



Agenda

Meeting: **Audit and Governance Committee**
Date: **4 December 2019**
Time: **7.00 pm**
Place: **Council Chamber - Civic Centre, Folkestone**

To: **All members of the Audit and Governance Committee**

The committee will consider the matters, listed below, at the date, time and place shown above. The meeting will be open to the press and public.

Members of the committee, who wish to have information on any matter arising on the agenda, which is not fully covered in these papers, are requested to give notice, prior to the meeting, to the Chairman or appropriate officer.

This meeting will be webcast live to the council's website at <https://folkestone-hythe.public-i.tv/core/portal/webcasts>.

1. **Apologies for Absence**

2. **Declarations of Interest (Pages 3 - 4)**

Members of the committee should declare any interests which fall under the following categories:

- a) disclosable pecuniary interests (DPI);
- b) other significant interests (OSI);
- c) voluntary announcements of other interests.

3. **Minutes (Pages 5 - 8)**

To consider and approve, as a correct record, the minutes of the meeting held on 18 September 2019.

Queries about the agenda? Need a different format?

Contact Sue Lewis – Tel: 01303 853265
Email: committee@folkestone-hythe.gov.uk or download from our website
www.folkestone-hythe.gov.uk

4. **Grant Thornton Update Report (Pages 9 - 24)**

Grant Thornton's report provides an update on recent audit work undertaken, progress against key deliverables and a brief technical update.

5. **Internal Audit Progress report from the Head of the East Kent Audit Partnership (Pages 25 - 48)**

This report includes the summary of the work of the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee meeting together with details of the performance of the EKAP to the 30th September 2019.

6. **CIPFA'S Practical Guidance for Local Authorities and Police, 2018 Edition (Pages 49 - 62)**

CIPFA'S practical guidance for local authorities and police, 2018 edition is set out. Certain actions are recommended and members' instructions are sought on the possibility of appointing an independent member to the committee.

7. **Review of Corporate Risk Register (Pages 63 - 74)**

This report provides an update to the Corporate Risk Register.

Declarations of Interest

Disclosable Pecuniary Interest (DPI)

Where a Member has a new or registered DPI in a matter under consideration they must disclose that they have an interest and, unless the Monitoring Officer has agreed in advance that the DPI is a 'Sensitive Interest', explain the nature of that interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a DPI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation permitting them to do so. If during the consideration of any item a Member becomes aware that they have a DPI in the matter they should declare the interest immediately and, subject to any dispensations, withdraw from the meeting.

Other Significant Interest (OSI)

Where a Member is declaring an OSI they must also disclose the interest and explain the nature of the interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a OSI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation to do so or the meeting is one at which members of the public are permitted to speak for the purpose of making representations, answering questions or giving evidence relating to the matter. In the latter case, the Member may only participate on the same basis as a member of the public and cannot participate in any discussion of, or vote taken on, the matter and must withdraw from the meeting in accordance with the Council's procedure rules.

Voluntary Announcement of Other Interests (VAOI)

Where a Member does not have either a DPI or OSI but is of the opinion that for transparency reasons alone s/he should make an announcement in respect of a matter under consideration, they can make a VAOI. A Member declaring a VAOI may still remain at the meeting and vote on the matter under consideration.

Note to the Code:

Situations in which a Member may wish to make a VAOI include membership of outside bodies that have made representations on agenda items; where a Member knows a person involved, but does not have a close association with that person; or where an item would affect the well-being of a Member, relative, close associate, employer, etc. but not his/her financial position. It should be emphasised that an effect on the financial position of a Member, relative, close associate, employer, etc OR an application made by a Member, relative, close associate, employer, etc would both probably constitute either an OSI or in some cases a DPI.

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Minutes

Audit and Governance Committee

Held at: Council Chamber - Civic Centre, Folkestone
Date: Wednesday, 18 September 2019
Present: Councillors Mrs Ann Berry (Vice-Chair), Ray Field, Philip Martin (Chairman), Tim Prater and Lesley Whybrow

Apologies for Absence

Officers Present: Paul Butler (Elections Manager), Amandeep Khroud (Assistant Director), Sue Lewis (Committee Services Officer), Tim Madden (Corporate Director - Customer, Support and Specialist Services), Mrs Christine Parker (Head of Audit Partnership), Mr Chris Parker (Deputy Head of Audit) and Charlotte Spendley (Assistant Director)

Others Present:

12. Declarations of Interest

There were no declarations of interest.

13. Minutes

Proposed by Councillor Tim Prater
Seconded by Councillor Lesley Whybrow and

Resolved:

In his opinion, Councillor Tim Prater, felt that Minute 8 – Internal Audit Annual Report, bullet point 4 misled the committee by stating that work was in progress when it had already been completed. Officers would go back and look at the relevant dates and clarify this at the next meeting.

(Voting: For 3; Against 1; Abstentions 1)

Proposed by Councillor Ray Field
Seconded by Councillor Lesley Whybrow and

Resolved:

The minutes of the meeting held on 30 July 2019 were submitted, approved and signed by the Chairman with the inclusion of the footnote above.

(Voting: For 5; Against 0; Abstentions 0)

14. Internal Audit Progress report from the Head of the East Kent Audit Partnership

The report included the summary of the work of the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee meeting together with details of the performance of the EKAP to the 30th June 2019.

Members were informed of a slight change to the report at the end of the Creditors section which should read as follows:

Scope for improvement was however identified in the following areas:

- The information made available to budget holders on the risks relating to the use of blanket orders could be improved;
- Due to staff shortages in Finance no performance information relating to late payments has been circulated to budget managers since October 2018;

Proposed by Councillor Ray Field
Seconded by Councillor Tim Prater and

Resolved:

To engage and discuss further with members of the committee the information as presented in the reports to ensure it is providing sufficient assurance for the committee to discharge its duties.

(Voting: For 5; Against 0; Abstentions 0)

Proposed by Councillor Lesley Whybrow
Seconded by Councillor Mrs Ann Berry and

Resolved:

- 1. To receive and note Report AuG/19/10.**
- 2. To note the results of the work carried out by the East Kent Audit Partnership.**

(Voting: For 5; Against 0; Abstentions 0)

15. Review of Corporate Risk Register and Risk Management Policy and Strategy

The report presented an updated Risk Management Policy & Strategy for consideration by the Audit & Governance Committee, ahead of its adoption

by Cabinet. The Policy & Strategy provides a framework the management of risk by Officers & Members. The report also provided an update to the Corporate Risk Register.

Proposed by Councillor Tim Prater
Seconded by Councillor Ray Field and

Resolved:

- 1. To receive and note the updated Corporate Risk Register.**
- 2. To propose to Cabinet the adoption the updated Risk Management Policy & Strategy.**

(Voting: For 5; Against 0; Abstentions 0)

16. Review of polling districts and polling places 2019

Section 18 of the Representation of the People Act 1983 (as amended by Part 4 of the Electoral Administration Act 2006) places a duty on the Council to conduct a review of polling places and polling districts every four years. The last review was concluded by Folkestone & Hythe District Council (as Shepway District Council) in November 2014. Report AuG/19/12 outlined the steps the Council is taking to comply with this duty and seeks approval from Council to approve the recommendations made.

Proposed by Councillor Tim Prater
Seconded by Councillor Ray Field and

Resolved:

- 1. To receive and note report AuG/19/12.**
- 2. To approve the proposals listed in this report as the Polling Districts, Polling Places and Stations for the next four years, or until an ad-hoc review triggered by the Council in the interim.**
- 3. To adopt the proposals as outlined in Appendix 2, with the implementation to coincide with the revision of the register on 01 December 2019.**
- 4. To request officers publish the feedback in respect of representations.**
- 5. To consider further works in respect of using public houses as polling stations with the intention of finding something more suitable in the future.**

(Voting: For 5; Against 0; Abstentions 0)

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This Report will be made public on 26 November 2019



Report Number **AuG/19/17**

To: Audit and Governance Committee
Date: 4 December 2019
Head of Service: Charlotte Spendley, Assistant Director – Finance, Strategy & Support Services
Cabinet Member: Councillor David Monk – Leader & Cabinet Member for Finance

Subject: Grant Thornton Update Report

Summary:

Grant Thornton's report provides an update on recent audit work undertaken, progress against key deliverables and a brief technical update.

Reasons for recommendations:

The Committee is asked to agree the recommendation in order to formally note the progress made against key actions undertaken by Grant Thornton.

Recommendations:

1. To receive and note Report AuG/19/17.

1. INTRODUCTION

- 1.1 It was agreed by the Audit Committee that the External Auditor should submit regular progress and update reports to their meetings.
- 1.2 A representative from Grant Thornton LLP has been asked to attend the meeting to present the report and answer Members' questions.

2. PROGRESS UPDATE

- 2.1 Grant Thornton's report sets out, at pages 4 and 5, progress as at November 2019 with regard to:
 - Financial Statements Audit work (2018/19 and 2019/20)
 - Value for money assessment
 - Grant certification work
 - Meetings & upcoming events
 - Fees
- 2.2 The report also includes a Sector Update (pages 7 to 12) including emerging national issues and development, current consultations and reports of interest.
- 2.3 A copy of the full progress report is attached at Appendix 1.

3. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

3.1 Legal Officer's Comments (AK)

There are no additional legal comments arising from this report

3.2 Finance Officer's Comments (CS)

There are no financial implications arising directly from this report.

4. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Charlotte Spendley – Assistant Director – Finance, Strategy & Support Services

Telephone: 07935 517986

Email: charlotte.spendley@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

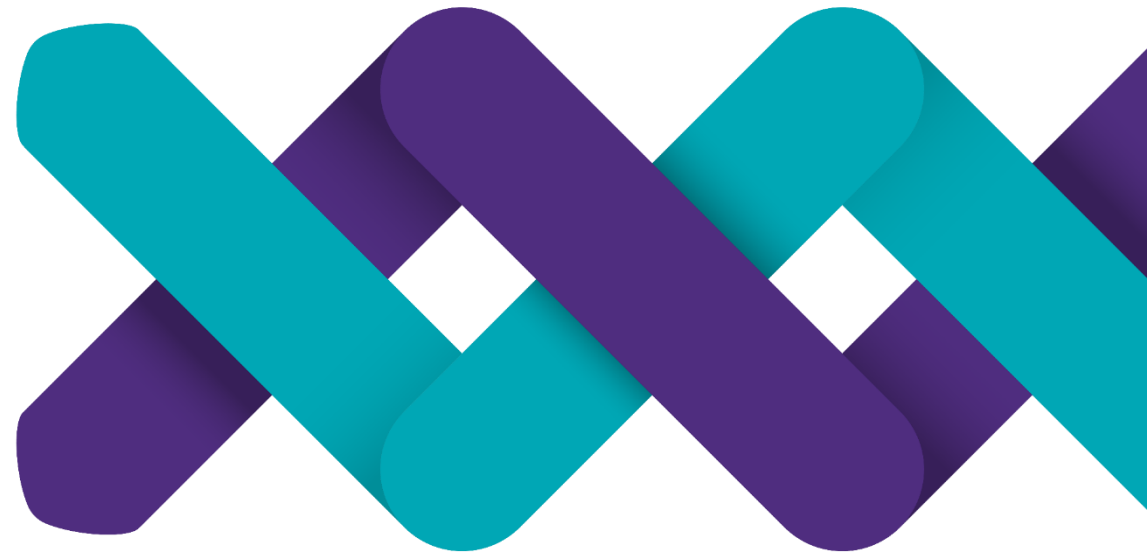
- None

Appendices

1. Grant Thornton Update Report – November 2019

Audit Progress Report and Sector Update

Folkestone and Hythe District Council
Year ending 31 March 2020
Page 11
November 2019



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Introduction



Elizabeth Jackson

Engagement Lead

T (020) 7728 3329

E Elizabeth.L.Jackson@uk.gt.com

This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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Andy Ayre

Engagement Manager

T (020) 7728 2328

E Andy.j.ayre@uk.gt.com

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications

www.grantthornton.co.uk ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at November 2019

Financial Statements Audit

We issued our opinion on your 2018/19 Statement of Accounts on 31 July 2019.

We will begin our planning for the 2019/20 audit in December and will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements in March 2020.

We will begin our interim audit in early 2020. Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by the statutory accounts publication date of 31 July 2020.

Value for Money

We have not yet issued our value for money conclusion for 2018/19 due to an objection to the financial statements. This work is due to be completed by the end of December 2019.

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by the statutory accounts publication date of 31 July 2020.

Progress at November 2019 (Cont.)

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. The certification work for the 2018/19 is in progress and we are aiming for the work to be completed by the 30 November deadline. We will report our findings to the Audit and Governance Committee in our Certification Letter in January 2020.

Meetings

We meet with Finance Officers throughout the year and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (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.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We are currently reviewing the impact of these changes on both the cost and timing of audits. We will discuss this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, before communicating fully with the Audit and Governance Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Audit Findings Report The Audit Findings Report was reported to the July Audit Committee.	July 2019	Complete
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Complete
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due as cannot issue until the vfm has been issued

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2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2019/20.	April 2019	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019/20 financial statements.	March 2020	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2020	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Audit and Governance Committee.	July 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2020	Not yet due

Sector Update

Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Page 17 Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

CIPFA – CFO confidence survey

In July, the Chartered Institute of Public Finance and Accountancy (CIPFA) reported the results of their annual confidence survey.

The survey found that the majority of local government finance officers have lost confidence in their future financial positions over the last year.

Seventy per cent of respondents said they were either slightly less or much less confident in their financial position this year compared to 2018-19.

The survey also found that 68% said they were either slightly less or much less confident in their ability to deliver services in 2020-21. Sixty-two per cent expressed equal confidence in their financial position for 2019-20 as they had last year.

CIPFA found that the area of greatest pressure for top tier authorities was children's social care, with the number of authorities rating it as the biggest pressure rising by six percentage points.

For districts the greatest pressures were housing, cultural services and environmental services.

Rob Whiteman, CIPFA chief executive, said: "Local government is facing greater demand pressures than ever before, with particularly pressures in adults' and children's social care and housing. Local authorities also lack certainty about their future financial positions, so it's unsurprising to see confidence on the decline.

"We have repeatedly pointed out that local government is in need of a sustainable funding solution, but meeting this demand requires more than pennies and pounds. The sector as a whole must come together to address the challenges of effective service delivery."

CIPFA's survey received a total of 119 responses from authorities in the UK - 56 top tier authorities, 47 English districts, 12 Scottish authorities, and 4 Welsh authorities.



On the same theme, a Local Government Association (LGA) survey, also reported in July, found that almost two-thirds of councils believe cash for services like adult social care, child protection and preventing homelessness will dry up by 2024-25.

The survey got responses from 141 of the 339 LGA member councils in England and Wales.

It also found that 17% of councils were not confident of realising all of the savings they had identified this year (2019-20).

The LGA said that councils needed a guarantee they will have enough money to meet growing demand pressures in particular in adult social care, children's services, special educational needs, homelessness support and public health.



Financial confidence



Challenge question:

How confident over its' financial position is your Authority? Has this changed from previous years?

MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”

In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, is expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.



National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfill their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO is consulting on potential changes to the Code in two stages:

Stage 1 involves engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

This stage of the consultation is now closed. The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO state that they have considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this will inform the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

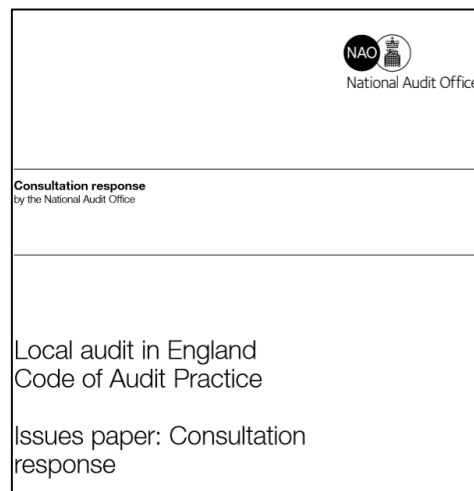
Stage 2 of the consultation involves consulting on the draft text of the new Code. To support stage 2, the NAO has published a consultation document, which highlights the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

The consultation document and a copy of the draft Code can be found on the NAO website. The consultation is open until 22 November 2019. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the Code consultation:

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>



Local Government Association – Profit with a purpose – delivering social value through commercial activity

The Local Government Association (LGA) report 'Profit with a purpose' focuses on some of the practicalities of how councils can deliver social value through their commercial activity.

Through 'key questions' to ask, the guidance supports councils to face the challenge of how to undertake commercial activity and achieve greater value for the public purse in ways that better meet society's needs and outcomes for people and communities.

In addition, the publication features a number of short case studies highlighting some of the innovative commercial practice already achieving results for communities.

The LGA comments that the best approaches ensure the generation of social value is the primary factor driving commercial activity; from the initial decision to develop a commercial vision to how the approach is developed, and implemented, councils which are pulling ahead ensure social value is placed centre stage.

The guidance starts with an overview of what the LGA understands by 'profit with a purpose', the guidance explores different types of social value and the role of councils in driving social value alongside their commercial ambition.

The guidance then looks at how consideration and delivery of social value should be practically considered when deciding on whether to embark on commercial activity, the need for social value to be prioritised alongside financial return and the key questions councils should consider when embarking on a commercial initiative.

Following on from this, there are specific chapters on; embedding social value in governance of alternative service delivery vehicles, the role of procurement in contracting services that deliver social value and finally how to contract and performance manage social value through your service providers.

Each chapter outlines the factors that need to be considered and the 'key questions' councils should be asking themselves.

In addition, a number of short case studies are provided to highlight some of the innovative commercial practice already achieving results for communities.

The report can be downloaded from the LGA website:

<https://www.local.gov.uk/profit-purpose-delivering-social-value-through-commercial-activity>



Profit with a purpose

Delivering social value through commercial activity

Profit with a purpose



Challenge question:

If your Authority is looking at commercial activity, have you considered the LGA report?

Public Accounts Committee – Local Government Governance and Accountability

The Public Accounts Committee has found that the Government has not done enough to ensure that, at a time when local authority budgets are under extreme pressure, governance systems are improved.

The Ministry of Housing, Communities & Local Government (the Department) is responsible for: ensuring that this framework contains the right checks and balances, and changing the system if necessary. The Secretary of State also has powers to intervene in cases of perceived governance failure. The framework includes: officers with statutory powers and responsibilities; internal checks and balances such as audit committees and internal audit; and external checks and balances such as external audit and sector-led improvement overseen by the Local Government Association. These arrangements represent a significant reduction in the level of central oversight in recent years following the government's decision to abolish the Audit Commission and the Standards Board for England as part of a broader reform of local audit, inspection and reporting.

The Public Accounts Committee report summary notes “Local authorities have a good overall track record with governance arrangements generally robust across the sector, and there is evidence that local authority governance compares favourably to that of the health sector. However, this is not universal and in some authorities governance is under strain, as funding reduces and responsibilities and exposure to commercial pressures change. We are worried to hear about audit committees that do not provide sufficient assurance, ineffective internal audit, weak arrangements for the management of risk in local authorities’ commercial investments, and inadequate oversight and scrutiny. This is not acceptable in the more risky, complex and fast-moving environment in which local authorities now operate.

