



# Agenda

Meeting: **Audit and Governance Committee**  
Date: **4 March 2020**  
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 5 - 6)**

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 7 - 12)**

To consider and approve, as a correct record, the minutes of the meetings held on 27 November and 4 December 2019.

## Queries about the agenda? Need a different format?

Contact Sue Lewis – Tel: 01303 853265  
Email: [committee@folkestone-hythe.gov.uk](mailto:committee@folkestone-hythe.gov.uk) or download from our website  
[www.folkestone-hythe.gov.uk](http://www.folkestone-hythe.gov.uk)

4. **Grant Thornton Audit Plan for the Year Ended 31 March 2020 (Pages 13 - 34)**

The report presents the Grant Thornton Audit Plan, which focuses on their proposed work on auditing the statement of accounts for 2019/20 and an update on the audit fees.

5. **Grant Thornton Risk Assessment Work (Pages 35 - 38)**

Grant Thornton are seeking confirmation from the Committee about how it gains assurance from management. Their request includes a series of questions on fraud, laws and regulations. The proposed response is enclosed.

6. **Corporate Health and Safety Annual Report (Pages 39 - 52)**

This report details the performance of Corporate Health and Safety over the last calendar year and looks into future work.

7. **Annual Report of Audit and Governance (Pages 53 - 58)**

This report summarises the achievements of the Audit and Governance Committee against the terms of reference for the period 1 April 2019 to 31 March 2020 and details the impact that it has made on the overall system of internal control in operation.

8. **Report on Local Code of Corporate Governance (Pages 59 - 72)**

This report recommends the approval of a local Code of Corporate Governance for 2020/21.

9. **Internal Audit Standards Self-Assessment (Pages 73 - 80)**

This report summarises the results of the East Kent Audit Partnership (EKAP) self-assessment against the Public Sector Internal Audit Standards (PSIAS) and the actions required to move towards full compliance.

10. **Internal Audit progress report from the Head of the East Kent Audit Partnership (Pages 81 - 104)**

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 31<sup>st</sup> December 2019.

11. **Internal Audit Charter and Draft Internal Audit Plan 2020-21 (Pages 105 - 136)**

This report includes the Audit Charter for the East Kent Audit Partnership which sets out the overarching vision, aims and strategy for the Internal Audit Service together with the draft plan of work for the forthcoming 12

months for approval.

12. **Review of Corporate Risk Register (Pages 137 - 148)**

This report provides an update to the Corporate Risk Register.

13. **Accounting Policies 2019/20 (Pages 149 - 164)**

Accounting Policies are the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements. This report presents the Accounting Policies proposed to be adopted for the 2019/20 financial statements.

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## **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, 27 November 2019
Present	Councillors Mrs Ann Berry (Vice-Chair), Philip Martin (Chairman), Tim Prater and Lesley Whybrow
Apologies for Absence	Councillor Ray Field
Officers Present:	Amandeep Khroud (Assistant Director) and Sue Lewis (Committee Services Officer)
Others Present:	

### 17. **Declarations of Interest**

There were no declarations of interest.

### 18. **Exclusion of the Public**

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

**Resolved: To exclude the public for the following item of business on the grounds that it is likely to disclose exempt information, as defined in paragraph 1 of Part 1 of Schedule 12A to the Local Government Act 1972 –**

**‘Information relating to any individual.’**

(Voting: For 4; Against 0; Abstentions 0)

### 19. **Appointment of Independent Persons**

This report presented the applications from candidates wishing to be appointed as the Independent Persons under the Localism Act 2011. The committee is asked to interview the candidates and make recommendations to council on the people to be appointed as the Independent Persons.

Proposed by Councillor Philip Martin  
Seconded by Councillor Mrs Ann Bery and

**Resolved:**

- 1. To receive and note Report AuG/19/13.**
- 2. To recommend to Council the appointment of Chris Harman, David Carter and Ken London as the Independent Persons under the Localism Act 2011**

(Voting: For 4; Against 0; Abstentions 0)



## Audit and Governance Committee

Held at:	Council Chamber - Civic Centre, Folkestone
Date	Wednesday, 4 December 2019
Present	Councillors Mrs Ann Berry (Vice-Chair), Ray Field, Philip Martin (Chairman), Tim Prater and Lesley Whybrow
Apologies for Absence	
Officers Present:	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:	Elizabeth Jackson, Grant Thornton

### 20. **Declarations of Interest**

There were no declarations of interest.

### 21. **Minutes**

The minutes of the 18 September 2019 were submitted, approved and signed by the Chairman.

### 22. **Grant Thornton Update Report**

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

Members were informed that the deadline for Housing Benefit Subsidy claim had not been met, and work is ongoing to complete this by the end of December. An extension had been sought from the DWP but was refused and although this is not unusual there could be some cashflow implications with monies being withheld. Officers are working hard to meet the December deadline and are confident this can be met.

It was noted that email correspondence had taken place between Councillor Prater and Grant Thornton which would be dealt with outside of the Committee.

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

**Resolved:**

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

(Voting: For 4; Against 0; Abstentions 1)

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

This 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 30<sup>th</sup> September 2019.

Members paid particular attention to the following:

- GDPR – it was recognised that more detailed work needs to be done following the review in this area and these are laid out in 2.8.2 of the report.
- Personal Data breaches – there have been no problems highlighted.
- Taxi Licences, Fees and Charges – the fees and charges have now been agreed with the budget process to be completed in February. A review of the charges for this would take some time and it is therefore suggested that this be built into the Fees and Charges for next year.

It was recognised that some reviews came back the same with Limited/No assurance levels and these do not appear to be included in the process to be reviewed again in the next year. Officers agreed to build in a plan to highlight these areas for inclusion in March.

Proposed by Councillor Philip Martin  
Seconded by Councillor Lesley Whybrow and

**Resolved:**

- 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.**

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

**24. CIPFA'S Practical Guidance for Local Authorities and Police, 2018 Edition**

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.

Proposed by Councillor Lesley Whybrow  
Seconded by Councillor Ray Field and

**Resolved:**

- 1. To recommend to Council the appointment of an independent member to the Committee.**

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

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

**Resolved:**

- 2. To receive and note report AuG/19/14**
- 3. To note the self – assessment -appendix 2**
- 4. If Council accept to appoint an independent member 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.**

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

**25. Review of Corporate Risk Register**

This report provided an update to the Corporate Risk Register.

Members paid particular attention to the key changes made and were informed that service areas have regular discussions noting any emerging risks and reporting these accordingly.

Departmental risks can be found on the intranet.

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

**Resolved:**

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

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

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This Report will be made public on 25 February 2020



Report Number: **AuG/19/25**

**To:** Audit and Governance Committee  
**Date:** 4 March 2020  
**Status:** Non-Key Decision  
**Head of Service:** Charlotte Spendley, Director – Corporate Services

**Subject:** Grant Thornton Audit Plan for the Year Ended 31 March 2020

**Summary:**

The report presents the Grant Thornton Audit Plan, which focuses on their proposed work on auditing the statement of accounts for 2019/20 and an update on the audit fees.

**Reasons for recommendations:**

The Committee is asked to agree the recommendation below to enable Grant Thornton to carry out their work in line with the plan.

**Recommendations:**

1. To receive and note Report AuG/19/25.
2. To consider Grant Thornton's Audit Plan for the year ended 31 March 2020 and audit fees as outlined within the Appendix to this report.

## **1. INTRODUCTION**

- 1.1 Grant Thornton has recently concluded their risk assessment. They have now produced their Audit Plan for the Statement of Accounts audit for 2019/20, which includes an update on audit fees chargeable.
- 1.2 The full report is set out at Appendix 1. A representative from Grant Thornton will be attending the meeting to present the Audit Plan and answer Members' questions.

## **2. KEY MILESTONES AND DEADLINES**

- 2.1 Grant Thornton's aim is to complete their 2019/20 audit work and issue the audit opinion and value for money conclusion by 31 July 2020. This is the date that Local Authorities are required to publish their audited accounts as outlined in the Accounts & Audit Regulations 2015.
- 2.2 A copy of the full plan is attached at Appendix 1.

## **3. FEES**

- 3.1 Fees of £54,053 are proposed for the audit of the financial statements, which is an increase from the previous year's fees of £51,753. Estimated fees for grant certification work are also outlined within the plan at £2,500.

## **4. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS**

### **4.1 Legal Officer's Comments (AK)**

There are no additional legal comments arising from this report

### **4.2 Finance Officer's Comments (CS)**

There are no financial implications arising directly from this report.

## **5. 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 – Director – Corporate Services*

*Telephone: 07935 517986 - email: [charlotte.spendley@folkestone-hythe.gov.uk](mailto: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 Audit Plan 2019/20.



# External Audit Plan

*Year ending 31 March 2020*

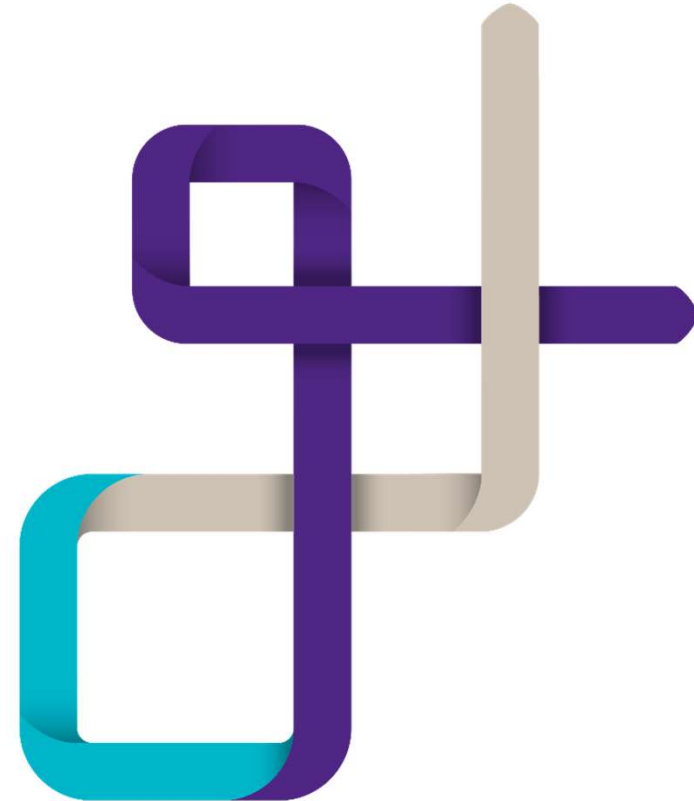
**DRAFT**

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

This draft has been created from the template dated DD MMM YYYY

Folkstone and Hythe District Council  
February 2020

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

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# 1. Introduction & headlines

## Purpose

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

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of [insert name of organisation]. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

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

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

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<b>Group Accounts</b>	The Authority is required to prepare group financial statements that consolidate the financial information of Oportunitas Limited.
<b>Significant risks</b>	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none"> <li>• Management override of controls</li> <li>• Valuation of net pension fund liability</li> <li>• Valuation of land and buildings</li> <li>• Level 3 financial assets and liabilities</li> </ul> <p>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.</p>
<b>Materiality</b>	We have determined planning materiality to be £1.7m for the Authority, which equates to 2% of your prior gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £85k (PY £85k).
<b>Value for Money arrangements</b>	<p>Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:</p> <ul style="list-style-type: none"> <li>• Delivering the full potential on capital plans</li> <li>• Medium Term Financial Resilience</li> <li>• East Kent Housing</li> </ul>
<b>Audit logistics</b>	<p>Our interim visit will take place in February / March 2020 and our final visit will take place in June and July 2020. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.</p> <p>Our fee for the audit will be £54,053 (PY: £51,753) for the Authority, subject to the Authority meeting our requirements set out on page 13</p>
<b>Independence</b>	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

## 2. Key matters impacting our audit

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### Factors

#### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Folkestone and Hythe District Council, you set a balanced budget for the 2019/20 financial period. You have increased share of council tax by 1.92% as part of your Medium Term Financial Strategy, well below the 2.99% threshold that would require a referendum. At quarter 2, you were showing an underspend on the budget of £599k.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

#### Financial reporting and audit – raising the bar

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 more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

#### Implementation of IFRS 16 – Leases

The implementation of IFRS 16 is delayed in the public sector until 1 April 2020. There will therefore be disclosure requirements that apply in 2019/20 for standards issued but not yet adopted.

