations in relation to related party transactions
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	Separation of duties and a requirement for officers and members with declared interested to excuse themselves from any related party transaction or associated approvals.
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	All changes to the agreed budget are referred to Cabinet/Council

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Thanet District Council will no longer continue?	Section 151 of the Local Government Act 1972 requires a suitably qualified named officer to keep control of the council's finances. For this council, this is the Deputy Chief Executive and the MTFs and budget reports to Council help them discharge this function, by covering budget planning and reserve balances, funding as well as any required contributions to or from reserves. Over and above this, quarterly monitoring reports are provided to Cabinet along with an outturn report, each identifying any events or conditions that will have an impact on this Authorities ability to provide statutory services.
2. Are management aware of any factors which may mean for Thanet District Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	No
3. With regard to the statutory services currently provided by Thanet District Council, does Thanet District Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Thanet District Council to cease to exist?	Yes
4. Are management satisfied that the financial reporting framework permits Thanet District Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Governance and Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Governance and Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Please answer the following in context of all the applicable accounting estimates:

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	See the disclosure for areas of significant uncertainty and estimation in the accounts. As per Note 3. Including: Pensions and Asset Values
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	Risk Management focuses on key service and corporate risks. It is uncommon for key or material accounting estimates to have a real impact on the financial performance or position because of the accounting regime for local authorities. For example, the valuation of pension liabilities in the accounts has no bearing on the Council's financial performance.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Judgement made in the context of accounting policies by relevant officer and agreed with the deputy
4. How do management review the outcomes of previous accounting estimates?	Regular monitoring, monitoring reports taken to CMT for consideration.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Judgement is made on the materiality and significance of the item to determine if the cost of the advice merits the value provided for the accounts. For example, low valued investment properties are not valued every year do to the costs not representing value for money.</p> <p>Other valuations are required annually, by experts, due to their material and complex nature and the requirement of accounting standards. E.g. actuarial valuations of pension liabilities.</p>
<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>A sense or reasonableness check and challenge process is provided back to contracted specialists on the expertise that they provide.</p> <p>Assets not valued annually are assessed by applying indexation to ensure that their valuations are not materially different to the expected valuation had they been subject to a full independent review.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Reviewed and monitored in line with individual financial risk and or accounting policies.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the <p>24 financial statements.</p>	<p>Accounting Policies are approved by Governance and Audit committee in advance of the financial year.</p> <p>This documentation and review process</p> <p>Governance and Audit have established a sub-group to review the accounts in detail including the review of estimation.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	All of these are completed and reviewed by suitably qualified members of staff
12. How is the Governance and Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	<p>Accounting Policies are approved by Governance and Audit committee in advance of the financial year</p> <p>This documentation and review process</p> <p>Governance and Audit have established a sub-group to review the accounts in detail including the review of estimation.</p> <p>Independent experts are engaged with to provide valuations and estimates where required. E.g. Asset Valuations are undertaken by an external firm.</p> <p>GT audit our accounts!</p>

Appendix A - Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Lower of net current replacement cost or net realisable value	External valuations reviewed internally	Yes	As reported in the Accounts - (a) Assumptions made about the Future and other Major Sources of Estimation Uncertainty (b) Fair Value Measurement of Property Assets	No
Council dwelling valuations	Existing use value for social housing	External valuations reviewed internally	Yes	As reported in the Accounts - (a) Assumptions made about the Future and other Major Sources of Estimation Uncertainty (b) Fair Value Measurement of Property Assets	No
Investment property valuations	Open market value	External valuations reviewed internally	Yes	As reported in the Accounts - (a) Assumptions made about the Future and other Major Sources of Estimation Uncertainty (b) Fair Value Measurement of Property Assets	No
Depreciation	Straight line basis over useful economic life	External valuations reviewed internally	Yes	As reported in the Accounts - (a) Assumptions made about the Future and other Major Sources of Estimation Uncertainty (b) Fair Value Measurement of Property Assets	No

Appendix A - Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	As per accounting policy	External valuations reviewed internally	Yes	As reported in the Accounts - Assumptions made about the Future and other Major Sources of Estimation Uncertainty	No
Level 2 investments	Market approach Income approach Cost approach	External valuations reviewed internally	Yes	As reported in the Accounts - (a) Assumptions made about the Future and other Major Sources of Estimation Uncertainty (b) Fair Value Measurement of Property Assets	No
Level 3 investments	Market approach Income approach Cost approach	External valuations reviewed internally	Yes	As reported in the Accounts - (a) Assumptions made about the Future and other Major Sources of Estimation Uncertainty (b) Fair Value Measurement of Property Assets	No
Fair value estimates	Market approach Income approach Cost approach	External valuations reviewed internally	Yes	As reported in the Accounts - (a) Assumptions made about the Future and other Major Sources of Estimation Uncertainty (b) Fair Value Measurement of Property Assets	No

Appendix A - Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	Depends on the particular estimate (see accounting policies)	Any external work reviewed internally	Depends on the particular estimate	As recorded in the Accounts	No
Accruals	Depends on the particular estimate (see accounting policies)	Any external work reviewed internally	Depends on the particular estimate	As recorded in the Accounts	No
Credit loss and impairment allowances	Depends on the particular estimate (see accounting policies)	Any external work reviewed internally	Depends on the particular estimate	As recorded in the Accounts	No

Appendix A - Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Finance lease liabilities	Depends on the particular estimate (see accounting policies)	Any external work reviewed internally	Depends on the particular estimate	As recorded in the Accounts	No
PFI Liabilities	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

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EXCLUSION OF PUBLIC AND PRESS

Governance and Audit Committee	29 November 2023
Report Author	Steve Matthews - Democratic Services Officer
Status	For Decision
Classification:	Unrestricted
Key Decision	No

Executive Summary:

This report is necessary in order to exclude the press and public from the meeting for consideration of item 14. It will weigh the public interest factors for disclosure against the public interest factors for exemption and explain why the exemption factors take priority.