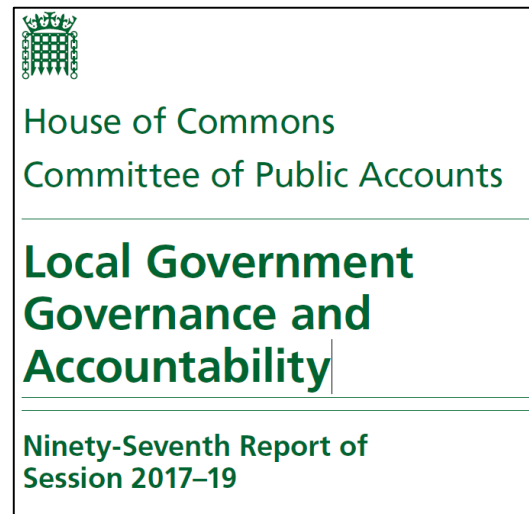
The Department has been reactive and ill-informed in its approach to oversight of the local governance system. However, the Department has now recognised that the network of bodies with responsibility for the local governance framework is fragmented and lacking the leadership needed to drive change. Encouragingly, the Department has now committed to enhancing its oversight role and producing a proactive work programme to deliver this change. We urge the Department to ensure that this activity leads to concrete actions and outcomes on a timely basis. When a local authority fails this has a significant impact on local people and the Department has a responsibility to work with local government to ensure that problems are caught early and that it can pinpoint at-risk councils. Since the abolition of the Audit Commission and other changes culminating in the Local Audit and Accountability Act 2014 there is no central assessment of value for the money, which means the Department's work is fundamental.”

The report makes five conclusions, with associated recommendations:

- 1) The Department is not yet providing effective leadership of the local governance system.
- 2) The Department does not know why some local authorities are raising concerns that external audit is not meeting their needs.
- 3) The Department lacks reliable information on key governance risks, or relies on weak sources of information, meaning it has no way of pinpointing the at-risk councils.
- 4) The Department's monitoring is not focused on long-term risks to council finances and therefore to services.
- 5) There is a complete lack of transparency over both the Department's informal interventions in local authorities with financial or governance problems and the results of its formal interventions.

The Government response is available on the website below:

<https://www.parliament.uk/documents/commons-committees/public-accounts/Gov-response-to-Public-Accounts-on-the-93-98-reports.pdf>



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This Report will be made public on 26 November 2019



Report Number **AuG/19/15**

To: Audit and Governance Committee
Date: 4 December 2019
Status: Non-Executive Decision
Corporate Director: Tim Madden – Customer Support & Specialist Services (S151)

SUBJECT: INTERNAL AUDIT PROGRESS REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP

SUMMARY: This report includes the summary of the work of the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee meeting together with details of the performance of the EKAP to the 30th September 2019.

REASONS FOR RECOMMENDATION:

The Committee is asked to agree the recommendations set out below because: In order to comply with best practice, the Audit and Governance Committee should independently contribute to the overall process for ensuring that an effective internal control environment is maintained.

RECOMMENDATIONS:

- 1. To receive and note Report AuG/19/15.**
- 2. To note the results of the work carried out by the East Kent Audit Partnership.**

1. INTRODUCTION

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

2. AUDIT REPORTING

- 2.1 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 Heads of Service, as well as an appropriate manager for the service reviewed.
- 2.2. Follow-up reviews are performed at an appropriate time, according to the status of the recommendation, timescales for implementation of any agreed actions and the risk to the Council.
- 2.3. 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.
- 2.4 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. There are currently two reviews with such a level of assurance as shown in appendix 2 of the EKAP report.
- 2.5 The purpose of the Council's Audit and Governance Committee is to provide independent assurance of the adequacy of the risk management arrangements, the control environment and associated anti fraud and anti corruption arrangements and to seek assurance that action is being taken to mitigate those risks identified.
- 2.6 To assist the Committee in meeting its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit reports and follow-up reviews since the report submitted to the last meeting of this Committee.

3. SUMMARY OF WORK

- 3.1. There have been eight audit reports completed during the period. These have been allocated assurance levels as follows: two was classified as providing substantial assurance, four reasonable, one was reasonable / limited and one was limited assurance. Summaries of the report findings are detailed within Annex 1 to this report.

- 3.2 In addition, six follow up reviews have been completed during the period. The follow up reviews are detailed within section 3 of the update report.
- 3.3 For the period to 30th September 2019 164.45 chargeable days were delivered against the planned target of 361.38 days, (including 46.38 days carried over from 2018/19) which equates to achievement of 46% of the planned number of days.
- 3.4 Other performance figures for the East Kent Audit Partnership for the period 2019/20 are shown in the balanced scorecard.

4. RISK MANAGEMENT ISSUES

- 4.1 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 and 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.

5. LEGAL, FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1 Legal Officer's comments (DK)

No legal officer comments are required for this report.

5.2 Finance Officer's Comments (TM)

Responsibility for the arrangements of the proper administration of the council's financial affairs lies with the Chief Finance Officer (S151). The internal audit service helps provide assurance as to the adequacy of the arrangements in place. It is

important that the recommendations accepted by Heads of Service are implemented and that audit follow-up to report on progress.

5.3 **Head of the East Kent Audit Partnership comments (CP)**

This report has been produced by the Head of the East Kent Audit Partnership and the findings / comments detailed in the report are the service's own, except where shown as being management responses.

5.4 **Diversities and Equalities Implications (CP)**

This report does not directly have any specific diversity and equality implications however it does include reviews of services which may have implications. However none of the recommendations made have any specific relevance.

6. **CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

- 6.1 Councillors with any questions arising out of this report should contact either of the following officers prior to the meeting.

Christine Parker, Head of the Audit Partnership
Telephone: 01304 872160 Email: Christine.parker@dover.gov.uk

Tim Madden, Corporate Director – Customer Support & Specialist Services (S151)
Telephone: 01303 853371 Email: Tim.madden@folkestone-hythe.gov.uk

- 6.2 The following background documents have been relied upon in the preparation of this report:

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

Attachments

Annex 1 – Update report from the Head of the East Kent Audit Partnership.

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

1. INTRODUCTION AND BACKGROUND

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

2. SUMMARY OF REPORTS

Service / Topic		Assurance level	No of recs	
2.1	Constitution	Substantial	C H M L	0 0 0 2
2.2	Treasury Management	Substantial	C H M L	0 0 1 3
2.3	Corporate Responsive Repairs	Reasonable	C H M L	0 0 0 1
2.4	Industrial Estates	Reasonable	C H M L	0 0 0 2
2.5	Transformation Project Governance	Reasonable	C H M L	0 0 4 1
2.6	Sports Income	Reasonable	C H M L	0 0 5 1
2.7	Taxi's & Private Hire	Reasonable / Limited	C H M L	0 5 7 4

Service / Topic		Assurance level	No of recs	
2.8	General Data Protection Regulations	Limited	C	0
			H	6
			M	6
			L	6

2.1 Constitution - Substantial Assurance

2.1.1 Audit Scope

To provide assurance on the adequacy of the detail within the Constitution to ensure that this meets the legal requirements placed upon the Council and it also meets best practice in documenting the way that the Council is run and its rules and procedures that govern its working practices.

2.1.2 Summary of Findings

The Constitution of the Council was last adopted in its entirety in 2015; one of the major changes was to revise the committee structure following a reduction in the number of members and, subject to statute, allow the Council to determine the number of members per committee. Since this time there have been various amendments to other sections of the Constitution as and when necessary, and these are recorded in Appendix 4 (Change Log) of the Constitution.

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

- The Constitution has been drafted in accordance with the Local Government Act 2000 and other legislation relevant to the subject/part.
- Updates to the Constitution (within the testing sample) were recorded in the change log and were presented to members for approval where required.
- The Constitution is available to staff and the public via the Council's intranet and internet.
- The rules of the Constitution (within the testing sample) have been complied with.

Scope for improvement was however identified in the following areas:

- The interval period for the review of the entire Constitution should be determined.
- It would be useful to include in the change log, the name/position of the officer authorising the change if it is a minor amendment not requiring committee approval, or the committee date.

2.2 Treasury Management – Substantial Assurance

2.2.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls regarding the treasury management service which takes out loans and places investments as appropriate to ensure best use of the Council's financial resources. Also to ensure that appropriate measures are in place to comply with the guidance in the CIPFA Prudential Code, and that relevant reports regarding compliance with the code are made to members and management as necessary.

2.2.2 Summary of Findings

The Council's treasury management function ensures that cash flow is planned to meet the needs of the Council on a daily basis. The Council has adopted a low risk approach to investing funds and therefore prioritises security and liquidity above returns, investing only in products which meet its approved policy criteria. During 2018/19 the Council received £757,604 in income from investment activities. Loan interest paid during 2018/19 was £1,958,542.

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

- There is a good segregation of duties in place which ensures authorisation controls are working effectively and helps to strengthen officer resilience;
- The audit trail of investment decisions, payments, transfers and authorisations are well maintained;
- Investment decisions are taken in accordance with the approved investment policy in place; and
- Treasury Management roles and responsibilities are working effectively.

Scope for improvement was however identified in the following areas:

- There is a need to update and re-introduce the Treasury Management Practices (TMPs) document in accordance with the Treasury Management Code and introduce some operational procedure notes to support the TMPs; and
- The Constitution should be amended to reflect a recent change to the Treasury Management Code (2017) which allows the Cabinet to approve and monitor treasury management activities as opposed to Full Council.

2.3 Corporate Responsive Repairs – Reasonable Assurance

2.3.1 Audit Scope

To ensure that the responsive corporate repairs service is sufficient to meet the Council's requirements that its corporate buildings are kept in a good state of repair and safe condition for use by its staff, Councillors and visitors.

2.3.2 Summary of Findings

The Corporate Responsive Repairs Service was brought back in house in July 2016. The team currently consists of six Maintenance Officers whose workload is managed by the Building Surveyor. External contractors are still required for specialist and more technical work. The service is managed as best possible within the limits of existing system capabilities and staff resources.

