

Informing the audit risk assessment for Thanet District Council 2023/24

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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 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 Audit Committee under auditing standards.

Background

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

This two-way communication assists both the auditor and the 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 Audit Committee and supports the 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 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
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24?</p>	<p>The increasing cost of Homelessness, continued to have an impact on the 23/24 financial position for all of Local Government and TDC was no different. There were new measures coming on line throughout 23/24 and these continue into 24/25.</p>
<p>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?</p>	<p>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.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>Bank Deposits, Money Market Funds, LOBO, Short dated Bond Fund.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>N/A</p>

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?	No
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 Audit Committee and management. Management, with the oversight of the 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 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 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 Audit Committee oversees the above processes. We are also required to make inquiries of both management and the 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 6 March 2024 Governance & Audit Committee can be found on the link below: 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 2023? If so, please provide details</p>	<p>No</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 6 March 2024 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 doubled 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 November 2024.</p> <p>Annual Governance Statement</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 Audit Committee?</p> <p>How does the 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 23/24</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 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 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>Monitoring Officer (Ingrid Brown) was in place to review and comment on all matters of Law and Regulation</p>
<p>2. How is the 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 2023 with an on-going impact on the 2023/24 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 Council'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 2023/24 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
<p>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?</p>	<p>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.</p>
<p>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?</p>	<p>No</p>
<p>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?</p>	<p>Yes</p>
<p>4. Are management satisfied that the financial reporting framework permits Thanet District Council to prepare its financial statements on a going concern basis? Are</p>	<p>Yes</p>

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 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 Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

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 s151.
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 2023/24 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 financial statements. 	<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 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>



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