The report will also state which paragraph 7 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended) the author is using in order to exclude the press and public from the meeting.

Recommendation(s):

That the public and press be excluded from the meeting for agenda item 14 as it contains exempt information as defined in paragraph 7 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

Corporate Implications

Financial and Value for Money

There are no direct financial implications.

Legal

As per Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

Corporate

Thanet District Council will endeavour to keep the number of exempt reports it produces to a minimum in order to promote transparency.

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.

There are no specific equity and equality considerations that need to be addressed in this report.

Corporate Priorities

This report does not directly relate to any of the corporate priorities:

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

1.0 Introduction and Background

1.1 Whilst the starting point for all public meetings of the Council is to admit the public and press, they may be excluded from meetings whenever it is likely, in view of the nature of the business to be transacted that confidential or exempt information would be disclosed. Under such circumstances, confidential or exempt information may be excluded from the public agenda. The public and press must be excluded from meetings if confidential information will be considered and disclosed, and such material must be excluded from the public agenda.

Meaning of confidential information

1.2 Confidential information means information given to the Council by a Government Department on terms which forbid its public disclosure or information which cannot be publicly disclosed by Court Order.

Exempt information – discretion to exclude public

1.3 Subject to Article 6 of the Human Rights Act 1998 (right to a fair trial) the public may be excluded from meetings whenever it is likely in view of the nature of the business to be transacted or the nature of the proceedings that “exempt” information would be disclosed.

2.0 Exempt Information

2.1 The full rules are set out in Part 1 & 2 of Schedule 12A of the Local Government Act 1972 (as Amended).

3.0 Reason Why Agenda Item 14 is considered to be “exempt”

- 3.1 The report author has classified Agenda Item 14 as disclosing exempt information under paragraph 7 – Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended) thereby suggesting that the press and public be excluded from the meeting whilst these items are debated.

4.0 Justification/Public Interest Test

Public interest factors for disclosure

- 4.1 Factors suggested by the Information Commissioner as being relevant to an assessment of public interest apply to this information. Disclosure would:-
1. Further public understanding of the issues involved;
 2. Further public participation in the public debate of issues, in that disclosure would allow a more informed debate;
 3. Promote accountability and transparency by the Council for the decisions it takes;
 4. Promote accountability and transparency in the spending of public money;
 5. Allow individuals and organisations /external agencies to understand decisions made by the Council affecting their lives & activities and assist individuals to challenge those decisions;

Reasons in favour of disclosure of information specific to the issue in question

None.

Public interest factors for exemption

Considerations which may weigh against a decision to disclose information include:

1. Good local government depends on good decision-making and this needs to be based on the best advice available and a full consideration of all the options without fear of premature disclosure;
2. Advice should be broad based and there may be a deterrent effect on external experts or stakeholders who might be reluctant to provide advice because it might be disclosed;
3. The impartiality of the officers might be undermined if advice was routinely made public as there is a risk that officials could come under political pressure not to challenge ideas in the formulation of policy, thus leading to poorer decision making;

4. Members and officers also need to be able to conduct rigorous and candid risk assessments of their policies and programmes including considerations of the pros and cons without there being premature disclosure which might close off better options;
5. There needs to be a free space in which it is possible to 'think the unthinkable' and use imagination, without the fear that policy proposals will be held up to ridicule;
6. Some aspects of Legal advice to Members may need to be taken in private as disclosure of such information would prejudice the position of Council in the event of Court proceedings taking place thereafter;
7. Local Councils are obliged to adhere to legislation that include the Data Protection Act, 1998; where appropriate and failure to do so may result in litigation against Council by an aggrieved party thereby putting at risk the general public interest to protect the public purse.

5.0 Not Excluding the Press and Public

- 5.1 There will be occasions when the meeting may decline to exclude the press and public from the meeting. If that occurs it does not simply mean that those members of the press and public who are present are allowed to stay for the discussion of the item(s). Declining to exclude the press and public would also mean that the press and public are allowed access to the actual report contained within the confidential part of the agenda (what Democratic Services refer to as the "pink pages").
- 5.2 Members may wish to note that if a committee member is of the view that it is possible that the recommendation in this report may not be approved at the meeting, they should let Democratic Services know (as soon as they have read the agenda papers before the meeting); in order that spare copies are made available ready to be distributed, if necessary, at the meeting.
- 5.3 If the referred item is not exempted, Democratic Services would also make arrangements for the report to be retrospectively published on the Council's website.

6.0 Decision Making Process

- 6.1 If the press and public are to be excluded for the agenda item; this Committee must exercise its power to agree the recommendation.

Contact Officer: Steve Matthews (Democratic Services Officer)

Reporting to: Charles Hungwe (Deputy Committee Services Manager)

Annex List

None

Background Papers

None

Corporate Consultation

Finance: N/A

Legal: Sameera Khan (Interim Head of Legal & Monitoring Officer)

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