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

- There are various formal and informal methods available for reporting the need for a repair.
- Allocated repair work is recorded on a central spreadsheet which includes the responsible officer and the request date.
- Creditor invoices are matched to orders raised in the Badger system.
- Budget monitoring is carried out on a monthly basis.

Scope for improvement was however identified in the following areas:

- The audit has highlighted and recognised the need for better systems and technology to improve the current administrative processes. However no audit recommendations in relation to this have been made; as system requirements have been identified by the Operations Manager and a solution is intended to be provided within the digital transformation plan.
- One minor recommendation to record and monitor repair completion times for information purposes and future service improvements has been made.

2.4 Industrial Estates – Reasonable Assurance

2.4.1 Audit Scope

To ensure that the procedures and internal controls regarding Industrial Estates are sufficient to provide an effective and efficient management service to the Council in respect of the timely letting of units, management administration and the collection of income due.

2.4.2 Summary of Findings

The Estates and Assets Team manages the letting of Council owned industrial units situated at Mountfield Road and Learoyd Road, New Romney. The Council owned properties are currently split into twelve units at Mountfield Road and six units at Learoyd Road. Of these fifteen are currently occupied by private tenants and three by internal Council sections. At the time of the review none were vacant.

Rental income for the fifteen externally occupied industrial units is currently being charged at £82,840 per annum.

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

- An up to date asset register and tenancy schedule is maintained
- For all tenants a current lease agreement is in place.
- Rent reviews have been appropriate and timely.
- Debts are monitored on a monthly basis.

Scope for improvement was however identified in the following areas:

- Site inspections to prevent dilapidation and misuse should be undertaken on a more regular basis.
- Tenants should be required to provide proof of their public liability insurance when they take out a Council tenancy.

2.5 Transformation Project Governance – Reasonable Assurance

2.5.1 Audit Scope

To provide assurance that the Transformation Project is being undertaken in a controlled objective manner to enable the intended improvements to be made to the Council's services to be achieved.

2.5.2 Summary of Findings

The Transformation Project was officially approved by Management Team and then Cabinet and Council in February 2018

The Transformation Project objectives are to undertake a holistic approach looking at opportunities across the Authority to support the Council's Strategic Priorities, and deliver the 3 key aims which have become known as the 3+1:

- Improved customer service
- Improved resilience
- Improved efficiency and
- Financial savings

This is to be assisted by the use of cutting edge technology to streamline processes and reduce manual intervention by officers.

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

- There was formal approval received from management and Members for the project.
- A formal business plan was drawn up to guide the project.
- Reporting and monitoring is being undertaken regarding the project by management (Transformation Executive Board) and Executive Members (Informal Cabinet).
- Officers are being kept appraised and informed of the progress of the project via staff briefings and email.

Scope for improvement was however identified in the following areas:

- There should be a refresh of the governance arrangements as the original intentions have since evolved.
- Formal reports should be produced for Cabinet and Overview & Scrutiny committee, even if these are only annual updates.

2.6 Sports Income – Reasonable Assurance

2.6.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that all income for the Council's sporting facilities, such as tennis, pitch and putt and football pitches are properly approved, correctly billed and received, promptly banked and accurately recorded in the Council's financial accounts.

2.6.2 Summary of Findings

The Grounds Maintenance Team maintains the Council's sports facilities in the district for use by the general public. These include football pitches, cricket grounds, lawn tennis, pitch and putt and bowling greens.

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

- Sound procedures are in place for the booking of facilities to non-account holders.
- Income from East Cliff sports facilities is being banked on the day of collection from site; and the on-site safe insurance limit is not being exceeded.
- Regular budget monitoring is being undertaken.

Scope for improvement was however identified in the following areas:

- Invoices to account holders are not being raised at the time of the bookings being made, invoices for the use of facilities in the period January – February 2019 were not

raised until March/April; and invoices for the period March – May 2019 were not raised until July.

- Family concession tickets offered at East Cliff have not been approved.
- The continued use of facilities by parties with outstanding debts for the previous period is being permitted.

2.7 Taxis & Private Hire – Reasonable / Limited Assurance

2.7.1 Audit Scope

To ensure that the administration of hackney carriage and taxi licence holders complies with the Council's policies and relevant legislation. This to include the application and approval process, monitoring of existing drivers and vehicles, the renewal process and that information is accurately documented. All income should be efficiently received, reconciled and monitored.

2.7.2 Summary of Findings

The Council is responsible for administering and 'policing' Taxi and Private Hire Vehicle (PHV), Driver and Operator licences under the Town Police Clauses Act 1847 and the Local Government (Miscellaneous Provisions) Act 1976.

The legislation provides a broad framework for the licensing of drivers, vehicles and operators but the detail of how this is done, including standards and conditions, is the responsibility of the individual 'licensing authorities'. There are a number of other Acts which also have an impact; for example the Equalities Act 2010, which places a duty on councils to take steps to meet the needs of disabled people where these are different from the needs of other people, and enables regulations to improve disabled access to taxis.

Legislation states that the administration of taxi licences must be cost-neutral and any surplus/deficits resulting from taxi licence income should be ring-fenced and the budget balanced accordingly. Under Department for Transport (DFT) Taxi and PH Licensing best practice guidance it stipulates that the '*The aim of local authority licensing of the taxi and PHV trades is to protect the public*'. Therefore the Council should design the service fees to meet local demand balanced against the requirement to protect members of the public whilst remaining cost-neutral.

At the date of this audit there were 195 hackney carriage licences, 85 private hire vehicle licences, 325 driver licences and 56 operator licences in issue within the district.

It has been necessary to split the assurance for the function which concludes that management can place Reasonable Assurance on the system of internal controls for the administration of taxi licences but Limited Assurance on the controls over the financial management and GDPR issues.

Effective control was evidenced in the following areas:

- Licence fees are correctly published.
- Appropriate checks are made on individuals applying for licences with supporting evidence being retained.
- Payments are received in advance, and adequately recorded.
- Refunds are appropriately authorised.
- A Taxi Licence handbook is available, although this is in need of updating.

The primary findings giving rise to this partial Limited Assurance opinion are:

- The legal requirement to ring-fence taxi income surplus/deficits at the end of each financial year for re-investment or offset in taxi licensing fees is not being complied with.
- Taxi licence fees have been simply uplifted by inflation, a more focused review cost per unit exercise has not been carried out for some time.
- Staff are undertaking what compliance monitoring, testing and enforcement work they can however there is a risk that drivers could potentially be operating with expired or suspended licences or damaged cars.
- Income and expenditure for DBS checks does not balance as would be expected, requiring further explanation
- Documentation detailing personal and sensitive personal data is currently being retained indefinitely, which is not in accordance with data protection legislation.

Management Comment –

The Environmental Health and Licensing Team Leader has met with Internal Audit and completed the management action plan in response to the audit findings.

The audit report has identified that improvements are needed in fee calculation to ensure that the service operates on a cost-neutral basis. The relevant officer has discussed with Finance about how best this can be achieved.

The data management issues related to document retention will be resolved when systems are replaced that allow for easier automated deletion. (Assistant Director – Governance, Law & Regulatory Services)

2.8 General Data Protection Regulations – Limited Assurance

2.8.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council creates, holds, and maintains personal information about living individuals in accordance with the requirements of the GDPR and deals with subject access requests and information sharing requests in accordance with the Act and the authenticity, reliability, integrity and usability of the organisation's records is adequately maintained.

2.8.2 Summary of Findings

The General Data Protection Regulation (GDPR) came into force on 25 May 2018. The GDPR (EU) 2016/679 is a regulation in EU law on data protection and privacy for all individuals within the European Union (EU) and the European Economic Area (EEA). The GDPR aims primarily to give control to citizens and residents over their personal data and to simplify the regulatory environment. It is widely acknowledged that the majority or risk lies with people and processes, systems, contracts and governance.

The regulation replaced the current Data Protection Act 1998, but sits alongside the Data Protection Act (DPA) 2018, which performs three main functions:

- It fills in the gaps that have (intentionally) been left in GDPR to give each member state some leeway in implementation.

- It extends and clarifies how data protection laws apply to certain broad areas that are excluded from GDPR and are left to each member state, such as immigration, intelligence and law enforcement.
- It sets out the detailed provisions needed for the funding and functioning of the UK's data protection regulator - the Information Commissioner's Office (ICO). For example, it covers the ICO's duties, functions and powers, plus the enforcement provisions.

The DPA 2018 therefore sits alongside the GDPR consequently when considering your data protection duties, both the GDPR and the new DPA 2018 will have to be consulted.

The GDPR places greater emphasis on the documentation that data controllers must keep to demonstrate their accountability. It is vital that the Council's policies, processes and records evidence that the Council has robust systems of governance in order to comply with the EU General Data Protection Regulations (GDPR) and the UK Data Protection.

This audit focuses on compliance with GDPR and the mechanisms in place to manage the key risks to the Council. The Council made significant effort to ensure that the basic requirements of the GDPR were in place by its effective date. These arrangements and records are now to be built on to strengthen the governance around data management.

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

- There is a positive culture within the Council to apply effective data management and GDPR compliance processes.
- Where data breaches are identified they are promptly investigated, resolved and preventative action taken where necessary; with reports being made to the Information Commissioners Office where necessary.
- Processes are in place to deal with Subject Access Requests.
- Improvements to information governance are continually considered with officers taking proactive actions.

