

Mr M Dean
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25 July 2018

Dear Mr Dean

Thanet District Council Financial Statements for the year end 31 March 2018 Understanding How the Audit Committee Gains Assurance from Management

Thank you for requesting my assistance with your current work on the 2017-18 accounts.

The Governance and Audit Committee, which was formed in 2006, has a comprehensive and varied remit which includes oversight of the council's governance and risk management processes, internal audit findings and other matters, such as the council's Treasury Management Strategy and Anti-Fraud and Corruption Policy. Within the detailed Terms of Reference assurance is given that the Committee will follow the CIPFA best practice model.

In order to adequately discharge their role to ensure that the processes are not only adequate but are complied with and weaknesses remedied in a timely manner, new Committee Members are provided with induction training and a supporting guidance booklet.

Where extra training is required Governance and Audit Committee Members agreed to continue with utilising the first half hour of meetings for training time as required. Additional training sessions have been undertaken to deal with particularly complex topics, such as the Statement of Accounts and Treasury Management provided by Link the Council's external provider for Treasury Services.

The specific work that the Committee considered at its meetings during 2017-18 financial year, which relate to the points that your raise within your letter included:

- Approving the council's Local Code of Corporate Governance and Governance Framework
- Discussing emerging key business risk in accordance with the Risk Management Strategy
- Reviewing reports on progress against the Audit Plan and implementation of agreed Internal Audit recommendations
- Discussion as to how internal audit work is undertaken and in particular how key risks are managed and
- Considering the action plan to address matters of concern arising from the Annual Governance Statement.
- Regular Treasury Management updates including the mid- year and end of year outturn.

These can be evidenced from the Council's published meeting agendas and minutes available from the website, link provided below:

<http://democracy.thanet.gov.uk/ieListMeetings.aspx?CId=114&Year=0>

The aforementioned details go some way in answering your enquiry as to how the Governing Body oversees management's processes. With regard to the assessment of the risk of the financial statements being materially misstated due to fraud or error, management have put in place measures to assess risks associated with the operation of a robust key control framework. The key control framework includes adequate segregation of duties within the Finance team and an active personal development plan which means that sufficient members of the section are adequately skilled to not only perform the functions of their role, but be alert to any anomalies that could indicate a misstatement due to fraud.

Senior finance officer's reviews of the draft financial statements are also undertaken which minimises the risk of any material inconsistencies.

Over and above the controls built into the financial procedures, further assurance can be gained from the thorough review programme undertaken by Internal Audit, who offer a proactive, independent and effective scrutiny of the council's financial processes. The Head of Internal Audit has access to the Chair of Governance and Audit at all times, to further strengthen their freedom to report any suspicions of fraud.

In terms of communicating to staff and members the commitment to good governance and anti-fraud principles, a number of different media are used including the Thanet Online Matters (TOM) Intranet site, the Managers' Forums and formal staff and member development sessions. Issues relating to the process of identifying and reporting the risk of fraud, possible breaches of internal control and other business proactive and ethical behaviour regularly feature as part of these.

In reply to your question about reported frauds within the financial year; to my knowledge there have been several cases of tenancy fraud followed up by the service but no other major incidences have been reported

I can confirm, as Chair of the Governance and Audit Committee, through making enquiries of relevant officers I have gained assurance that the relevant laws and regulations have been complied with by having regard to:

- An experienced, well-resourced in-house legal team with a budget to commission specialist advice as and when required
- Legal implications of key decisions and actions being included in reports wherever necessary, with draft reports being considered by the legal team and Corporate Management Team prior to being published
- The council having comprehensive Financial Regulations and Contract Procedure Rules in place to ensure that they meet best practice standards. These documents, along with the Scheme of Delegation, set the framework for ensuring that transactions are undertaken and decisions are made in accordance with statutory requirements

<http://democracy.thanet.gov.uk/documents/s50403/Constitution%20for%20Governance%20of%20Thanet%20District%20Council%20-%202025%20Feb%202016.pdf>

I am not aware of any actual or potential litigation of claims that would affect the financial statements but there are some issues that are currently being managed. With regard to Dreamland the settlement in relation to the CPO action remains outstanding at this moment in time. Our insurers are handling a small amount of claims in respect of hand arm vibration cases affecting current and previous Council employees.

This letter (drafted by officers) was presented to the Governance and Audit Committee on the 25 July 2018 who noted and endorsed the responses to the letter from Grant Thornton dated the 22 March 2018. I chaired the meeting as Chairman of the Governance and Audit Committee and sign the letter in that capacity.

Should you need any further assistance please do not hesitate to contact me.

Yours sincerely

Councillor Day
Chair of Governance and Audit Committee.