The current distinction between operating and finance leases is removed for lessees and all leases will be recognised on the balance sheet of lessees as a right of use asset and a liability to make the lease payments, subject to the adaptations for short term leases and exceptions for leases of low value assets.

### Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the group and will review related disclosures in the financial statements.
- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance and is subject to PSAA agreement.
- We will assess the adequacy of your disclosure about the financial impact of implementing IFRS 16 – Leases from 1 April 2020 and test a sample of lease obligations to determine whether they have been accounted for appropriately under the new requirements.

### 3. Group audit scope and risk assessment

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In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
<b>Folkestone and Hythe District Council</b>	Yes		See pages 6 to 8	Full scope UK statutory audit performed by Grant Thornton UK LLP
<b>Oportunitas Limited</b>	Yes	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of the group	Valuation of Investment Properties	Full scope UK statutory audit performed by Begbies Chartered Accountants. Specific scope procedures on valuation of investment properties to be performed by Begbies Chartered Accountants. The nature, time and extent of our involvement in the work of Begbies Chartered Accountants will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the Begbies Chartered Accountants audit documentation and meeting with appropriate members of management.
<b>Oportunitas Limited</b>	No		None	Analytical review performed by Grant Thornton UK LLP.

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#### Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

## 4. Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The revenue cycle includes fraudulent transactions</b>	<b>Authority only</b>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Folkestone and Hythe District Council mean that all forms of fraud are seen as unacceptable</li> </ul>	Therefore we do not consider this to be a significant risk for Folkestone and Hythe District Council.
<b>Management over-ride of controls</b>	<b>Group and Authority</b>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

## 4. Significant risks identified (continued)

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Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of land and buildings</b>	<b>Authority</b>	<p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£214m) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for investment properties) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• write to the valuer to confirm the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Authority's valuer's report and the assumptions that underpin the valuation. We will place special focus on the Council's new purchases related to the Otterpool Project</li> <li>• test revaluations made during the year to see if they had been input correctly into the Authority's asset register</li> <li>• evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end</li> </ul>
<b>Valuation of the pension fund net liability</b>	<b>Authority</b>	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£64,881k in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtain assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>

~~We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.~~

## 4. Significant risks identified (continued)

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Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Level 3 financial assets and liabilities</b>	<b>Authority only</b>	<p>The Council has reviewed the fair value of the finance assets as part of the IFRS 9 assessment in preparing the draft accounts and concluded that the soft loans for private sector housing improvement purposes and the equity investment in Oportunitas Limited are Level 3.</p> <p>Fair value hierarchy level 3 financial assets are hard to value as they have unobservable inputs for the assets or liability. By their very nature, level 3 assets require a particularly high degree of judgement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>gain an understanding of the council's process for valuing hard to value financial assets and evaluate the design of the associated controls</li> <li>review the nature and basis of estimated values and consider what assurance management has over the year end valuation provided for the loans to companies and shares in unlisted companies</li> <li>consider the competence, expertise and objectivity of any management experts used</li> <li>challenged management about the disclosure of the level 3 financial assets.</li> </ul>

## 5. Other risks identified

# DRAFT

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)</b>	<p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p> <p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements.</li> <li>• Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC <a href="#">Local Authority Leasing Briefings</a>.</li> </ul>

## 6. Other matters

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### Other work

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
  - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

### Other material balances and transactions

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

### Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the group's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.



# 7. Materiality

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## The concept of materiality

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

## Materiality for planning purposes

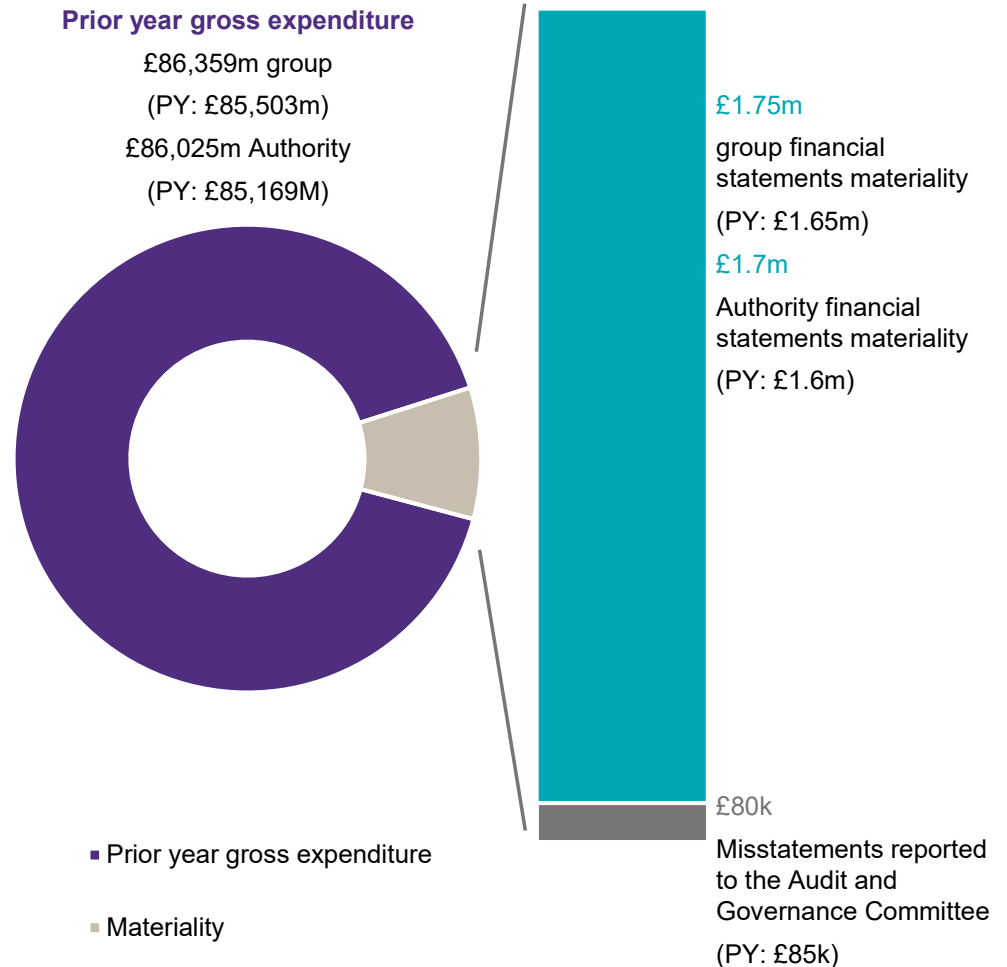
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.75m (PY £1.65m) for the group and £1.7m (PY £1.6m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100k for audit fees, related party transactions, senior management remuneration disclosures and exit packages which are material by nature.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £80k (PY £85k).

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



## 8. Value for Money arrangements

# DRAFT

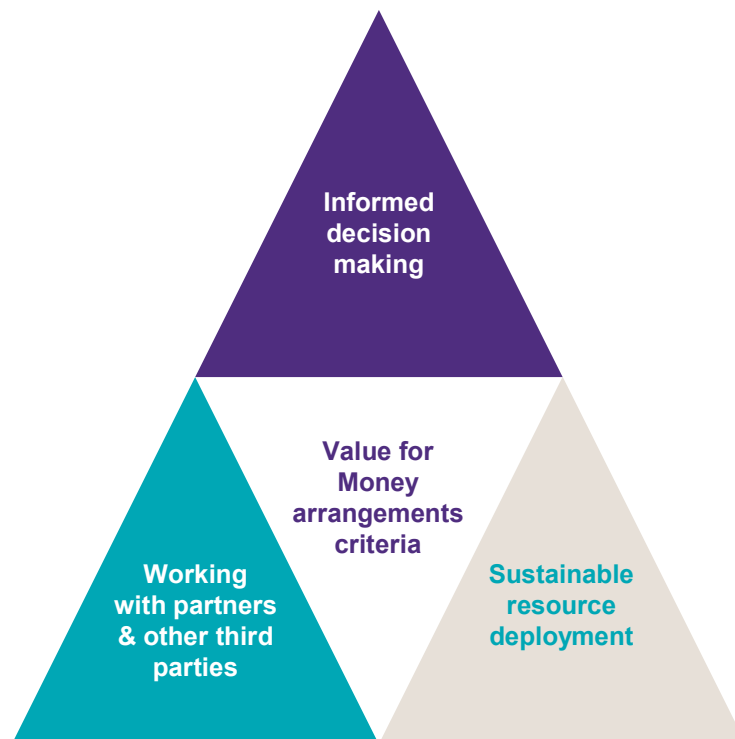
### Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

*“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”*

This is supported by three sub-criteria, as set out below:



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### Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



#### Medium Term Financial Resilience

The Council will need to manage its financial position and savings targets closely during the medium term period to avoid a negative impact on the long term financial stability of the Council. You have savings plans in place including:

- Service redesign and reviews around the future operating model
- Generation of additional revenues through capital investment and Oportunitas

We will review your Medium Term Financial Plan, including the robustness of assumptions. We will review arrangements in place for monitoring savings plans and revenue generating schemes.

Moreover, the United Kingdom has now exited the European Union as at 31 January 2020. This will result in national and local financial implications.

We will also consider the financial impact of ongoing discussions in respect of East Kent Housing.

We will review your arrangements and plan to mitigate any financial risks on Brexit. Our review will focus on areas such as workforce planning, supply chain analysis, regulatory impact and impacts on finances including investments.



#### Delivering the full potential on capital plans

The development of the Otterpool Park Garden Town, alongside smaller scale capital plans, has the potential to make a long term positive contribution to the finances of the Council as well as a long term impact on the area.

We will review the ongoing governance arrangements and decision making processes around the capital investment plans during 2019/20. We will review the business case process for major projects

## 9. Audit logistics & team

# DRAFT



### Paul Dossett, Key Audit Partner

Responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit Committee.



### TBC, Audit Manager

Responsible for overall audit management, quality assurance of audit work and output and liaison with the Audit Committee. Andy will be the escalation contact for complex or unusual queries and will review the work performed by the on-site audit team



### Ezgi Aslan, Audit Incharge

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

### Client responsibilities

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

### Our requirements

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

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

# 10. Audit fees

# DRAFT

## Planned audit fees 2019/20

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. The scale fee set by PSAA at the beginning of the contract was £46,553. Since that time, there have been a number of developments within the accounting profession.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Director of Finance and is subject to PSAA agreement.

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	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
<b>Council Audit</b>	£60,458	£51,753	£54,053
<b>Total audit fees (excluding VAT)</b>	<b>£60,458</b>	<b>£51,753</b>	<b>£54,053</b>

### Assumptions:

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

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

### Relevant professional standards:

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

# Audit fee variations – Further analysis

# DRAFT

## Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees.

Audit area	£	Rationale for fee variation
<b>Scale fee</b>	46,553	
<b>Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19</b>	1,750	<p>The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we plan to increase the level of scope and coverage of our work in respect of IAS 19 this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.</p> <p>Specifically, we have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.</p>
<b>Increased challenge and depth of work</b>	2,500	<p>Historically, the FRC's definition for 2b was 'acceptable but with improvements required' and, as such, both the Audit Commission and PSAA considered a '2b' to represent an acceptance level of audit quality for contract delivery purposes. The FRC has now set a 100% target for all audits (including local audits) to achieve a '2a'. Its threshold for achieving a '2a' is challenging and failure to achieve this level is reputationally damaging for individual engagement leads and their firm. Non-achievement of the standard can result in enforcement action, including fines and disqualification, by the FRC. Inevitably, we need to increase the managerial oversight to manage this risk. In addition, you should expect the audit team to exercise even greater challenge of management in areas that are complex, significant or highly judgmental. We will be required to undertake additional work around use of specialists, information provided by the entity (IPE), journals, management review of controls, revenue, accounting estimates, financial resilience and going concern and related parties and similar areas.</p>
<b>New standards/developments</b>	1,500	<p>We will be required to do work around IFRS16. IFRS16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements</p>
<b>PPE Valuation – work of experts</b>	1,750	<p>As above, the FRC has also determined that auditors need to improve the quality of audit challenge on PPE valuations across the sector. We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.</p>
<b>Revised scale fee (to be approved by PSAA)</b>	<b>54,053</b>	

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# 11. Independence & non-audit services

# DRAFT

## Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

Service	£	Threats	Safeguards
<b>Audit related:</b>			
Certification of Housing Benefits claim	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the agreed fee for this work in 2018/19 was £TBC in comparison to the total fee for the audit of £50,853 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing capital receipts grant	2,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,500 in comparison to the total fee for the audit of £50,853 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

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

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.ie/about/transparency-report/>

# Appendices

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**A. Audit Quality – national context**

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# Appendix A: Audit Quality – national context

# DRAFT

## What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. Specifically for Grant Thornton the FRC identified the need for us to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (minor improvements required) or better on all large commercial audits. We have set ourselves the same target for public sector audits from 2019/20.

## Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets Authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

## What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. Whilst we recognise we have work to do, we are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

## What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst ensuring the issues identified by the FRC are addressed and improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process more challenging than previous audits. These changes will give the audit committee and the board greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Challenging management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the highest quality and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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This Report will be made public  
on 25 February 2020

Report Number **AG/19/27**

**To:** Audit and Governance Committee  
**Date:** 5 March 2020  
**Status:** Non-executive Decision  
**Head of Service:** Charlotte Spendley, Director – Corporate Services

**Subject:** Grant Thornton Risk Assessment Work

**Summary:** Grant Thornton are seeking confirmation from the Committee about how it gains assurance from management. Their request includes a series of questions on fraud, laws and regulations. The proposed response is enclosed.

**Reasons for recommendations:**

The Committee is asked to agree the recommendation below and approve the recommended responses to Grant Thornton.

**Recommendations:**

1. To receive and note Report AuG/19/27.
2. To consider and approve the proposed response to Grant Thornton's request.

## **1. INTRODUCTION AND BACKGROUND**

- 1.1. Grant Thornton have requested the Chairman of the Audit and Governance Committee provide confirmation over the frameworks and process in place within the Council. A copy of the request and the proposed responses are attached at Appendix 1. The purpose is to contribute to effective communication between the Council's external auditor and the Committee.
- 1.2. In order to comply with international auditing standards, each year Grant Thornton is required to confirm their understanding of how the Committee gains assurance over management processes and arrangements. The questions cover important areas relating to the auditor risk assessment, including processes for managing risks relating to fraud, law and regulation.
- 1.3. A representative from Grant Thornton will be in attendance at the meeting to present the report and answer Members' questions.

## **2. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS**

### **Legal Officer's Comments (AK)**

- 2.1 There are no legal implications arising directly out of this report.

### **Finance Officer's Comments (CS)**

- 2.2 There are no additional comments arising from this report.

### **Diversity and Equalities Implications (CS)**

- 2.3 There are none arising directly from this report

## **3 CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

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

*Charlotte Spendley, Director – Corporate Services*

*Tel: 07935 517986 E-mail: [charlotte.spendley@folkestone-hythe.gov.uk](mailto:charlotte.spendley@folkestone-hythe.gov.uk)*

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

No background documents have been used.

### **Appendices:**

**Appendix 1** - Response to questions raised by Grant Thornton.

**APPENDIX 1 Management Enquiry**

**SUBJECT**

**RESPONSE**

**Fraud**

What is your assessment of how the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments?	The Council feel that the risk of material misstatement in the financial statements due to fraud is minimal. There have been no known incidents during the financial year where material financial fraud is known to have occurred. Additionally the Council has a robust system of internal controls in place that are regularly independently reviewed by the East Kent Audit Partnership (EKAP). The audit plan is drafted with relevant risks in mind. These reviews are reported to the Audit & Governance Committee on a quarterly basis providing assurance.
What is the process for identifying and responding to the risks of fraud in the entity, including any identified specific risks of fraud and risks of fraud likely to exist?	As stated above, the results of the ongoing Internal Control Audits by EKAP are reported quarterly to the Audit & Governance Committee (A&G). EKAP will also undertake follow up audits and report the findings to A&G, bringing members attention to any high risk actions which have not been completed. Additionally the Head of EKAP will bring an annual summary to the July A&G meeting which will outline the level of assurance that can be taken in respect of all the main financial systems, and confirm any instances of fraud. The Council has a dedicated qualified Fraud investigation resource which is primarily utilised for Housing Benefit & Council Tax Reduction fraud but can also be deployed to investigate other suspected instances of fraud where required. This resource has identified fraud within this area and investigations have occurred and action taken. More broadly, the Council also has policies in place for Anti-Corruption, Code of Conduct and Whistle Blowing in place, these documents are available on the website, and mandatory training is undertaken by all staff. The Councils Fraud response plan specifically outlines how Members, staff and members of the public can raise concerns regarding fraud or corruption should they need to and provides a framework for the resulting investigation where required.
What communication, if any, do you have with those charged with governance regarding processes for identifying and responding to the risks of fraud in the entity?	In addition to the process of fraud reporting through EKAP, the S151 Officer & Monitoring Officer would alert the Chair of the Audit & Governance Committee as well as the relevant Cabinet Portfolio Holder, of any significant fraud at the earliest opportunity. The Head of EKAP also has the ability through the Chairman, to report suspicions of fraud to the A&G committee if required.
What communication, if any, is there to employees regarding their views on business practices and ethical behaviour?	The Council has policies in place for Anti-Corruption, Fraud Response Plan, Code of Conduct and Whistle Blowing in place, these documents are available on the website, and mandatory training is undertaken by all staff. Additionally there is a behaviours and competency framework which staff are expected to adhere to.
Do you have any knowledge of any actual, suspected or alleged fraud affecting the entity?	No material financial fraud is known to have occurred during 2019/20 financial year.

**Related Parties**

Can you name the related parties, including changes from the prior period?	East Kent Housing Ltd, Oportunitas, Folkestone Parks & Pleasure Ground, no changes from the prior period. (In addition to Central & Local Government)
What is the nature of the relationships between the entity and these related parties?	EKH is an ALMO shared service operating across the four East Kent Councils including FHDC managing the HRA Housing stock (FHDC owns 25% of EKH Ltd). All four owner Councils have taken the decision in February 2020 to return their housing services and ultimately cease EKH over the coming year. This will affect the going concern status of EKH's own financial statements due to the term it is anticipated to trade over. It is anticipated that EKH will remain a related party of the Council during 2020/21. Oportunitas is the Councils wholly owned housing development company. FHDC is the corporate trustee for FPPG, it is responsible for the majority of its funding which it collects via a special expense levied on part of the district of FHDC.
Has the entity entered into any transactions with these related parties during the period and, if so, what are the type and purpose of the transactions?	Yes its has entered into transactions will all the above parties during the period. In respect of EKH Ltd, the payment of a management fee to operate the service (manage the housing stock). In respect of Oportunitas and FPPG, Council Officers support and undertake duties on behalf of these bodies so their time is recharged to them. For FPPG the Council also levies and collects the special expense via Council Tax from Folkestone & Sandgate residents on behalf of the charity.

**Going Concern**

Is the going concern basis of accounting a fundamental principle in the preparation of the financial statements?	Yes
Has a preliminary assessment of the entity's ability to continue as a going concern been performed?	Yes
What is your basis for the intended use of the going concern assumption. Do events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern?	The Council has set a balanced budget for 2020/21. Furthermore, it anticipates to hold around £7m in General Reserves and £19m in earmarked reserves at the end of the financial year. Additionally there is a recently updated MTFs in place that whilst identifies a funding gap in the medium term, there are plans in place to address the gap and the gap for the coming financial year (2020/21) has already been closed. The Council has a number of strategic investments which are progressing alongside a transformation programme, which are collectively expected to close the medium term gap. There are no current events or conditions which cast doubt on the Councils Going Concern status. The CLT will consider a specific paper on the Councils Going Concern status in the coming weeks but it is not anticipated that this will differ from this preliminary assessment.

**Litigation and Claims**

Have you identified possible litigation and claims which may give rise to a risk of material misstatement?	One instance of litigation is currently being explored in respect of a previous contractor. However this litigation is not anticipated to give rise to a risk of material misstatement in the financial statements for 2019/20.
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**Accounting Estimates**

How you identified transactions, events, and conditions that may give rise to the need for accounting estimates to be recognized or disclosed in the financial statements?	No
Are there changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates?	No

**Laws and Regulations**

Are you aware of any non-compliance with any laws and regulations?	The Council was non compliant with regards to its LGSR landlord duties for its housing stock, managed by EKH during 2019/20. A Section 5 report was issued by the Monitoring Officer to all Councillors on 12 July 2019 and reported to Cabinet through paper C/19/15. Close liaison with the regulator has been undertaken and a voluntary undertaking is anticipated to be in place by March. The Council has put in place a number of actions and is currently compliant with the LGSR regulations.
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# Agenda Item 6

This Report will be made public on 25 February 2020



Report Number **AuG/19/18**

**To:** Audit and Governance Committee  
**Date:** 4 March 2020  
**Status:** Information Report  
**Responsible Officer:** Andy Blaszkowicz, Director, Housing and Operations  
**Cabinet Member:** Councillor David Godfrey, Housing, Transport and Special Projects

**SUBJECT: CORPORATE HEALTH & SAFETY ANNUAL REPORT**

**SUMMARY:** This report details the performance of Corporate Health and Safety over the last calendar year and looks into future work.

**RECOMMENDATIONS:**

1. To receive and note Report AuG/19/18.

## **1. INTRODUCTION**

This report summarises the District Council's health and safety performance to the end of the Annual year 2019, and outlines its intentions for 2020 and beyond. Health and safety is monitored against an ongoing action plan devised by the Corporate Health & Safety officer in agreement with Director for Housing and Operations and the Operations Lead Specialist.

This annual review against the action plan reveals that significant areas of work have been undertaken in relation to abuse, aggression and violence procedures, fire safety procedures and direct labour organisation related safety. This demonstrates that the District Council has a strong commitment to the health and safety of its workforce, and to others who may be affected by its activities.

Health and safety is provided by the Corporate Health & Safety Officer in conjunction with managers and appropriate personnel. The Council employs approximately 355 employees in various roles, including full, part-time and casual staff; equating to 309 FTE. The Council has a broad range of activities with a wide variety of risks to manage. To ensure that all risks are identified, the Council has risk assessment processes for use by managers and staff. The most common risks identified include:

- Lone working
- Violence and aggression
- Transport and road risk
- Manual handling risks
- Slips and falls
- Work-related ill health, including work-related stress
- Working at height

## **2. KEY ACTIVITIES**

### **CODES OF PRACTICE**

Corporate Health and Safety provides codes of practice (COP) and guidance to managers and employees to equip them with the necessary support to meet their health and safety obligations. The Council has a rolling programme of COP review and implementation to support effective health and safety management. The following COP's were revised/implemented during the year;

- Abuse, Aggression and Violence
- Management of Contractors
- Personal Protective Equipment (PPE)
- Health Surveillance



## TRAINING

Training provision is an important part of mitigating risks to health and safety. To ensure there is relevant training and sufficient funding the corporate health and safety officers work with Human Resource (HR) officers, Organisational Development (OD) Staff and service area managers. The electronic package WorkRite is used to deliver the majority of employees statutory training, however many of the Direct Labour Organisation (DLO) staff and specialists need further training as identified by individual job requirements.

It is understood that at present there is not a centralised database that identifies and records training requirements for individuals. The organisation and identification of training varies by service area and risk level. To address this issue the H&S officer, OD and HR teams will be working together over the next year to support service area managers to identify their statutory training requirements, fund and deliver these as necessary.

Table 1: Training delivered shows some of the critical training that was undertaken during the year. Training was predominantly delivered by external suppliers, except training for fire wardens which was internal, conducted by the corporate H&S officer.

It should be noted that in the DLO organisations of the council, such as that in Grounds Maintenance (GM), Engineering and Buildings (E&B) and the Hythe Pool teams, that practical sessions called toolbox talks and onsite job specific training for equipment are regularly delivered to new starters, seasonal staff and as reminders where near misses and incidents have occurred.