Scope for improvement was identified in the following areas:

- The Data Protection Officer (DPO) is aware of the improvements that are required to strengthen the Council's data management processes and evidence of effective data governance and is working towards this. However these outstanding tasks should be formally documented in an action plan so that progress towards implementation can be effectively monitored and reported on.
- The gaps in information and lack of detail in the information recorded in the Information Asset Register must be addressed to ensure that all personal data being collated is identified, categorised, risk assessed and is accurate and up to date.
- As part of the Information Asset Register update processes, it must be established whether all section specific privacy notices are in place and meet legislation requirements.
- A central record of all section specific privacy notices should be maintained.

Management Comment –

Work is being carried out on the recommendations of the Audit report. Relevant policies and procedures are being updated and reviewed in order to meet the obligations of GDPR and address the points raised in the Audit report. (Assistant Director – Governance, Law & Regulatory Services.)

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS

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

3.2

Service / Topic	Original Assurance level	Revised Assurance level	Original recs	Outstanding recs
BOSCO	Substantial	Substantial	C 0 H 0 M 1 L 0	C 0 H 0 M 0 L 0
Council Tax	Substantial	Substantial	C 0 H 0 M 2 L 0	C 0 H 0 M 0 L 0
Housing Benefit Admin & Assessment	Substantial	Substantial	C 0 H 0 M 2 L 0	C 0 H 0 M 0 L 0
Risk Management	N/A	Substantial	C 0 H 4 M 4 L 0	C 0 H 0 M 0 L 0
East Kent Housing – Tenant Health & Safety (Gas Safety)	Limited	Substantial	C 1 H 1 M 0 L 0	C 0 H 0 M 0 L 0
East Kent Housing – Tenant health & Safety (Legionella)	No	Reasonable	C 1 H 0 M 0 L 0	C 0 H 0 M 0 L 0

3.3 Details of any individual Critical and High priority recommendations still to be implemented at the time of follow-up are included at Appendix 1 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they would be 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: Council Tax Reduction Scheme; Otterpool Park Governance; Employee Allowances & Expenses; EKH Rents; EKH Performance Management; EKH Repairs & Maintenance.

5.0 CHANGES TO THE AGREED AUDIT PLAN

- 5.1 The 2019/20 audit plan was agreed by Members at the meeting of the Audit & Governance Committee on 5th March 2019.
- 5.2 The Head of the Audit Partnership meets on a regular basis with the Section 151 Officer or their deputy 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 3.

6.0 FRAUD AND CORRUPTION

There are currently no reported incidents of fraud or corruption being investigated by EKAP.

7.0 INTERNAL AUDIT PERFORMANCE

- 7.1 For the period ended 30th September 2019, 164.45 chargeable days were delivered against the planned target of 361.38 days, (including 46.38 days that were carried over from the previous year) which equates to achievement of 46% of the original planned number of days.
- 7.2 The financial performance of the EKAP for 2019/20 is on target for Folkestone & Hythe District Council.

Attachments

- Appendix 1 Summary of high priority recommendations outstanding or in progress after follow up
- Appendix 2 Summary of services with limited / no assurances.
- Appendix 3 Progress to 30th September 2019 against the agreed 2019/20 Audit plan.
- Appendix 4 Balanced Scorecard of performance indicators to 30th September 2019
- Appendix 5 Assurance Statements.

SUMMARY OF CRITICAL /HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AFTER FOLLOW-UP – APPENDIX 1		
Original Recommendation	Agreed Management Action, Responsibility and Target Date	Manager’s Comment on Progress Towards Implementation.
None		

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED			
Service	Reported to Committee	Level of Assurance	Follow-up Action Due
East Kent Housing – Tenancy & Right to Buy Fraud	March 2019	Limited	Quarter 3
East Kent Housing – Tenant’s Health & Safety	September 2019	Limited / No	Quarter 3

PROGRESS AGAINST THE AGREED F&HDC AUDIT PLAN 2019/20

Review	Original Planned Days	Revised Planned Days	Actual - 30/09/2019	Status and Assurance level
FINANCIAL SYSTEMS				
Bank Reconciliation	10	10		Quarter 3
Business Rates	10	10		Quarter 3
Council Tax Reduction Scheme	10	10	5.04	Work in progress
Insurance	10	0		Deferred to 2020/21
Treasury Management	10	10	10.70	Finalised - Substantial
HOUSING SYSTEMS				
Housing Allocations	10	10	0.04	Quarter 3
ICT SYSTEMS				
ICT review	10	10		Quarter 4
HUMAN RESOURCES SYSTEMS				
Employee Allowances & Expenses	10	10	0.07	Quarter 3
GOVERNANCE RELATED				
Financial Procedures Rules	10	10	10.16	Finalised - Reasonable
Constitution	10	10	9.88	Finalised – Substantial
Counter Fraud Arrangements	2	2	0.24	Work in progress
Oportunitas Governance	10	10		Quarter 3
SERVICE LEVEL				
E-Procurement & Purchase Cards	10	10	0.14	Quarter 3
Corporate Responsive Repairs	10	10	10.54	Finalised - Reasonable
Enforcement	10	10	0.62	Quarter 3
Engineers	10	10		Quarter 4
Grounds Maintenance	10	10		Quarter 4
Industrial Estates	10	10	6.16	Work in progress
Land Charges	10	10	0.20	Quarter 4
Licensing	10	10	1.57	Quarter 4
Lifeline	10	10		Quarter 3
Security of the Civic Centre	8	10	10.43	Finalised - Reasonable
Special Projects 2018/19	10	27	29.69	Finalised – N/A
Sports Income	8	10	10.28	Finalised - Reasonable
Taxi's & Private Hire	10	10	10.32	Finalised – Reasonable/Limited

Review	Original Planned Days	Revised Planned Days	Actual - 30/09/2019	Status and Assurance level
Folkestone Community Works Grant	8	10	0.08	Quarter 4
Waste Management	10	10	0.84	Quarter 4
OTHER				
Committee reports & meetings	10	10	9.43	Ongoing
S151 meetings & support	11	11	5.69	Ongoing
Corporate advice / CMT	2	3	0.54	Ongoing
Liaison with External Audit	1	1	0.14	Ongoing
Audit plan prep & meetings	10	10	3.96	Ongoing
Follow Up Reviews	15	15	3.85	Ongoing
Election duties		4	3.68	Completed – N/A
FINALISATION OF 2018-19 AUDITS				
Days under delivered in 2018/19	46.38			Allocated as required
Finalise 2018/19 audits				Allocated below
Transformation Governance			3.63	Finalised - Reasonable
GDPR			13.59	Finalised - Limited
Creditors			0.61	Finalised – Substantial / Reasonable
Otterpool Governance			2.33	Work in progress
Business Continuity				Quarter 4
Total	361.38	361.38	164.45	46% complete as at 30/09/2019

EAST KENT HOUSING LIMITED:

Review	Original Planned Days	Revised Planned Days	Actual - 30/09/2019	Status and Assurance Level
Planned Work:				
CMT/Audit Sub Ctte/EA Liaison	4	4	8.12	Work-in-progress throughout 2019-20
Follow-up Reviews	4	4	5.82	Work-in-progress throughout 2019-20
Rent Accounting, Collection & Debt Mngmt.	40	40	18.61	Work in progress
Rechargeable Works	10	10	0	Quarter 3
Tenants' Health & Safety	15	15	21.89	Finalised - Ltd-No
Customer Contact	12	12	0	Quarter 4
East Kent Housing Improvement Plan	10	10	0	Quarter 3
Estate Management Inspection	15	15	0	Quarter 3
Anti-Social Behaviour	15	15	0	Quarter 4
Employee Health, Safety & Welfare	15	15	1.03	Work in progress
Finalisation of 2018-19 Work-in-Progress:				
Days under delivered in 2018-19	0	19.50		Allocated
Staff Performance Management			4.93	Work-in-Progress
Welfare Reform			7.14	Work-in-Progress
Repairs & Maintenance			34.38	Work-in-Progress
Service Level Agreements			0.97	Finalised
Total	140	159.50	102.89	64.51% as at 30/09/2019



BALANCED SCORECARD

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2019-20 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2019-20 Actual</u>	<u>Original Budget</u>
	Quarter 2		Reported Annually		
Chargeable as % of available days	88%	80%	• Cost per Audit Day	£	£332.50
Chargeable days as % of planned days			• Direct Costs	£	£428,375
CCC	40.97%	50%	• + Indirect Costs (Recharges from Host)	£	£10,530
DDC	40.73%	50%			
F&HDC	45.50%	50%	• - 'Unplanned Income'	£	Zero
TDC	44.85%	50%			
EKS	39.88%	50%	• = Net EKAP cost (all Partners)	£	£438,905
EKH	64.51%	50%			
Overall	45.35%	50%			
Follow up/ Progress Reviews;					
• Issued	18	-			
• Not yet due	20	-			
• Now due for Follow Up	25	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Full			

<u>CUSTOMER PERSPECTIVE:</u>	<u>2019-20 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2019-20 Actual</u>	<u>Target</u>
	Quarter 2		Quarter 3		
Number of Satisfaction Questionnaires Issued;	31		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	13		Percentage of staff holding a relevant higher level qualification	36%	36%
	= 42%		Percentage of staff studying for a relevant professional qualification	14%	N/A
Percentage of Customers who felt that;			Number of days technical training per FTE	1.14	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)	36%	36%
	100%	90%			
	100%	100%			

Definition of Audit Assurance Statements & Recommendation Priorities

Assurance Statements:

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

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

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

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

Priority of Recommendations Definitions:

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

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

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

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This Report will be made public on 26 November 2019



Report Number **AuG/19/14**

To: AUDIT AND GOVERNANCE COMMITTEE

Date: 4 December 2019

Status: Non – executive decision

Responsible Officer: Tim Madden Corporate Director for Customer, Support, and Specialist Services

SUBJECT: CIPFA'S PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES AND POLICE, 2018 EDITION

SUMMARY: CIPFA'S practical guidance for local authorities and police, 2018 edition is set out. Certain actions are recommended and members' instructions are sought on the possibility of appointing an independent member to the committee.