Response from Governance and Audit Committee Chair

Fraud risk assessment

Auditor Question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	Yes, the Internal audit plan includes a risk based audit of the core financial systems that are used in the compilation of the financial statements
What are the results of this process?	Assurance levels from Internal Audit are satisfactory and inherent risk is considered to be minimal
What processes does the Council have in place to identify and respond to risks of fraud?	The Council operates a robust key control framework within approved financial procedures that is regularly reviewed by internal audit. 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 potential anomalous entries; senior management reviews of the financial statements are also undertaken to aid the identification of material inconsistencies.
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	A review of awards, reliefs and discounts in respect of Council Tax, Business Rates and Housing Benefit has been carried out within the Framework of East Kent Services. All areas will be regularly monitored in the future to ensure early notification of potential fraud. All policies have been provisionally reviewed and changes in respect of counter fraud initiatives will be introduced into Financial regulations in 2018-19.
Are internal controls, including segregation of duties, in place and operating effectively?	Managers are aware of the need for segregation of duties and these are in place in key areas. The Internal Audit Plan looks at the internal controls on a regular basis and audit reports give a satisfactory level of assurance. Non-Finance personnel have restricted access to the financial systems and Finance staff, regularly monitor all transactions.
If not, where are the risk areas and what mitigating actions have been taken?	Functional risks are reviewed on a regular basis and management, mitigating actions taken where appropriate.
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)?	No, all financial transactions are regularly tested and financial performance monitored with service managers. Senior Financial management reviews take place on a regular and ad-hoc basis to maintain the integrity of financial records

Auditor Question	Response
Are there any areas where there is a potential for misreporting?	No, all financial reports are referenced to previous approvals given by council in order to maintain consistency in reporting
How does the Governing Body exercise oversight over management's processes for identifying and responding to risks of fraud?	The Governance and Audit Committee receives regular updates from Internal Audit on the results of their audit reviews on key internal controls. Any instances of fraud are reported to the Committee. Regular reviews are carried out on anti-fraud/corruption policies together with member training on an as necessary basis.
What arrangements are in place to report fraud issues and risks to the Governing Body?	See Above. The Head of the East Kent Audit Partnership also has direct access to the Chair of the Governance and Audit Committee.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	The Council's commitment to good governance and anti-fraud principles are communicated using the Council's intranet site, Managers' development sessions, staff and member development sessions
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	The Council's whistleblowing policy is widely publicised and officers feel comfortable at raising concerns where appropriate. Staff are expected to raise concerns whenever they suspect something untoward is going on. The whistleblowing policy has to identify suspected fraud and all such instances been used by staff have been fully investigated.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	Members are expected to disclose any transactions they have entered into of a related party nature. I am not aware of any such relationships or transactions that have given rise to risks of fraud
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2017?	None.

Laws and Regulations

Auditor Question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	An experienced, well-resourced in-house legal team with a budget to commission specialist advice as and when required
How does management gain assurance that all relevant laws and regulations have been complied with?	Legal implications of key decisions and actions being included in reports wherever necessary, with draft reports being considered by the legal team and Corporate Management Team prior to being published. An on-going programme of Internal Audit Reviews is undertaken by the East Kent Audit Partnership. The Whistle-blowing policy provides staff with the ability to report to management where laws and regulations have not been complied with.

Auditor Questions	Response
How is the Governing Body provided with assurance that all relevant laws and regulations have been complied with?	<p>All reports to Cabinet and Council require the Legal Team and Finance Team to review and provide comments on the reports prior to going forward to Members. The council has comprehensive Financial Regulations and Contract Procedure Rules in place to ensure that best practice standards are met. These documents, along with the Scheme of Delegation, set the framework for ensuring that transactions are undertaken and decisions are made in accordance with statutory requirements.</p> <p>The East Kent Audit Partnership prepare audits to ensure compliance with relevant laws and regulations and gather evidence during the audit process. Quarterly monitoring reports produced by the Head of the Audit of the Partnership identify any non-compliance with relevant laws and regulations and agree management actions to remedy the situation</p>
Have there been any instances of non-compliance or suspected non-compliance with laws and regulations since 1 April 2017?	No.
What arrangements does the 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.
Is there any actual or potential litigation or claims that would affect the financial statements?	Any major or potential issues that would affect the financial statements have already been accounted for.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	No

Going Concern

Auditor Question	Response
What arrangements does the Council have in place to ensure itself that the Council remains a Going Concern for financial reporting purposes, and what were the results of that assessment for the purposes of the 2017-18 Accounts?	<p>Section 2.1.2.6 of the 2017-18 code of Practice states an authority's financial statements shall be prepared on a going concern basis.</p> <p>Section 3.4.2.23 of the 2017-18 Code of Practice confirms that local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting.</p>