*Table 1: Training delivered*

<b>Course Type</b>	<b>No.</b>	<b>Comment</b>
Fire Warden (including tenants in rented office space)	11	Fire precautions and methods for evacuating staff in the event of a fire.
Conflict Management	27	Skills and confidence for dealing with conflict and risk situations.
Driving Assessments	43	This works alongside the road risk procedures and helps towards preventing road traffic collisions.
Personal Resilience	0	Develop Strengths. Understanding Resilience. Cope with Pressure.
Manual Handling Techniques	30	Training in correct lifting techniques & risks through incorrect lifting.

Handling difficult customers	15	Customers services dealing with members of public.
First Aid at Work (3 days)	10	Competence to become a qualified First Aider.
Safeguarding	65	Includes a few councillors, call centre / reception staff
Grounds Maintenance Safeguarding venerable people.	39	This is how to recognise the venerable that are in public places, and how to help.
Asbestos awareness.	13	Half day course directed at those that are most likely to come into contact.
Reactec HAVWEAR monitoring system for Hand Arm Vibration.	18	Training new line manager. Agency / New Starters
New staff inductions	60	The inductions has a section that includes Health and Safety Policy, procedures and the e-learning requirements.

## **FIRE SAFETY**

The Regulatory Reform (Fire Safety) Order 2005 requires employers to have a strategy to evacuate all occupants within a building. As part of the Council's fire safety arrangements nominated staff are trained as Fire Wardens. Additional refresher training will be conducted during 2020 and include tenants. They perform two roles; undertaking ongoing assessment of fire hazards and risks during their normal daily work tasks, and in the event of an evacuation conducting a sweep of their allocated fire zone to ensure all persons have safely evacuated.

To ensure compliance with the Fire Safety order a review is ongoing by the Engineering & Buildings team. Work has started on high risk buildings, such as the Civic Centre, Oxenden Road Depot and Hawkinge Depot and will continue through all Council Operated Assets. In general only minor items have been raised which are being addressed predominantly within allocated budgets, but also utilising the capital enhancement funds. During 2019 work was undertaken to ensure an appropriate fire safety strategy for the civic centre, to do this fire doors were replaced and repaired where necessary in the building.

## **FIRST AID**

The Health and Safety (First-Aid) Regulations 1981 require employers to provide adequate and appropriate equipment, facilities and personnel to ensure their employees receive immediate attention if they are injured or taken ill at work.

As part of this requirement, the Council provides two levels of first aid trained staff in its buildings. At Folkestone and Hythe Civic Centre there is a mixture of full First

aid at Work and Appointed Persons (for the 24hr Lifeline call centre). Hythe Swimming pool staff undergo further training superficially design for swimming pools. Requalification is in line with the HSE guidance and the level of first aid required is based upon specific job risk. DLO staff are also individually identified depending on work location and risk. During 2019 10 employees received their refresher training and for 2020 it is being looked at the levels across all colleagues that work in grounds maintenance or lone working i.e. the Area Officers / Environmental Enforcement.

## MEETINGS OF HEALTH AND SAFETY GROUPS

The Council has in place a number of health and safety groups to ensure that there is a corporate approach and understanding to all relevant issues. The Health and Safety Officer reports to the Staff Consultation Forum (SCF) on a six weekly basis. The SCF is chaired by the corporate HR manager, and comprises the Health & Safety Officer, a range of appointed workplace SCF champions, and a UNISON Safety Representative. The Group discuss codes of practice, reports and supports the Corporate Health & Safety Officer in determining the Council's priorities in health and safety.

In addition to the SCF an Operations meeting is held every 6 - 8 weeks, that gathers all the high risk service area managers within the Operations service areas. It is used as a forum to discuss and share best practice regarding any accidents, incidents, near misses and insurance claims in detail and looks at how these can be prevented or reduced.

## OCCUPATIONAL HEALTH

The external Occupational Health provider has continued to meet the organisation's requirements for dealing with and promoting health at work issues. The core functions of Occupational Health are work-health assessment screening, sickness absence management and health promotion. Table 2: Health surveillance shows a breakdown of the teams that health surveillance is provided to.

The Health, Safety Officer works closely with HR who manages the Occupational Health Advisor to provide a proactive health surveillance programme to required staff following the risk assessment process. This is based on two yearly programme of health surveillance checks, consisting of hand-arm vibration, skin surveillance, respiratory and audiometry.

*Table 2: Health surveillance*

Team	No.	Notes
Grounds Maintenance	10	Park Keepers, Sports Ground, Cemeteries, Highways.
Engineering & Buildings	0	
Other	0	

### 3. PERFORMANCE

The following section details accidents in relation to the years 2017, 2018 and 2019. With the appointment of the Corporate H&S officer all accidents are recorded in one place, therefore in the future this report will move towards detailing accidents over a rolling five year period.

The total number of accidents remains low, with an increase over the past year from 14 (an incident rate of 0.135 per 100 FTE) to a total of 26 accidents recorded (an incident rate of 0.25 per 100 FTE). As can be seen from: Table 3: Accident totals, shows there is no individual type of accident that is the most significant; however most of the accidents can be grouped into “slip trip and falls” along with struck by moving object. This includes the lift door closing before passenger has fully exited lift and tree branch springing back whilst being pruned. A drive in reporting accidents however minor has caused the increase and is now seeing accidents even for pain and not physical injury i.e. cuts.

Table 4: Accidents by service area shows that there has been an increase in the accidents incurred by “other council staff”.

Table 5: RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) shows there has been two reportable RIDDOR incident involving a council employee in the year 2019. The first of these was colleague was attending a site to conduct an inspection and closed vehicle door on their finger causing injury and surgery. The second was colleague was holding item taught so fellow colleague could cut for disposal and the item broke causing colleague to fall backwards and fracturing their hand / wrist.

Table 6: Work days lost due to accidents shows that 30.5 days have been lost due to accidents. Table 7: Accidents involving members of the public have remained low over the past three years.

Accident statistics continue to remain low, however there has been a slight increase in the number of recorded accidents. This is believed to have incurred in line with a drive to report all accidents, no matter how small. As the largest service area within the Council, grounds maintenance remains as the department with highest related risks.

Training and other interventions remain in place to address the areas of highest injury. The wider H&S team continues to not only address the accident related incidents but also focus on areas which have potential to cause serious injury and must therefore not be overlooked. Such areas identified during the previous year include fire safety, contractor control and site security. These were achieved by either in house or external training. Most accidents related to Grounds Maintenance will have a Safety Notice completed and displayed at all the operational depots. Going into 2020 training will be focused on DLO and the grounds maintenance teams - for example more task related manual handling, basic maintenance and servicing of tools.

Table 3: Accident totals

Type	2017	2018	2019
Contact with machinery or hand tool	0	1*	1
Struck by moving object	2	2	5*
Strike by moving vehicle	0	1	0
Strike against fixed object	2	1	4
Slip, trip, fall same level	1	3	7*
Lifting & handling injuries	0	3	1
Injured by an animal including insect stings	0	1	3
Fall from height	1*	0	0
Physical Assault	0	0	0
Contact with electricity	0	0	0
Trapped by something collapsing	0	0	0
All other kinds & unspecified	2	2	5
<b>Total</b>	<b>8</b>	<b>14</b>	<b>26</b>
<b>Incident Rate per 100 FTE employees</b>	0.08	0.135	0.25

\*RIDDORS (reportable injuries)

Table 4: Accidents by service area

Service Area	2017	2018	2019
Grounds Maintenance	7	8	12
Engineering & Buildings	0	0	2
Other Council Staff	1	6	11
Environmental Enforcement	0	0	1
<b>Total</b>	<b>8</b>	<b>14</b>	<b>26</b>

Table 5: RIDDOR

Type	2017	2018	2019
RIDDOR Accidents	1	0	*2
RIDDOR Disease	0	1*	0

Table 6: Work days lost due to accidents

Type	2017	2018	2019
Number of work - related days lost	0	0	30.5

Table 7: Accidents involving members of the public

Type	2017	2018	2019
Public	1	1	1

## WORK RELATED ILL HEALTH DAYS LOST

Lost working time statistics through ill health e.g. stress, anxiety and depression are gathered and produced via the Human Resources team.

## DANGEROUS OCCURENCES

In addition to the accident in the table above 2 Dangerous Occurrence occurred,  
 1- A colleague misjudged the bank steepness and rolled a ride on mower over into a ditch. There was no personal injury.  
 2- A colleague was strimming the canal bank and fell into the canal.

## 4. AUDIT

The audit report from January 2018 contained seven agreed management actions to reduce the identified risks. Table 8: Audit Criticality details how these were categorized and whether or not they have been implemented to date. Table 9: Task Update details the recommendation and any progression for each task to date.

Table 8: Audit Criticality

Risk Priority	No. of Initial Recommendations.	No. Fully Implemented	No. Partially Implemented	No. Outstanding
Critical	-	-	-	-
High	-	-	-	-
Medium	4	2	2	0
Low	3	2	1	-

Table 9: Task Update

Priority	Recommendation	Progression
Medium	The draft Health & Safety Policies & Procedures should be approved and brought into effect as soon as possible.	The policy and procedures have been amended to reflect change of council name, relevant legislation and responsible persons. There is 1 outstanding procedure to further amend due to changes in Fire Risk Assessment.
Low	Managers should be reminded to update their risk assessments on a regular basis.	A central H&S drive has been set up and is accessible to all. Grounds Maintenance risk assessments have been completely reviewed and other departments are being contacted in line with perceived risk, therefore work is currently focused around the DLO operations. In addition to this as the Risk Assessments are reviewed they are being changed to the corporate format ensuring that there is uniformity across council departments.
Low	To reconcile the list of First Aiders from phone book to Intranet.	The list of the First Aiders on the Intranet is correct, however the noticeboard information is still to be updated. This will be completed once the refresher training is undertaken during February 2019. This is being updated as either first aiders are re-trained or new first aiders are added The Fire Warden information is up to date and various training has been completed recently. New trays and folders are in the process of being installed to retain the information and hi-vis for the wardens.  Training has also been carried out for the tenants in the Civic Centre. Further training being planned for later in 2020 to replace any leavers that were fire wardens.

## 5. LEGISLATION UPDATE

No HSE legislation changes have occurred that affected the Councils current policies and procedures. There have been some updates within the current

legislation that has required the council to review some individual task procedures and update the relevant Risk Assessment and Safe Operating Procedure.

## **6. HEALTH AND SAFETY ACTIONS FOR 2020/21 AND BEYOND**

In 2020/21 the emphasis will be to support managers and staff to continue good standards of health and safety and continuous improvement. An action plan has been developed that tracks this work; a summary of key actions are provided below:

- a. Review the corporate health and safety procedures (2 year programme).
- b. Revise corporate guidance on fire safety and fire wardens.
- c. Revise the corporate guidance on legionella management.
- d. Revise the corporate guidance on asbestos management.
- e. Deliver a health and safety training programme.
- f. Undertake audits/inspections of individual services/teams/buildings.
- g. Undertake fire risk assessments across all council managed buildings and assets.
- h. Update and improve intranet based health and safety information for staff use.
- i. Undertake driving assessments on all fleet drivers.

## **7. HEALTH AND SAFETY EXECUTIVE VISIT / CONTRAVENTIONS**

The Health and Safety Executive (HSE) had closed the previous year's visit's contraventions and advisory improvements. There has been no additional visit or communications since. We are still working through some of the Control of Substances Hazardous to Health (as amended 2002) COSHH risk assessments although the major areas of concern were completed. There are specific COSHH Risk Assessments for some of the materials colleagues use.

- Control of Substances Hazardous to Health (as amended) Regulations 2002, Regulation 11 - We had not provided health surveillance for our welding operatives & we had not provided health surveillance for grounds maintenance employees so that they are aware of the exposure to substances such as oil can cause skin conditions such as dermatitis. We have started delivering the dermatitis toolbox talks to our staff and have completed 60% of these, the rest will be ongoing over the following months. The health surveillance has been arranged with our supplier and is due to start in March on a rolling program.