RECOMMENDATIONS:

1. To receive and note report AuG/19/14
2. To consider the self – assessment -appendix 2
3. To consider whether to recommend to Council the appointment of an independent member to the committee
4. If the committee does make a recommendation to Council to appoint an independent member and that recommendation is accepted to authorise the Corporate Director in consultation with the chairman of the Audit and Governance Committee to draw up a person specification and to advertise the position.

1. BACKGROUND

- 1.1 CIPFA's Publication - Practical Guidance for Local Authorities and Police, 2018 Edition sets out its guidance on the function and operation of audit committees in local authorities and police bodies and represents CIPFA's view of best practice for audit committees in local authorities throughout the UK and for police audit committees in England and Wales. This publication incorporates CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2018) ("the position Statement" – attached at Appendix 1) which sets out CIPFA's view of the role and functions of an audit committee and replaces the previous 2013 Position Statement.
- 1.2 Audit committees are a key component of an authority's governance framework and provide an independent and high level resource to support good governance and strong public financial management.
- 1.3 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit, it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 1.4 As a key component of an organisation's governance arrangements, the audit committee has the potential to be a valuable resource to the whole authority. Where they operate effectively, audit committees can add value by supporting improvement across a range of objectives including:
 - a. promoting the principle of good governance and their application to decision making;
 - b. raising awareness of the need for sound internal control as well as contributing to the development of an effective control environment;
 - c. supporting the establishment of arrangements for the governance and the management of risk;
 - d. advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively;
 - e. reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions;
 - f. supporting the development of robust arrangements for ensuring value for money; and
 - g. helping the authority to implement the values of ethical governance including effective arrangements for countering risks of fraud and corruption

2. KEY CHANGES IN THE PRACTICAL GUIDANCE

- 2.1 As stated above the last edition of the guidance was published in 2013. The revised and updated 2018 edition takes into account the development of audit committees since the original edition as well as incorporating the legislative changes that have affected the sector since 2013. It includes additional guidance and resources to support those acting as audit committee members in local authorities and those working with and supporting the committee's development.
- 2.2 The key changes contained within CIPFA's latest guidance relate to the following areas:
- a. inclusion of an independent member on the Committee;
 - b. additional guidance on how the Committee can oversee independence, objectivity and performance of Internal Audit and support the effectiveness of the internal audit process;
 - c. additional guidance on how the committee can support independence of the external auditor and monitor the external audit process.
- 2.3 CIPFA's latest guidance has also made some additions to the suggested terms of reference for Audit Committees. These relate to the role of the Committee in relation to:
- a. reviewing the governance and assurance arrangements for significant partnerships or collaborations;
 - b. considering any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Head of Internal Audit and to approve and periodically review safeguards to limit such impairments;
 - c. providing free and unfettered access to the Audit Committee chair for the Head of Internal Audit, including the opportunity for a private meeting with the Committee;
 - d. supporting the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by Public Sector Audit Appointments (PSAA) and;
 - e. publishing an annual report on the work of the Committee.

3. SELF-ASSESSMENT OF GOOD PRACTICE & EVALUATION OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE

- 3.1 CIPFA states that a good standard of performance against recommended practice together with a knowledgeable and experienced membership are essential requirements for delivering effectiveness. To this effect, CIPFA has provided a high level review checklist that incorporates the key principles set out in CIPFA's Position Statement: Audit Committees in Local Authorities and Police. The latest guidance includes some additional good practice questions to the previous CIPFA checklist (2013 edition). This checklist can be used to undertake a regular self-assessment to support the planning of Audit Committee work programmes and training plans. This self – assessment checklist is contained in appendix D of the guidance.
- 3.2 A self – assessment against the checklist is appended (2) together with a list of proposed actions for members' approval. Members' views are however sought on the question of whether or not to recommend the appointment of an independent member to the committee.

4. POSSIBLE APPOINTMENT OF INDEPENDENT MEMBER

- 4.1 The guidance in chapter 7 recommends that “those authorities, for whom it is not a requirement, actively explore the appointment of an independent member to the committee.”
- 4.2 An independent member would not be able to vote on matters where the committee makes a decision but will where it makes recommendations. Consequently where a recommendation is being made to council then the independent member would have a vote. This would include also non – audit functions e.g. some standards matters and as presently constituted recommendations on the Council's constitution.
- 4.3 The guidance has this to say about independent members:-

Good practice shows that co-option of independent members is beneficial to the audit committee. It is a requirement for police audit committees, English combined authorities and for local authorities in Wales, and it is usual practice for non-executives to be committee members in health and central government audit committees. The injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:

- to bring additional knowledge and expertise to the committee
- to reinforce the political neutrality and independence of the committee
- to maintain continuity of committee membership where membership is affected by the electoral cycle.

There are some potential pitfalls to the use of independent members which should also be borne in mind:

- over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee

- lack of organisational knowledge or ‘context’ among the independent members when considering risk registers or audit reports
 - effort is required from both independent members and officers/staff to establish an effective working relationship and establish appropriate protocols for briefings and access to information
- 4.4 Members are asked to decide whether they wish to recommend that an independent member is appointed to the committee. If the committee does decide to make such a recommendation and if the Council accepts it, delegated authority is sought for the Corporate Director for Customer, Support, and Specialist Services in consultation with the chairman to draw up a person specification and to advertise the position. It is envisaged that the appointment would be until the end of the current council (i.e. May 2023).

5. RISK MANAGEMENT ISSUES

- 5.1 There are no significant risk management issues to consider as part of this report other than those identified within the report.

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 Legal Officer’s Comments (AK)

The general power in section 102 of the Local Government Act 1972 to appoint a Committee includes the power to appoint persons to that committee who are not members of the Council. However, by virtue of section 13 of the Local Government and Housing Act 1989 co-opted members are treated as non-voting members unless the committee is acting in an advisory capacity.

6.2 Finance Officer’s Comments (TM)

There are no immediate financial implications arising out of this report. However, if an independent member is appointed, an allowance will need to be paid

6.3 Diversities and Equalities Implications (TM)

There are no implications arising out of this report.

7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Tim Madden Corporate Director for Customer, Support, and Specialist Services

Telephone: 01303 853371

Email: tim.madden@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

CIPFA's Practical Guidance for Local Authorities and Police 2018 Edition

Appendices:

Appendix 1: CIPFA's Position Statement: Audit Committees in Local Authorities and Police

Appendix 2 Self-assessment of Good Practice

CIPFA's Position Statement: Audit Committees in Local Authorities and Police

The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities.

- 1** Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 2** The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3** Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
 - act as the principal non-executive, advisory function supporting those charged with governance
 - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
 - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
 - be directly accountable to the authority's governing body or the PCC and chief constable.
- 4** The core functions of an audit committee are to:
 - be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
 - in relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism

- support the effectiveness of the internal audit process
 - promote the effective use of internal audit within the assurance framework
 - consider the effectiveness of the authority’s risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
 - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority’s exposure to the risks of fraud and corruption
 - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
 - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
 - review the financial statements, external auditor’s opinion and reports to members, and monitor management action in response to the issues raised by external audit.
- 5 An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
 - working with local standards and ethics committees to support ethical values
 - reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
 - providing oversight of other public reports, such as the annual report.
- 6 Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
 - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
 - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
 - promoting apolitical open discussion
 - managing meetings to cover all business and encouraging a candid approach from all participants
 - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
 - unbiased attitudes – treating auditors, the executive and management fairly

- the ability to challenge the executive and senior managers when required.
- 7 To discharge its responsibilities effectively the committee should:
- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
 - be able to meet privately and separately with the external auditor and with the head of internal audit
 - include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
 - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
 - report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

Additional guidance to support those acting as audit committee members in local authorities can be found in CIPFA's publication *Audit Committees: Practical Guidance for Local Authorities and Police* (2018), available from www.cipfa.org.uk/publications

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Appendix 2

Self-assessment of Good Practice

Good practice question	Yes	Partly	No	Action
Audit committee purpose and governance				
1 Does the authority have a dedicated audit committee?	✓			
2 Does the audit committee report directly to full council? (Applicable to local government only.)	✓			
3 Do the terms of reference (ToR) clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	✓			
4 Is the role and purpose of the audit committee understood and accepted across the authority?		✓		
5 Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓			
6 Are the arrangements to hold the committee to account for its performance operating satisfactorily?	✓			Annual report presented to Council
Functions of the committee				
7 Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?		✓		Terms of reference to be considered as part of wider governance arrangement review
<ul style="list-style-type: none"> • Good governance 		✓		Inferred but not specifically mentioned
<ul style="list-style-type: none"> • assurance framework, including partnerships and collaboration arrangements 		✓		Currently incorporated within the Annual Governance Statement
<ul style="list-style-type: none"> • internal audit 	✓			
<ul style="list-style-type: none"> • External audit 	✓			
<ul style="list-style-type: none"> • Financial reporting 	✓			
<ul style="list-style-type: none"> • Risk management 	✓			
<ul style="list-style-type: none"> • Value for money or best value 	✓			

<ul style="list-style-type: none"> Counter fraud and corruption 	✓			
Supporting the ethical framework				
8. Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	✓			
9 Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?		✓		To be considered at this meeting
10 Where coverage of core areas has been found to be limited, are plans in place to address this?	✓			
11 Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?			✓	Constitution section 2.1.4 includes miscellaneous no executive functions
Membership and support				
12 Has an effective audit committee structure and composition of the committee been selected? This should include: <ul style="list-style-type: none"> separation from the executive an appropriate mix of knowledge and skills among the membership a size of committee that is not unwieldy consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement) 	✓ ✓ ✓		✓	

13 Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council?			✓	Dependant on outcome of discussion
14 Does the chair of the committee have appropriate knowledge and skills?	✓			
15 Are arrangements in place to support the committee with briefings and training?	✓			
16 Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			✓	
17 Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓			
18 Is adequate secretariat and administrative support to the committee provided?	✓			
Effectiveness of the Committee				
19 Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	✓			
20 Are meetings effective with a good level of discussion and engagement from all the members?	✓			
21 Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	✓			
22. Does the committee make recommendations for the improvement of governance,	✓			

risk and control and are these act on?				
23. Has the committee evaluated whether and how it is adding value to the organisation?	✓			
24 Does the committee have an action plan to improve any areas of weakness?			✓	
25 Does the committee publish an annual report to account for its performance and explain its work?	✓			

This Report will be made
Public on 26 November
2019

Report Number **AUG/19/16**

To: Audit & Governance Committee
Date: 4 December 2019
Status: Non key decision
Head of service: Charlotte Spendley, Assistant Director – Finance,
Strategy & Support Services
Cabinet Member: Cllr David Monk, Leader of the Council

SUBJECT: REVIEW OF CORPORATE RISK REGISTER

SUMMARY: This report provides an update to the Corporate Risk Register.