## **8. CLAIMS DUE TO ACCIDENTS / INCIDENTS / OTHER**

The following section and Table 10: Claims details provide details on what is registered on the insurance database. This is a high level extract and is intended to be indicative only and further information can be requested. In 2019 there were a



total of 75 claims plus 7 other claims where the council recover from a third party for damage to council property. This is a decrease overall a decrease of 18 claims from 2018 with a total of 104.

Road traffic collisions dropped from the previous year to 20 incidents down to 11. This is nearly a 50% decrease. This may be attributed to driver assessments and improved investigations.

Strimming incidents have reduced by nearly half over the previous year bringing the figure down to 9 incidents. Part of this reduction can be attributed to both in house training and investment into modern equipment with better guards around the heads.

Public liability claims have reduced overall to 52 claims or incidents, from the previous year's 66.

There has been 1 Employers liability claim in 2019 that is currently under investigation.

The following section and Table 10: Claims details provide details on what is registered on the insurance database. This is a high level extract and is intended to be indicative only and further information can be requested. In 2017 there were a total of 104 claims with a minor decrease in 2018 to 102.

Table 11: Insurance Claim Costs shows that there has been a reduction in total claim costs. This pattern continues if the removal of the potential data breach claim is considered. However it should be stressed that as claims are ongoing and based upon financial years this data could alter significantly.

*Table 10: Claims*

Type	2017	2018	2019
Road Traffic Collision. Council vehicles involved in accidental incident either with other vehicles or fixed objects.	14 incidents; 7 Hit third party vehicle 5 Hit stationary object 2 other type of incident	20 incidents; 6 Hit third party vehicle 6 Hit stationary object 8 other type of incident	11 incidents 7 own fault claims where our driver hit other third party vehicles or hit property 4 no fault claims where third parties hit our vehicles

Members of public vehicles hit by flying debris from strimming etc	14 strimming incidents; 2 incidents involve injury to a person	16 strimming incidents; 0 incidents involve injury to a person	Nil
Injured members of public from faulty equipment, i.e. play equipment, park benches, and uneven ground.	76 claim for public liability; 7 Play Area incidents 9 Slip incidents 6 Trip incidents 43 Other types of claim	66 claim for public liability; 2 Play Area incidents 2 Slip incidents 6 Trip incidents 56 Other types of claim	52 claim for public liability 12 Slip trip claims 10 pot hole claims 9 strimming claims 14 other type of incidents. 7 tree root/subsidence claims.
Property claims across the Housing stock Commercial stock and General Fund.	Nil	Nil	12 Property claims 1 Commercial claim 6 HRA claims 5 General fund claims
	<b>Total: 104</b>	<b>Total: 102</b>	<b>Total: 75</b>

Table 11: Insurance Claim Costs

Type	2017/18	2018/19	2019/2020
Motor claims	£31,228	£3,845	£2,750
Miscellaneous	£3,367	£2,699	£1,050
Property	£2,970	£1,299	£1,700

Public	£411,890*	£1,929	£1,252
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*\*This includes potential claim for Data Protection Breach for £323,500.*

## 9. CONCLUSION

Accident levels albeit slightly higher than previous year are still very low for the type of work being undertaken within the council. This is testament to the great work of all officers and especially within the DLO sections of the council. There have been 30.5 lost days caused by accidents for the year and only two RIDDOR for the year.

There has been a significant drive to have a more proactive approach to the H&S within the council, led by the Director for Housing and Operations and the Operations Lead Specialist with support from the Corporate Health and Safety Officer. This year has continued the previous years' work but with the 2 RIDDOR's and 2 dangerous occurrences it is clear that work must be ongoing. ,

## 10. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

### 10.1 Legal Officer's Comments (E)

There are no legal implications arising directly out of this report other than as already stated therein. It is the Council's duty under the Health and Safety at Work etc. Act 1974 (as amended) to protect the health, safety and welfare of its employees and other people who might be affected by its business, which includes making sure they are protected from anything that may cause harm and controlling any risks to injury or health that could arise in the workplace.

### 10.2 Finance Officer's Comments (RH)

There are no financial implications concerning this report.

## 11. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

(Alastair Clifford: Operations Lead Specialist)

Telephone: 01303853277

Email: [alastair.clifford@folkestone-hythe.gov.uk](mailto:alastair.clifford@folkestone-hythe.gov.uk)

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This report will be made public on 25 February 2020



Report number **AuG/19/19**

**To:** Audit and Governance Committee  
**Date:** 4 March 2020  
**Status:** Non-executive decision  
**Head of Service:** Amandeep Khroud – Assistant Director Governance Law and Regulatory Services

**SUBJECT: ANNUAL REPORT OF THE AUDIT AND GOVERNANCE COMMITTEE**

**SUMMARY:** This report summarises the achievements of the Audit and Governance Committee against the terms of reference for the period 1 April 2019 to 31 March 2020 and details the impact that it has made on the overall system of internal control in operation.

**REASONS FOR RECOMMENDATION:**

The Audit and Governance Committee is asked to agree the recommendation below to ensure that the Audit and Governance Committee is fulfilling its duties and performing effectively. This report sets out the steps it has taken to ensure the effectiveness of its work. This report will then be presented to Full Council for their information

**RECOMMENDATIONS:**

1. To receive and note report AuG/19/19.

## **1. INTRODUCTION**

- 1.1 The purposes of the Council's Audit and Governance Committee are outlined in the constitution.
- 1.2 Listed below are the terms of reference for the Audit part of the Committee:
- a) Review and approve the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.
  - b) To consider the Head of Internal Audit's annual report and opinion on the Council's corporate governance arrangements.
  - c) To conduct reviews of the effectiveness of the Council's system of internal audit.
  - d) Be satisfied that the authority's assurance statement, including the annual governance statement, properly reflects the risk environment and any actions required to improve it.
  - e) Approve (but not direct) internal audit's strategy, plan and monitor performance.
  - f) Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken, where necessary.
  - g) Consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements, and seek assurance that action is being taken to mitigate those risks identified.
  - h) To make recommendations to Council on Contract Standing Orders.
  - i) To make recommendations to Council on the Financial Procedure Rules.
  - j) To maintain an overview of the Council's Whistle-blowing Policy.
- 1.3 The Audit and Governance Committee seeks to ensure it has effective communication with the authority, which includes the Executive, the Council's statutory officers, the Head of Internal Audit, the external auditor and other stakeholders. This is mainly achieved through the work of the Committee, but is further enhanced by the submission of this annual report to the Council's annual meeting.

## **2. ANNUAL REPORT**

- 2.1 This report summarises the work of the Audit and Governance Committee over the past year and concludes that it has received clear, concise and relevant information, has received appropriate training on topics specific to the business of the Committee, and has done all that it can to meet the aims and objectives for the Committee.
- 2.2 The Committee has a well-established forward plan which is agreed by the Committee at the start of each year. This plan is reviewed at each meeting to ensure the responsibilities and audit needs are addressed.
- 2.3 Members of the Audit and Governance Committee seek to robustly challenge any weaknesses in the reports from auditors and officers. In particular we will continue to ask senior officers to attend meetings to

outline and identify risks within their service areas; how they are mitigating those risks; and meeting their responsibilities.

- 2.4 The Audit and Governance Committee is assured on the integrity of data held in the financial statements. It receives clear, concise reports and actions are dealt with in an appropriate timescale. The members of the Committee receive specific training which gives them the skills required to carry out these functions effectively.
- 2.5 The work of the Internal and External Audit provides detailed assurance on the reliability and integrity of the information held in the financial statements.
- 2.6 The Director - Corporate Services, external audit and internal audit together support the Committee in forming their opinion of the financial statements, enabling the Committee to agree to sign them off in accordance with regulations.
- 2.7 The Committee receives a regular report on agreed actions from the annual governance assurance process. The Committee is able to request senior officers and, where necessary, the relevant Cabinet member to attend the Committee to give an update on progress against agreed actions to reduce risk and/or improve governance.
- 2.8 The Committee considers the effectiveness of internal audit by reviewing the annual assessment of the Director – Corporate Services, the view of external audit and the quality of reports, actions and follow up through the quarterly reports submitted throughout the year to Committee.
- 2.9 During the year the committee has considered a large number of reports including:
  - Regular detailed updates from the East Kent Audit Partnership (EKAP), the Council’s internal auditors
  - Regular detailed updates from Grant Thornton, the Council’s external auditors
  - The annual Statement of Accounts
  - Local Code of Corporate Governance
  - Annual Governance Statement
  - Applications for dispensations under the Code of Conduct for Directors of Oportunitas
  - Corporate Risk Register
  - Polling Districts, Places and Stations Review
  - Appointment of Independent Persons
  - CIPFa’s Practical Guidance for local Authorities and Police

### **3. GOVERNANCE**

- 3.1 Listed below are the terms of reference for the Governance part of the Committee:

- a) To promote and maintain high standards of conduct by members and co-opted members of Folkestone and Hythe District Council and to make recommendations to Council on improving standards.
- b) To advise and assist parish/town councils, and parish/town councillors, to maintain high standards of conduct and to make recommendations to parish/town councils on improving standards.
- c) To advise the District Council on the adoption of, or revisions to, its Code of Conduct.
- d) To advise, train, or arrange to train, district members, co-opted members and parish/town councillors on matters relating to the Code of Conduct.
- e) To assist the district councillors, co-opted members and parish/town councillors to observe their respective Codes of Conduct.
- f) To monitor and assess the operation and effectiveness for dealing with the Code of Conduct and to review and manage the arrangements for dealing with Code of Conduct complaints.
- g) To advise on local ethical governance protocols and procedures.
- h) To maintain oversight of the District Council's arrangements for dealing with Code of Conduct complaints.
- i) To act as an advisory body in respect of any ethical governance matter.
- j) To monitor and review the procedures for the Register of Members' Interests and declaring gifts and hospitality.
- k) To receive quarterly reports (or less frequently, if there are no complaints to report), from the Monitoring Officer, on the number and nature of complaints received, and action taken, as a result, in consultation with the Independent Person.
- l) To receive an annual report on the District Council's ethical governance arrangements.
- m) To make recommendations to Council on the appointment of an Independent Person(s) under S28 of the Localism Act 2011.
- n) To grant dispensations pursuant to Section 33(2) of the Localism Act 2011 and paragraph 8 of the adopted Code of Conduct where:
  - so many members of the decision-making body have Disclosable Pecuniary Interests in a matter, that it would impede the transaction of the business; or
  - without a dispensation, no member of the executive would be able to participate on a particular item of business;
  - without a dispensation, the representation of different political groups, on the body transacting the business, would be so upset as to alter the outcome of any voting on the matter;
  - that the authority considers that the dispensation is in the interests of persons living in the area; or
  - where the committee considers that it is otherwise appropriate to grant a dispensation.

3.2 The Committee has granted dispensations under the Constitution to members who are also directors of Oportunitas, to allow them to speak and vote at meeting where the company's business is discussed.

#### 4. COMPLAINTS



4.1 There were no 'code of conduct' complaints reported to the Audit and Governance committee in the council year 19/20.

## **5. LEGAL, FINANCIAL AND OTHER CONTROLS/POLICY MATTERS**

### **5.1 Legal officer's comments (AK)**

There are no legal issues arising out of this report.

### **5.2 Finance officer's Comments**

There are no financial issues directly arising out of this report.

### **5.3 Diversities and equalities implications (AK)**

This report does not directly have any diversity and equality implications.

## **6. CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

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

Amandeep Khroud

Tel: 01303 853253

E-mail: [Amandeep.khroud@folkestone-hythe.gov.uk](mailto:Amandeep.khroud@folkestone-hythe.gov.uk)

The following background documents have been relied upon in the preparation of this report: None

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This Report will be made public on 25 February 2020



Report Number **AuG/19/20**

**To:** Audit and Governance  
**Date:** 4 March 2020  
**Status:** Non – executive decision  
**Head of service:** Amandeep Khroud – Assistant Director – Governance, Law and Regulatory Services

**SUBJECT: LOCAL CODE OF CORPORATE GOVERNANCE**

**SUMMARY:** This report recommends the approval of a local code of corporate governance for 2020/21.

**REASONS FOR RECOMMENDATIONS:**

It is necessary for the committee to adopt a local code of corporate governance for the current year.

**RECOMMENDATIONS:**

1. To receive and note report AuG/19/20.
2. To adopt the local code of corporate governance appended.

## 1. INTRODUCTION

- 1.1 The council should adopt a local code of corporate governance each year.
- 1.2 The code is derived from the guidance of CIPFA/SOLACE (the Society of Local Authority Chief Executives) “*Delivering Good Governance in Local Government: Framework*”.

## 2. THE CODE

- 2.1 The code is appended.
- 2.2 The recommended code is based on seven core principles. These principles are:
  - A. Strong commitment to integrity, ethical values, and the rule of law.
  - B. Openness and comprehensive stakeholder engagement.
  - C. Defining outcomes in terms of sustainable economic, social and environmental benefits.
  - D. Determining the interventions necessary to optimise the achievement of intended outcomes.
  - E. Developing the capacity of the entity, including the capability of its leadership and the individuals within it.
  - F. Managing risks and performance through robust internal control and strong public financial management.
  - G. Implementing good practices in transparency and reporting to deliver effective accountability.
- 2.2 Under each principle is a list of actions that the council takes to support the relevant principle. These are actions the council is already taking.

## 3. RISK MANAGEMENT ISSUES

3.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Failure to adopt a code	Medium	Low	Adopt the local code.

#### **4. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS**

##### **4.1 Legal Officer's Comments (AK)**

No legal comments.

##### **4.2 Finance Officer's Comments (CS)**

There are no direct financial implications arising from this report.

##### **4.3 Diversities and Equalities Implications**

#### **5. CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

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

Amandeep Khroud – Assistant Director – Governance, Law and Regulatory Services

Tel No: 01303 853253

Email: [Amandeep.khroud@shepway.gov.uk](mailto:Amandeep.khroud@shepway.gov.uk)

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

None

##### **Appendices:**

Appendix 1: Draft local code of corporate governance

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## Local Code of Corporate Governance 2020

### Introduction

The Council produces a code of corporate governance which is reviewed on an annual basis. Guidance for preparing the code is provided by the Chartered Institute for Public Finance and Accountancy (CIPFA).

CIPFA has developed a framework for good governance in the public sector based on the International Framework, Good Governance in the Public Sector.

The framework comprises of seven principles of good governance. In the framework governance is defined as:

**Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.**

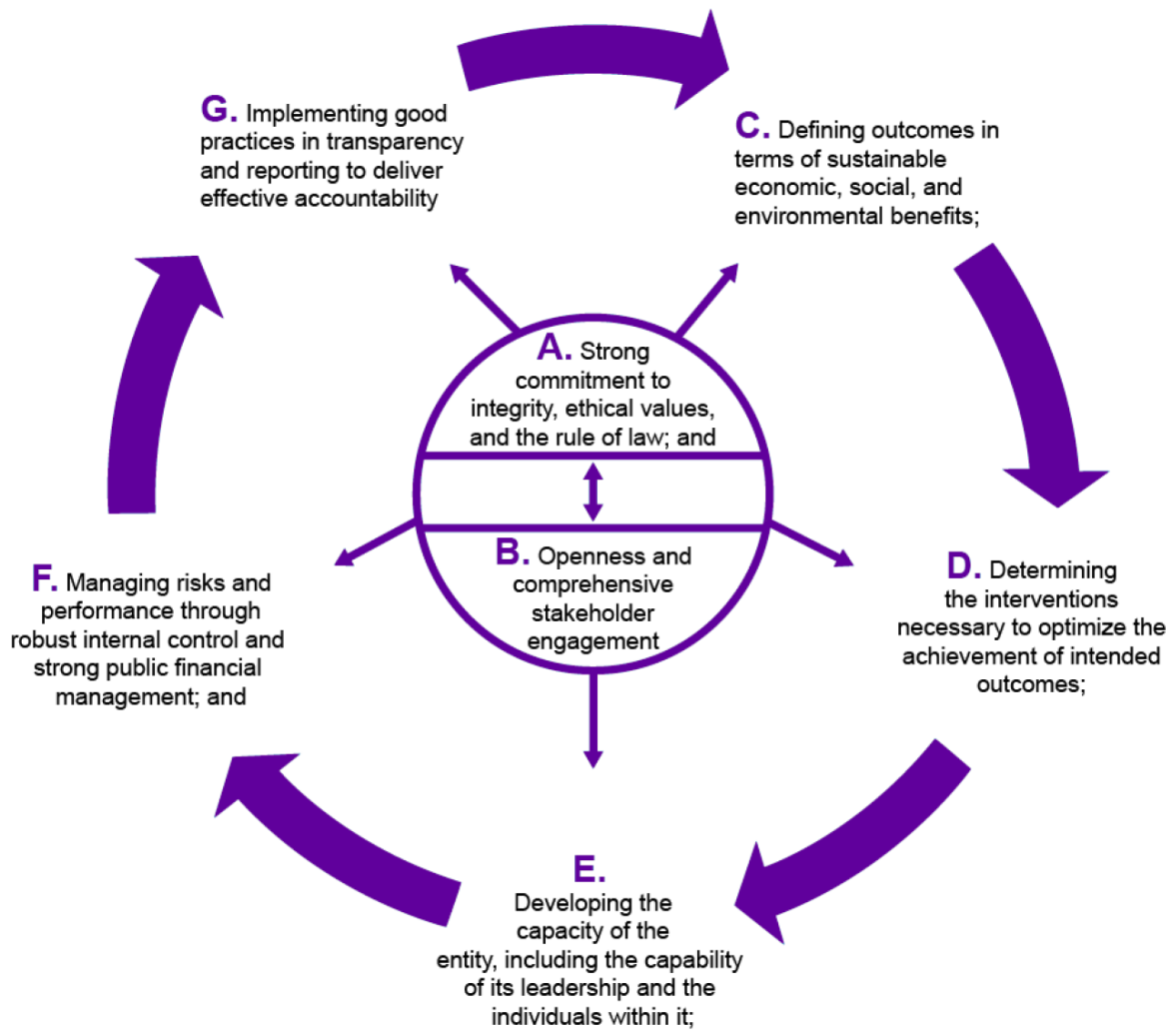
Effective governance in the public sector encourages improved decision making and efficient use of resources. Effective governance is characterised by robust scrutiny, which provides important pressures for improving public sector performance and tackling corruption. Effective governance can improve management leading to better service delivery and ultimately, better outcomes.

The Local Code of Corporate Governance is the document that sets out the framework within which the Council conducts its business and affairs.

**The seven principles of good governance set out in the framework are:**

- A. Strong commitment to integrity, ethical values, and the rule of law.
- B. Openness and comprehensive stakeholder engagement.
- C. Defining outcomes in terms of sustainable economic, social and environmental benefits.
- D. Determining the interventions necessary to optimise the achievement of intended outcomes.
- E. Developing the capacity of the entity, including the capability of its leadership and the individuals within it.
- F. Managing risks and performance through robust internal control and strong public financial management.
- G. Implementing good practices in transparency and reporting to deliver effective accountability.

The core principles for good governance in the public sector are high level and bring together a number of concepts. The figure below sets out the relationship between the principles.





**A: Strong commitment to integrity, ethical values, and the rule of law.**

The Council is responsible for using national resources collected through taxation to provide services for our citizens. We are accountable not only for how much we spend but also for the way we use the resources with which we have been entrusted.

In addition, we have an overarching mission to serve the public interest, in adhering to the requirements of legislation and government policies.

Ethical values and standards are defined in the Council's Constitution and should form the basis for all our policies, procedures and actions as well as the behaviour of our members and staff.

Council officers may be involved with interpreting laws; such activities demand a high standard of conduct that prevents these roles being brought into disrepute. We should demonstrate a strong commitment to the rule of law as well as compliance with all relevant laws.

This makes it essential that we can demonstrate the integrity of all our actions and that we have mechanisms in place that encourage and enforce a strong commitment to ethical values and legal compliance at all levels.

1. The Council will maintain core values) both for the Council and its officers. These are One Team, Thinking Ahead, Performance Counts and Customer First.
2. We use core values as a guide for decision making and as a basis for developing positive and trusting relationships within the Council. We demonstrate this by adherence to the constitution
3. We have adopted formal codes of conduct defining standards of personal behaviour for members and officers.
4. We maintain the Audit and Governance Committee to raise awareness and take the lead in ensuring high standards of conduct are embedded within the Council's culture.
5. We have put in place arrangements to ensure that members and staff of the Council are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders. We have put in place appropriate processes to ensure that these arrangements are workable including declaration of interests and anti-corruption policies.
6. We ensure that systems and processes for financial administration and control together with protection of the Council's resources and assets comply with ethical standards; and are subject to monitoring of their effectiveness.
7. We will ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making if appropriate.

8. Officers will actively recognise the limits of lawful activity placed on them but also strive to utilise their powers to the full benefit of their communities.
9. Officers will observe all specific legislative requirements placed upon the Council as well as the requirements of general law, and in particular integrate the key principles of administrative law – rationality, legality and natural justice into the procedures and decision making.
10. We have put in place effective systems to protect the rights of staff. We ensure that policies for whistle-blowing which are accessible to staff and those contracting with the Council, and arrangements for the support of whistle-blowers, are in place.
11. We will publish an Annual Governance Statement, signed by the head of paid service and the Chairman of the Audit and Governance Committee to confirm that we are satisfied that we have effective governance arrangements in place.

### **B: Openness and comprehensive stakeholder engagement**

The Council operates for the public good and recognises there is a need for openness about our activities as well as clear channels of communication and engagement with all stakeholders. We must demonstrate that we act in the public interest at all times to maintain public trust and confidence. We should demonstrate clear reasoning for decision making and ensure that this is formally recorded for retrospective public scrutiny.

1. We will ensure that the Council's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated.
2. We will maintain a culture of accountability so that members and Officers understand to whom they are accountable and for what.
3. We will strive to engage with stakeholders on an individual and collective basis to demonstrate that we deliver services and outcomes that meet the needs and expectations of the public. These arrangements will recognise that different sections of the community have different priorities and establish robust processes for dealing with these competing demands.
4. We will deliver effective scrutiny of the Council's business as appropriate and produce an annual report on the activities of the overview and scrutiny function.
5. We will ensure that the Council as a whole is open and accessible to the community, service users and staff and we are committed to openness and transparency in all dealings. We will attempt to publish all committee agenda items publically unless there is the need to preserve confidentiality where it is proper and appropriate to do so.

### **C: Defining outcomes in terms of sustainable economic, social, and environmental benefits.**

The Council has prepared and published a plan which sets out the Council's priorities; a Medium Term Financial Plan which is a financial representation of the Council's Vision and supports the priorities

We will review this document on a regular basis to ensure they reflect the vision of the Council.

1. We will make a clear statement of the Council's purpose and vision and use it as a basis for corporate and service planning.
2. We will ensure that those making decisions are provided with financial and non-financial information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications.
3. We will identify and monitor service performance indicators which demonstrate how the quality of service for users is to be measured.
4. We maintain a prudential financial framework, balance commitments with available resources; and monitor income and expenditure levels to ensure this balance is achieved.
5. We ensure compliance with the CIPFA codes regarding a Prudential Framework for Capital Finance and Treasury Management.

**D: Determining the interventions necessary to optimise the achievement of intended outcomes.**

The Council clearly defines its priorities and plans which are aimed at delivering the outcomes that the Council intends. These will focus on delivering effective and efficient services for the residents. We assess the risks of not achieving those outcomes and ensure that there are mitigating actions in place to support the achievement of intended outcomes. The Council's financial management arrangements ensure that there is adequate resource available to deliver those outcomes. The Council reviews progress against delivering those outcomes through its performance management arrangements.

1. We will make a clear statement of the Council's purpose and vision and use it as a basis for corporate and service planning.
2. We have risk management arrangements in place including mitigating actions to support the achievement of the Council's intended outcomes.
3. We will ensure that there are effective arrangements in place to monitor service delivery.
4. We will put in place effective arrangements to deal with a failure in service delivery and explore options for improving service delivery and outcomes for our residents.