REASONS FOR RECOMMENDATIONS:

It is essential that the Committee regularly review the Risk Register to consider progress made against agreed actions, and consider the key risks faced by the organisation.

RECOMMENDATIONS:

1. To receive and note Report AuG/19/16.
2. To receive and note the updated Corporate Risk Register.

1. BACKGROUND

- 1.1 The Risk Management Policy and Strategy was updated and considered by this committee in September.
- 1.2 Effective risk management is a key framework in the management of a complex organisation such as Folkestone & Hythe District Council. The strategy seeks to provide Members and officers with a clear framework by which to work within, as well support the development of a risk management culture within the Council.

3. UPDATE TO CORPORATE RISK REGISTER

- 2.1 The updated Corporate Risk Register has been appended in full to this report (Appendix 1). For ease of reference the changes to the Risk Register have been highlighted in red. Additionally the Risk Matrix, which is a pictorial snapshot of the current level of risks faced by the Council is available within Appendix 2.
- 2.2 The current Corporate Risk Register identifies 13 risks, which can be categorised as 1 low level risks, 3 moderate and 7 high and 2 extreme level risk (previously 1 low level risks, 4 moderate and 5 high and 3 extreme level)
- 2.3 The key changes made include:
 - C2 – Shortage of skills to deliver new agenda, the impact score has been decreased from significant (3) to moderate (2) resulting in an overall risk score of 4 (low level risk). The recent pay deal and recruitment undertaken have indicated and supported a reduction in the size of this risk to the organisation.
 - C5 – Brexit / Wider Market Conditions, the likelihood score has been decreased from likely (3) to unlikely (2) resulting in an overall score of 8 (high level risk). This reflects the work that has been undertaken both in terms of tender preparation and also in Brexit Planning, as well as the delay to Brexit at this time.
 - C6 – Capacity to deliver competing demands, the likelihood score has been increased to likely (3) along with the impact score being increased to significant (3) resulting in an overall score of 9 (high level risk). This reflects the emerging wider agenda of the Council and recent motions passed.
 - C11 – Reputational Risks, the likelihood score has been decreased from very likely (4) to likely (3), resulting in an overall score of 9 (high level risk). This reflects the reputational risks being managed via a number of control mechanisms in place monitored by officers and members.

3. SUMMARY & NEXT STEPS

- 3.1 The Risk register will continue to be monitored, and will be updated and reported to the next Audit & Governance Committee in March. The Risk Register should be a fluid document that will see risks be rescored often to reflect current circumstances.
- 3.2 There are a number of changes both in terms of scoring and in actions that reflect the work ongoing in respect of the identified risks for the organisation.

4. RISK MANAGEMENT ISSUES

4.1

Perceived risk	Seriousness	Likelihood	Preventative action
Failure to have a current Risk Management Policy & Strategy in place will cause inconsistencies in approach across the Council	High	Low	Policy & Strategy document is in place, relevant officers consulted, and organization wide training delivered. Work is ongoing to ensure all aspects risk are managed in line with the framework.
Failure to manage risks effectively could affect the Councils ability to deliver effectively on its Corporate Plan objectives, impact upon its deployment of resources or impact upon its reputation	High	Low	An up to date strategy framework is in place, training delivered and regular reporting occurring to both CLT and Audit & Governance Committee. CLT have also given a commitment to continue to develop the attitude towards Risk Management within the organisation.

5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

Legal Officer's Comments (AK)

There are no legal implications arising directly from this report

Finance Officer's Comments (CS)

There are no direct financial implications of this report.

Diversities and Equalities Implications (CS)

There are no direct implications of this report.

6. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Charlotte Spendley, Assistant Director – Finance, Strategy & Support Services

Telephone: 07935 517986

Email: charlotte.spendley@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

Appendices:

Appendix 1: Corporate Risk Register

Appendix 2: Risk Matrix

Corporate Risk Register

Risk ID	Risk Name	Risk Owner	Risk Description & Triggers	Actions in place	Pre-mitigation Score			Mitigation scheme (Tolerate, Treat, Transfer, Terminate)	Proposed Actions	Timeframe	Post mitigation Score		
					Likelihood	Impact	Total				Likelihood	Impact	Total
C1	Organisational Instability	Susan Priest (HoPS); Cllr David Monk (Leader)	High levels of staff turnover & loss of professional/organisational expertise in some key roles. Changes in political make-up of the Council, greater political complexity.	Corporate Communications and Engagement Strategy adopted. Staff Survey indicates improved morale. Phase 1 implemented on 19/11/19, early indications are positive. New Member training has been concluded. Corporate Plan Working Group established and have met twice to progress future Corporate Plan.	3	3	9	Treat	Training matrix being developed for all Phase 1 staff. Lessons learnt to be captured from Phase 1 transformation to inform Phase 2. Phase 2 planning underway, due to consult in January. Group Leaders to consult with Group Councillors regarding future Corporate Plan.	January 20 & ongoing	2	2	4
C2	Shortage of skills to deliver new agenda	Susan Priest (HoPS); Cllr David Monk (Leader)	Geographical location restricts available pool; recruitment difficulties (terms & conditions); shortage of specialist skills including project management, insight, business case preparation and evaluation, commercial appraisal. Emerging skills required at a time many organisations are looking due to national / international issues (such as Brexit Emergency Planning & Climate Emergency)	Alternative staff incentives on offer such as flexible working, F&H Rewards. Significant (£450k over 2 financial years) training provision made available. Pay agreement has secured improved terms for existing and new staff. Currently key roles such as Climate Emergency, Brexit role and Case Team Leaders have been successfully recruited to.	2	2	4	Treat	Transformation and ICT implementation plans to identify training programmes for skills gap within team - linking with Learning and Development team; People Strategy to consider alternative recruitment options and how it can support and develop a more 'digital' workforce.	Ongoing	1	2	2
C3	Failure to deliver Otterpool Park development	John Bunnett (Strategic Director); Cllr David Monk (Leader)	Delivery of a Garden Town which will present complex planning issues, financial exposure risks and require new connections to be established with key partners to enable delivery e.g.inward Investment required to facilitate infrastructure	Experienced dedicated Strategic Development projects team with embedded Legal & Financial representation on working group. Work has commenced building connections with Homes England and MHCLG. Legal, Financial and Commercial advisors in place. Financial model has been developed. Cross Party Working Group established. Full Council decision to earmark funds for project to commence. Land acquired to date has an agricultural value. Collaboration agreement with key partner established.	3	3	9	Treat	Continue to engage specialist advice where required. Specific advice has been commissioned to progress Joint Venture feasibility. Funding options will need to be assessed ahead of commencement of delivery of project. Ensure adequate Planning resources and access appropriate specialist advice.	Ongoing	1	3	3

Corporate Risk Register

Risk ID	Risk Name	Risk Owner	Risk Description & Triggers	Actions in place	Pre-mitigation Score			Mitigation scheme (Tolerate, Treat, Transfer, Terminate)	Proposed Actions	Timeframe	Post mitigation Score		
					Likelihood	Impact	Total				Likelihood	Impact	Total
C4	Medium Term Financial Uncertainty	Tim Madden (S151 Officer) Cllr David Monk (Leader)	Fair funding review will fundamentally change LG funding but detail unknown at present. Will need to plan with within climate of uncertainty which may only become clearer close to budget setting time. Lack of certainty on Business Rates Localisation/Retention and other funding streams. Delay announced for 3 year spending review.	Officers regularly attending briefings on future LG funding. Updated MTFS was considered by Cabinet/Council in October and Budget Strategy considered in November. S151 Officer part of Kent wide working group for Business Rates Retention.	3	3	9	Treat	Officers will continue to attend briefings on LG Funding and brief members. Staff and Members to be provided with regular updates on MTFS and assessment of updates to Fair Funding proposals.to address Peer review feedback.	Ongoing	2	2	4
C5	Brexit/Wider Market Conditions	John Bunnett (Strategic Director) & Cllr Wimble (Economy)	Recession. Labour issues (most relevant to Housing Responsive Repairs & Waste contracts). Volatility of housing market (Impact on key Strategic Project delivery). Economic risk to district of Brexit due to key infrastructure links to Europe eg M20/Eurotunnel/Stack. Major disruption to Kent road network. Issues with getting staff to work to carry out essential and statutory services in event of No-Deal Brexit.	Project plans in place for retender of Responsive Repairs & Waste Contracts. Key Strategic Projects modelled with tolerances for market volatility. Attending local and regional contingency planning meetings on Brexit including multi-agency planning days. FHDC working closely with KRF and other stakeholders to ensure plans are effective. Table top exercises have been carried out. Key staff have received tactical and strategic training. Business continuity plans have been updated. All staff mapped for where they live to highlight potential issues. £600k of Brexit funding secured from Central government.	2	4	8	Treat	Await outcome of General Election and clarity on Brexit deal. Meet with key stakeholders at appropriate time once detail understood and impacts can be modelled. Progress with Strategic Projects, ensure market conditions evaluated at full business case appraisal stage. Continue working closely with KRF and other Key Stakeholders. Clear communication through the South East Chief Execs group and central Gov. Attendance / dial in with strategic and tactical meetings as required.	Ongoing	2	4	8
C6	Capacity to deliver competing demands	Susan Priest (HoPS); Cllr David Monk (Leader)	Balance between business as usual activity and aspiration including emerging agendas (including High Streets fund, Climate Change Emergency, Governance Review, Pesticides motion) leading to stretched resource base (staffing & financial).	Cabinet awayday held in July to agree future planning approach. Corporate Plan Working Group established and met twice. Principle of 10 year plan established.	3	3	9	Treat	Corporate Plan Working Group scheduled to meet in January. Group leaders to discuss Corporate Plan objectives with their groups. Further work to be done on public consultation options.	January 20 & Ongoing	2	2	4