5. We have prepared contingency arrangements including a disaster recovery plan, business continuity plan and arrangements for delivering services during adverse weather conditions.

6. We will provide senior managers and Members with timely financial and performance information.

7. We ensure that budget calculations are robust and reserves are adequate.

8. We will align financial and performance data to provide an overall understanding of performance.

**E: Developing the capacity of the Council including the capability of its leadership and the individuals within it.**

The Council will develop and retain a management structure that provides leadership and creates the opportunity for staff to work effectively and efficiently to achieve the Council objectives. We will provide training and support to enable staff to develop their skills so they can achieve their full potential.

1. Through the constitution we have set out a clear statement of the respective roles and responsibilities of the Council's Cabinet and the members individually.

2. We have set out a clear statement of the respective roles and responsibilities of the Council's other committees and senior officers.

3. We have developed protocols to ensure effective communication between Council members and officers in their respective roles.

4. We have set out the terms and conditions for remuneration of members and officers and publish an Annual Pay policy statement in accordance with the requirements of the Localism Act 2011.

6. There is a scheme of delegated powers within the constitution and we ensure that the scheme is monitored and updated when required.

7. We will ensure that effective management arrangements are in place at the top of the organisation.

8. The head of paid service is responsible and accountable to the Council for all aspects of operational management.

9. The Chief Financial Officer is the Director – Corporate Services and is a member of the Council's Corporate Management Team, with access to the Head of Paid Service and other members of the leadership team.

10. The Section 151 Officer is responsible to the Council for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.

11. We have appointed a professionally qualified and experienced Chief Financial Officer, who will lead the promotion and delivery of good financial management, safeguarding public money and ensuring appropriate, economic, efficient and effective use of funds; together with professional accountability for finance staff throughout the Council

12. The Monitoring Officer is responsible to the Council for ensuring that the constitution is adhered to.

13. We will assess the skills required by Members including the understanding of financial systems. We will agree a personal development plan to develop skills and address any training gaps, to enable roles to be carried out effectively.

14. We will assess the skills required by officers through the appraisal process and address any training gaps, to enable roles to be carried out effectively.

15. We will develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed.

16. We will ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the Council.

17. We will review the scope of the Chief Financial Officer's non-financial areas of responsibility to ensure financial matters are not compromised.

18. We provide the Chief Financial Officer and the Monitoring Officer with the resources, expertise and systems necessary to perform the role effectively within the Council.

## **F: Managing risks and performance through robust internal control and strong public financial management.**

The Council recognises the need to implement an effective performance management system that will allow us to deliver services effectively and efficiently. We understand that risk management, internal control and strong financial management are essential for us to achieve our objectives and we have put appropriate arrangements in place.

1. We will maintain an effective Audit and Governance Committee which is independent of the executive and overview and scrutiny functions.

2. We will enable the Chief Financial Officer to bring influence to bear on all material decisions and provide advice on the levels of reserves and balances to be retained.

3. We will ensure that risk management is embedded into the culture of the Council, with members and managers at all levels recognising that risk management is part of their job.

4. We will ensure our arrangements for financial and internal control and management of risk are formally addressed within the annual governance reports.
5. We will ensure effective internal control arrangements exist for sound financial management systems and processes.

**G: Implementing good practices in transparency and reporting to deliver effective accountability.**

The Council recognises that effective accountability is concerned not only with reporting on actions completed but ensuring stakeholders are able to understand and respond as the Council plans and carries out its activities in an open manner.

1. We comply with the local government transparency code and publish all required information in a timely manner.
2. We have established a medium term business and financial planning process in order to deliver a financial strategy ensuring sustainable finances, a robust annual budget process ensuring financial balance and an adequate monitoring process; all of which are subject to regular review.
3. We have put in place effective transparent and accessible arrangements for dealing with complaints.
4. We will maintain an effective overview and scrutiny function which encourages constructive challenge and enhances the Council's performance overall.
5. We will maintain an effective Audit and Governance Committee which is independent of the Cabinet and the Overview and Scrutiny committee.
6. We will ensure an effective internal audit function is resourced and maintained.
7. We will maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based.
8. We will attempt to publish all committee items in the public part of the agenda unless there is the need to preserve confidentiality where it is proper and appropriate to do so.
9. We will put in place arrangements for whistle-blowing to which staff and all those contracting with the Council have access.
10. We will produce clear, timely, complete and accurate information for budget holders and senior officers relating to the budgetary and financial performance of the Council.

11. We will maintain effective arrangements for determining the remuneration of senior staff and publish an Annual Pay Policy statement in accordance with the requirements of the Localism Act 2011.

### **Annual Review of Corporate Governance**

At the end of each financial year, the Council formally reviews the governance arrangements in place and produces an Annual Governance Statement.

The Annual Governance Statement includes:

- Scope of responsibility
- The purpose of the governance statement
- The Council's governance framework
- Review of effectiveness
- Assurance statements
- Internal Audit's opinion of the system of internal controls
- Financial management
- Significant governance and internal control issues
- Action plan
- Certification statement

The Annual Governance Statement addresses any actions arising from the previous years' Annual Governance Statement and highlights any actions arising from the year being reviewed.

The Annual Governance Statement also assesses the effectiveness and application of the Local Code of Governance and identifies any necessary changes and makes any relevant recommendations to the Council.

As part of the Audit and Governance Committee's governance role, the formal annual review will be undertaken by the Audit and Governance Committee on behalf of the Council.

The Annual Governance Statement is signed by the Chairman of the Audit and Governance Committee)and by the Head of Paid Service, and is published with the Council's annual Statement of Accounts.

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This Report will be made public on 25 February 2020



Report Number **AuG/19/21**

**To:** Audit and Governance Committee  
**Date:** 4 March 2020  
**Status:** Non-Executive Decision  
**Corporate Director:** Charlotte Spendley – Director – Corporate Services (S151)

**SUBJECT: INTERNAL AUDIT STANDARDS SELF-ASSESSMENT**

**SUMMARY:** This report summarises the results of the East Kent Audit Partnership (EKAP) self-assessment against the Public Sector Internal Audit Standards (PSIAS) and the actions required to move towards full compliance.

**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 audit service is maintained.

**RECOMMENDATIONS:**

- 1. To receive and note Report AuG/19/21.**
- 2. To note the results of the self assessment and the actions required to work towards full compliance with the PSIAS.**

**1. Introduction and Background.**

- 1.1 From 1<sup>st</sup> April 2013 the EKAP has been working to the Public Sector Internal Audit Standards (PSIAS), defined as the proper practice for Internal Audit in the UK Public Sector. A mandatory local government sector specific application note issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) supplements the Standards.
- 1.2 The previous self-assessment against the PSIAS was undertaken in 2016 by the Head of the Audit Partnership and was reviewed by the two Deputy Heads of Audit, this review concluded that EKAP partially complied and resulted in an action plan for improvements working towards full compliance.
- 1.3 A self-assessment to demonstrate the extent to which the service complies with the PSIAS and to identify any areas where further work is required was undertaken in December 2019, to enhance independence a different EKAP Auditor undertook the self-assessment, which has been reviewed by the Head of Audit. The assessment comprises 193 questions against which evidence to support 'Fully Complies, Partially Complies, Does Not Comply or Not Applicable' has been assessed and has concluded the following:

	YES	PARTIAL	NO	NOT APPLICABLE
PERCENTAGE	87%	6%	1%	6%
TOTALS	167	12	2	12

The table demonstrates that EKAP continues to be predominately compliant with the PSIAS, and some improvements have been identified i.e. regarding housekeeping, document control and retention, future proofing and keeping EKAP procedures updated. The recommended actions to ensure full compliance in all areas can be met and improved is attached at Annex 1.

- 1.4 It should be noted that Internal Audit's level of compliance with professional standards is continually being monitored and reported on the Balance Scorecard of Performance Indicators to members on a quarterly basis.
- 1.5 Two key documents that the self-assessment has relied upon, are updated annually and have not significantly changed since the last self-assessment. The Audit Mission and Charter are attached within these committee papers alongside the Audit Plan report as part of the agenda. Any further updates or amendments to these key documents will be brought before the committee for approval in three years, or sooner if required.

## 2. The Self-Assessment against the Public Sector Internal Audit Standards (PSIAS)

2.1 The Head of the Audit Partnership has undertaken a self-assessment to demonstrate the extent to which the service complies with the PSIAS (and supplementary application note) and to identify any areas where further work was required to demonstrate compliance.

2.2 This review therefore, notes the changes to the new 2017 updated standard and the resultant action plan addresses the areas that are required before the EKAP can accurately use the phrase “conforms with the International Standard for the Professional Practice of Internal Auditing”.

2.3 The PSIAS are broken down into two main areas

- **Attribute Standards** address the characteristics of organisations performing the Internal Audit activities.

**Standard 1000 – Purpose, Authority and Responsibility**

**Standard 1100 – Independence and Objectivity**

**Standard 1200 – Proficiency and Due Professional Care**

**Standard 1300 – Quality Assurance and Improvement**

**Programme**

- **Performance Standards** describe the nature of Internal Audit activities and provide quality criteria against which the performance of these services can be evaluated.

**Standard 2000 – Managing the Audit Activity**

**Standard 2100 – Nature of Work**

**Standard 2200 – Engagement Planning**

**Standard 2300 – Performing the Engagement**

**Standard 2400 – Communicating Results**

**Standard 2500 – Monitoring Progress**

**Standard 2600 – Communicating the Acceptance of Risks.**

2.4 The Self-Assessment process also reviewed the following key documents:

- Mission of Internal Audit,
- Core Principles for the professional practice of internal auditing, and
- Code of Ethics

2.5 The Action Plan records those improvements required to comply with the standards. The self-assessment therefore concludes that EKAP complies in all other areas. A full copy of the PSIAS can be downloaded free at;

### 3. Next Steps

- 3.1 The progress towards achieving the actions contained in the Action Plan shown as Annex 1 will be reported in the annual report brought to the Committee in July.

### 4. RISK MANAGEMENT ISSUES

- 4.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Non-compliance with Auditing Standards	Medium	Low	Review audit service against the PSIAS on a regular interval
Non implementation of actions required to meet the standards	Medium	Low	Review of progress with the action plan by Audit and Governance Committee via the Annual Report.
Non completion of External Quality Assessment	Medium	Low	Ensure the potential impact of not conducting an EQU is included in the Annual Governance Statement.

### 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.

#### 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 areas of non-compliance with the PSIAS are actively being monitored and improved.

#### 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](mailto:Christine.parker@dover.gov.uk)

Charlotte Spendley Director – Corporate Services (S151)

Telephone: 01303 853420 Email: [Charlotte.spendley@folkestone-hythe.gov.uk](mailto:Charlotte.spendley@folkestone-hythe.gov.uk)

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

- PSIAS
- CIPFA Local Government Application Note
- IIA Checklist for Self-Assessment.

#### **Attachments**

- Annex 1 Action Plan for the Self-Assessment against the Public Sector Internal Audit Standards (PSIAS).