Corporate Risk Register

Risk ID	Risk Name	Risk Owner	Risk Description & Triggers	Actions in place	Pre-mitigation Score			Mitigation scheme (Tolerate, Treat, Transfer, Terminate)	Proposed Actions	Timeframe	Post mitigation Score		
					Likelihood	Impact	Total				Likelihood	Impact	Total
C7	Capacity & Financial Resilience of key partners	Susan Priest (HoPS); Cllr J Hollingsbee (Communities); Cllr Godfrey (Housing)	Pressures faced by many public services impact upon our ability and capacity to deliver against Corporate Plan including Police who are key to ASB duties; "Health Matters" links to NHS & GP issues locally, coastal district with natural & historic sites so Appearance matters outcome partially reliant on other agencies. Outsourced Landlord service difficulties (see C13).	Key Strategic Partnerships established including Folkestone & Hythe Community Safety Partnership, Local Childrens Partnership Group and South Kent Coast Health and Wellbeing Board. Corporate Plan and priorities have been agreed with members. Regular close liaison with EKH Chief Executive / Board & joint owners.	3	3	9	Treat	Monitor Corporate Plan delivery plan and appropriate Service Plans against agreed priorities to ensure teams remain focused on agreed input. Protocols established for role of Council with partner organisations. Continued liaison with EKH Chief Executive / Board & Joint Owners, review commissioned & consultation ongoing with tenants on future options for landlord services.	Ongoing	3	1	3
C8	Failure to deliver Transformation change including key components of ICT & People Strategy	Susan Priest (HoPS); Cllr David Monk (Leader), Hollingsbee (Communities) & Cllr Meyers (Digital Transformation & Customer Service)	Transformational change is not delivered by the agreed timescales, to agreed budget, project objectives or fails to make required savings. IT delivered is not customer focused or fit for the future (as well as current requirements). The People Strategy does not deliver cultural change required to support new operating model.	Transformation Board established to track project progress against milestones and budget. IT Strategy agreed and first phase of implementation commenced. ICT implementation work streams monitored by Technology Board exception report to Transformation Board. Digital Strategy agreed. Experienced Project Manager appointed to lead transformation. Implementation timescales for phase 1, 2 & 3 agreed by Transformation Board. Skype for Business & new Customer Contact Centre and Staff Hub ICT in place. Phase 1 launched.	2	3	6	Treat	Phase 2 consultation to commence in January for implementation in Spring. Process redesign underway and to continue throughout 2020, alongside IT Arcus project.	Key milestone ongoing January 20 &	1	3	3
C9	Failure to deliver Strategic Projects due to complexity	John Bunnett (Strategic Director); Cllr David Godfrey (Housing, Transport & Special Projects)	Ambitious Strategic Development projects agenda identified of a complex nature presenting planning risks, financial exposure risks and require new connections to be established with key partners to enable delivery e.g. inward Investment required to facilitate infrastructure	Experienced dedicated Strategic Development projects team. Work has commenced building connections with Homes England and MHCLG with some funding already agreed. Engaging specialist advice where required.	2	3	6	Treat	Stakeholder map to be drafted to identify connections that exist and need to be built. Detailed Business cases to be developed and considered by Cabinet ahead of project commencement. Continue to engage specialist advice where required.	Ongoing	1	3	3

Corporate Risk Register

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					Likelihood	Impact	Total				Likelihood	Impact	Total
C10	Risk of non compliance	Susan Priest (HoPS); Cllr David Monk (Leader)	FHDC operates in a complex regulatory and legislative environment. Risk of challenge over Planning decisions (Secretary of State or Judicial Review) or potential intervention into Core Strategy Review and Places and Policies Local Plan that would delay projects and landlord statutory obligations.	Legal support embedded in project teams for key projects. External Advice sought where required. LGSR arrangements procured and commissioned and service being delivered and monitored. Commission tendered to review the arrangements for resident health and safety and statutory compliance for the council's tenants and leaseholders in East Kent. Procurement exercise undertaken for gas servicing and heating installations contract, with a recommendation to award.	4	4	16	Treat	Continued External Advice sought when required. Use of professional specialists (Legal, Finance, Procurement) in key projects (e.g. Waste Contract, Strategic Development). Review findings and recommendations resultings from the full review into service failures in relation to LGSRs and the wider service failures identified by the work completed by EKAP. Ongoing monitoring and regular reporting to Chief Executive in place for all compliance issues to ensure adequately resourced and being implemented.	Ongoing	1	3	3
C11	Reputational Risks	Susan Priest (HoPS); Cllr David Monk (Leader) & Cllr Meyers (Digital Transformation & Customers)	Failure to deliver key Corporate objectives and Financial plans. Key contracts to deliver (2020/21 Waste & Recycling and Housing Responsive Repairs) risks include procurement challenge, Member agreement to proposals, effective shared working with EK Councils/EKH, financial impact. Reputational risks associated with implementation of Strategic Projects. Customer satisfaction falls during Transformation changes. Risk of partner / service failure, referral / investigation from regulatory body.	Quarterly KPI monitoring and exception reporting to CLT, OSC and Cabinet. Internal Audit reporting quarterly to Audit & Governance. Working Groups established early to progress key contract delivery by agreed timeframes. Procurement expertise on working group with external advice being sought as required. Application for Judicial Review on Princes Parade rejected but is subject to oral appeal.	3	3	9	Treat	Project Governance and oversight of key contracts to be agreed with CLT. Independent review commissioned into LGSR & wider compliance issues.	Ongoing	2	2	4

Corporate Risk Register

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					Likelihood	Impact	Total				Likelihood	Impact	Total
C12	Non-compliance with ESIF regulations for the Folkestone Community Works (FCW) programme	John Bunnett (Strategic Director) & Cllr Wimble (Economy)	FHDC is the accountable body with management responsibilities for the FCW programme. As a result it forward funds approved project spend and recoups quarterly from DWP and MCHLG, as the managing authorities for ESF and ERDF. Any non-compliance could result in financial risk to the council	Indepth scrutiny of ability and systems of project lead organisations to undertake EU compliant projects; FHDC decision panel to scrutinise assessments of lead organisations and projects prior to approval; robust Grant Funding Agreements with project lead organisations; regular quarterly monitoring by the programme management team and oversight by the LAG; LAG to regularly monitor the more detailed operational risk register for the FCW programme	3	2	6	Treat	Ensure that the mechanisms in place to reduce the risk are operationalised by undertaking checks and check that their effectiveness with Managing Authorities during the quarterly claims process	Ongoing	1	2	2
C13	Landlord Service Failure	Susan Priest (HoPS); Cllr David Monk (Leader) & Cllr Godfrey (Housing) & Cllr Collier (Estates & Assets)	The council is a landlord and has tenants in its own buildings, in those owned by Oportunitas, and its social landlord functions are managed by East Kent Housing Ltd, a jointly owned Council company. Significant statutory compliancy issues have been identified with EKH, in addition to issues being identified with contract management within the organisation. The issues present legal & moral issues for the Council in its role as landlord, in addition to potential financial issues, reputational damage. Discharging all landlord functions appropriately is necessary, as is acting immediately to reports of non-compliance across a variety of health and safety issues.	Robust estate and asset management functions for properties managed by the council. Contractual arrangements in place for asset management functions for Oportunitas and EKH. Weekly meetings with partner owner Councils & senior representation from EKH to address reported non-compliance issues. Interim arrangements in place at EKH with contractors to ensure LGSR compliance. Additional senior resource has been identified internally to manage the ongoing work required. Review of all H&S compliance matters commissioned. External legal advice sought.	4	4	16	Treat	On-going review of council landlord functions. Conclusion of EKH review & actions to be agreed. Continue close working with Councils and EKH on matters of non-compliance and Improvement Plan performance. Review findings and recommendations resultings from the full review into service failures in relation to LGSRs and the wider service failures identified by the work completed by EKAP. Review of the current arrangements is currently being undertaken. Future housing service delivery options are currently being consulted upon with tenants and a decision is expected in February 2019. Dependant on decision, arrangements will need to be put in place to continue to deliver the function on future.	Ongoing	1	2	2

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Matrix - Corporate Risk Register

Likelihood	Very Likely (4)				C10 - Non-Compliance C13 - Landlord Service Failure
	Likely (3)		C12 - FCW ESIF regulations	C1- Organisational Instability C3 - Otterpool Park delivery C4 - Financial Uncertainty C6 - Competing demands C7 - Key Partner Capacity C11 - Reputational Risks	
	Unlikely (2)		C2 - Shortage of skills	C8 - Transformation C9 - Complexity of Projects	C5 - Brexit / Market Conditions
	Rare (1)				
		Minor (1)	Moderate (2)	Significant (3)	Severe (4)
	Impact				

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