## Improvement Actions Required for EKAP to conform with the Public Sector Internal Audit Standard

PSIAS Reference	PSIAS Name	Action Required
1000	Purpose, Authority and Responsibility	<ul style="list-style-type: none"> <li>• Update the Audit Mission statement to recognise each partners' Corporate Objectives and to cross reference the key EKAP documents that support the statement. (Done).</li> <li>• Update each Council's web pages to consistently show the EKAP presence (requests have been sent).</li> <li>• Update the GDPR Document retention schedule to reflect latest Information Asset Register requirements. (Done – to be raised at next team meeting also).</li> <li>• Add a glossary of Terms to the Audit Charter to define the terms 'Board' and 'senior management team'.</li> </ul>
1110	Organisational Independence	<ul style="list-style-type: none"> <li>• Remind IA Staff of their ethical responsibilities. December Team Meeting annually to discuss the seven principles of public life etc.</li> <li>• Further expand the role of EKAP in fraud investigations (within the Audit Charter) with regards to the methodology and reporting lines.</li> </ul>
1310	Quality Assurance and Improvement Programme (QAIP)	<ul style="list-style-type: none"> <li>• Does the QAIP include both internal and external assessments? Internal self-assessment (Done) No external assessment planned or budgeted for (EKAP Client Officer group decision).</li> </ul>
1311	Internal Assessments	<ul style="list-style-type: none"> <li>• Improve the internal quality assessment in accordance with the new requirements; specifically to capture more evidence of the assessments done.</li> </ul>
1312	External Assessments	<ul style="list-style-type: none"> <li>• No external assessment planned or budgeted for (EKAP Client Officer Group decision).</li> </ul>

1322	Disclosure of non-conformance	<ul style="list-style-type: none"> <li>• The lack of an External Assessment should be included as a deviation from the PSIAS in the annual governance statement (Done).</li> </ul>
2010	Planning	<ul style="list-style-type: none"> <li>• LGAN- Is the risk-based plan sufficiently flexible to reflect the changing risks and priorities of the organisation by allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary? No contingency provision is held in audit plans; urgent work is at the cost of planned work in agreement with the s.151.</li> <li>• Has the Chief Audit Executive carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance? Only to Food Standards and H&amp;S. Working with KAG - develop a map of assurance providers.</li> </ul>
2000	Managing the IA Activity	<ul style="list-style-type: none"> <li>• General tidy up on files including ensuring compliance with the Document Retention Scheme and disposal of old files, version control on key documents (added to the next Team Meeting Agenda).</li> <li>• Include on the Audit Brief any systems and resources to be reviewed, including those that are under the control of third parties.</li> <li>• Refresh the Audit Manual, add a Work Instruction for Allocating Work.</li> <li>• Even better evidence reasons for job progress comments, including over and underspends on time budgets against individual reviews as recorded on APACE.</li> <li>• The implementation of these corrective actions resulting from the self-assessment should be reported to the board. (Progress to be included in the Annual Report).</li> </ul>

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This Report will be made public on 25 February 2020



Report Number **AuG/19/22**

**To:** Audit and Governance Committee  
**Date:** 4 March 2020  
**Status:** Non-Executive Decision  
**Corporate Director:** Charlotte Spendley – Director – Corporate 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 31<sup>st</sup> December 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/19/22.
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 31<sup>st</sup> December 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 four audit reports completed during the period. These have been allocated assurance levels as follows: three were providing substantial assurance, and one reasonable assurance. Summaries of the report findings are detailed within Annex 1 to this report.

- 3.2 In addition, five 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 31<sup>st</sup> December 2019 204.93 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 57% 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 Director – Corporate Services (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](mailto:Christine.parker@dover.gov.uk)

Charlotte Spendley Director – Corporate Services (S151)  
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- 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 31<sup>st</sup> December 2019.

**2. SUMMARY OF REPORTS**

Service / Topic		Assurance level	No of recs	
2.1	Council Tax Reduction Scheme	Substantial	C	0
			H	0
			M	0
			L	0
2.2	East Kent Housing - Welfare Reform	Substantial	C	0
			H	0
			M	0
			L	3
2.3	Employee Allowances & Expenses	Substantial	C	0
			H	0
			M	1
			L	2
2.4	East Kent Housing – Compliance Indicators Data Quality	Reasonable	C	1
			H	1
			M	0
			L	0

**2.1 Council Tax Reduction Scheme - Substantial Assurance**

**2.1.1 Audit Scope**

To provide assurance on the adequacy and effectiveness of the procedures and controls regarding the Council's Council Tax Reduction Scheme (CTRS).

**2.1.2 Summary of Findings**

The Local Government Finance Act 1992 required a local authority to have an approved scheme for the provision of Council Tax Support in 2019/20 by 11<sup>th</sup> March 2019. Under the Council Tax Reduction provisions, the scheme for

pensioners is determined by Central Government and the scheme for working age applicants is determined by the Council. Pensioners broadly receive the same level of support that was previously available under the Council Tax Benefit scheme. Changes to the scheme for 2019/20 are designed to reduce administration for the Council whilst producing a simpler, more transparent scheme for the customer in response to wider welfare reform.

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

- The current council tax reduction scheme for 2019/20 has had the appropriate consultation exercises carried out and has been approved by Members.
- Established day to day processes are in place to ensure that council tax reduction scheme applications are processed correctly and within set performance time frames.
- Staff have received training on the new council tax reduction scheme and the income calculation processes that have been put in place.

## **2.2 East Kent Housing – Welfare Reform - Substantial Assurance**

### **2.2.1 Audit Scope**

To provide assurance on the adequacy and effectiveness of the procedures and controls established to guard against the potential risks arising from the introduction of Welfare Reform Act in terms of increased caseload, rent arrears and higher debt levels.

### **2.2.2 Summary of Findings**

The Welfare Reform Act 2012 is an Act of Parliament in the United Kingdom which makes changes to the rules concerning a number of benefits offered within the British social security system. It was enacted by the Parliament of the United Kingdom on 8 March 2012.

The Department of Work and Pensions started work on Universal Credit (UC) in 2010 with an original completion date of October 2017. However, the government reset the programme in 2013 after a series of problems with managing the programme and developing the necessary technology. There have been many revised completion dates and in June 2018 it announced a further delay to the completion of the programme to March 2023.

East Kent Housing manages the housing portfolio for Canterbury, Dover, Folkestone & Hythe, and Thanet Councils. This means that they have to manage the expectations of the tenants and as such are one of the main points of contact for tenants who may be affected by changes in the welfare system. As part of the reforms one of the main changes has been the introduction of UC, as part of the new system tenants are now expected to manage their benefits payments and pay their rent direct. In addition to which there is an expectation that the first payments under the new regime will be delayed having a knock-on effect on the tenants'

capability to meet normal household costs, pay their essential bills and their rent. This will all have to be sensitively managed.

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

- There is an up to date Risk Strategy Process in place;
- Up to date Action Plans are in place to detail how the roll out of Universal Credit and its impact is to be managed and reported on;
- Information, advice and assistance relating to the Welfare Changes have been made available to tenants and the general public via the website and staff have been kept up to date via the intranet and staff meetings; and
- Benefit & Money advisors have been put in place to assist tenants during the changeover process.

Scope for improvement was however identified in the following areas:

- Staff procedures relating to the Welfare Reform need to be made more accessible to staff, perhaps via a link on the intranet pages; and
- Training needs of staff involved with the new scheme need to be more comprehensive and customer focused.

## **2.3 Employee Allowances & Expenses – Substantial**

### **2.3.1 Audit Scope**

To ensure that the payments made to employees in relation to allowances and expenses due to them are adequately controlled to ensure that the amounts paid are accurate, authorised and are in-line with Council policies and HMRC guidance.

### **2.3.2 Summary of Findings**

As at January 2020 there were 365 people (including casuals) on the FHDC payroll, equating to 319.15 full time equivalent. Examples of the most common types of expense claims are shown in the following budget headings:

- Professional/ misc. subscriptions
- Public transport and car park expenses
- Essential user lump sum car allowance plus essential and casual user mileage
- Cash Alternative Allowance
- Leased/ cash alternative car mileage
- Subsistence allowances

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

- Allowances and expenses are being paid in line with Council policy and HMRC regulations.
- All allowances paid and expenses claimed are approved in line with Financial Procedure Rules.
- Receipts are provided to support claims for travel and subsistence.

- Where allowances paid exceed HMRC approved rates tax and national insurance is correctly deducted at source via the payroll.
- Appropriate system access controls are in place.
- Payroll and financial system interfacing controls and checks are appropriate and effective.
- Back-up copies of data are taken regularly and stored at a remote location.

Scope for improvement was however identified in the following areas:

- Consideration should be given to reviewing the Reimbursement of Expenditure Policy to ensure that allowances payable and reimbursement limits remain relevant and reflect current practices, processes and takes into account inflation rises.
- The implications of storing payroll data in compliance with GDPR once the data exceeds the seven year retention period must be considered.

## **2.4 East Kent Housing – Compliance Indicators Data Quality – Reasonable Assurance**

### **2.4.1 Audit Scope**

To provide assurance on the adequacy and effectiveness of the procedures and controls established by East Kent Housing to ensure the safety of all residents in all properties for which they are responsible for is not compromised.

### **2.4.2 Summary of Findings**

Following concerns being raised around the integrity of Health & Safety compliance data streams being reported to each of the East Kent Councils, this audit has been undertaken to review systems and processes in place in East Kent Housing (EKH) to produce compliance reports to establish the level of reliance which can be placed on the reports by each Council.

Having reviewed and assessed the methodology, accuracy of collection and measurement of performance indicators relating to tenant health & safety, there is emerging evidence that management can have reasonable assurance in the information being reported to them each week.

It is the following findings which result in a conclusion of Reasonable Assurance.

- EKH is making considerable improvement in the monitoring and reporting of compliance for properties which it is responsible for.
- EKH recognised that it still has some work to do to ensure that the new compliance monitoring and reporting processes become embedded across the organisation.

Audit testing identified the following weaknesses resulting in a marginal level of risk to the achievement of the system objectives.



- Cloned data from a partial stock condition survey means that EKH cannot place full reliance on the data it has and properties it is responsible for compliance on. Until a 100% survey has been undertaken on all properties, this will remain the case.
- Partner Councils have not given EKH any guidance on the format and content of compliance reports, other than to accept the reports EKH are presenting them with. This could mean that there are other areas where weak compliance is not being reported.
- Current reporting arrangements are placing a significant burden on EKH which is not only unsustainable, but also detracting resources away from making improvements in overall compliance performance.
- Some compliance reports contain minor differences in the property populations being reported across different compliance streams from week to week.

A number of errors were identified in compliance figures being reported when comparing the Word-based compliance report to the Scorecard report for the corresponding week. Whilst the differences in the compliance percentage may have changed, none of the differences were to such an extent that the story being told was any different. In some cases tested the difference between the two reports was less than 1%. In most areas of compliance being reported, levels of compliance are so far away from 100% that a 1% or even 5% difference in the two reports means very little.

For example, in one reporting period on Domestic EICR's. The MS Word report reported 65.38% whilst the Scorecard reported compliance at 65.31%. For the purposes of audit testing this was noted as an error. However, both reports give the council the same important information that compliance on Domestic EICR's is a long way from where it needs to be.

A large reason for the changes being made to property population numbers and errors in reports is down to EKH not knowing exactly what they have in each and every property, and that is as a result of a partial stock condition survey, and the differences/ gaps being made up by cloned data.

### **3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS**

- 3.1 As part of the period's work four 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
Payroll	Substantial	Substantial	C 0 H 0 M 0 L 2	C 0 H 0 M 0 L 0
Creditors	Substantial	Substantial	C 0 H 1 M 1 L 3	C 0 H 0 M 0 L 1
Recruitment & Leavers	Reasonable	Substantial	C 0 H 1 M 1 L 0	C 0 H 0 M 0 L 0
Capital	Reasonable	Reasonable	C 0 H 1 M 3 L 0	C 0 H 1 M 3 L 0
East Kent Housing – Tenant Health & Safety (Electrical Safety)	No	Limited	C 1* H 1* M 0 L 0	C 0 H 0 M 0 L 0

\*Partially implemented at the time of follow-up

- 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 outstanding 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.

- 3.3 As highlighted in the above table, those areas previously reported as having either Limited or No assurance have been reviewed and, in respect of those remaining at below Reasonable assurance, Members are advised as follows:

a) East Kent Housing – Tenant Health & Safety (Electrical Safety):

There were two main issues identified in the original audit which needed to be addressed. The first being around undertaking action to immediately review and rectify the C1 category faults identified on EICR certificates in Communal blocks and then C2 faults. Discussions with EKH have established that immediate action has been taken to address C1 faults on EICR's held by EKH. Then EKH would be

able to work to address C2 faults on EICR's. This work is still ongoing, and therefore the first recommendation is considered to be partially implemented with a positive direction of travel towards full implementation. It is acknowledged however by EKH that due to the number of potential C2 faults, this work is likely to be ongoing until at least March 2020.

The second recommendation that was originally agreed was around moving to a 5 yearly EICR process. All four Councils have agreed and moved to a 5 yearly process, but in doing so, overall levels of compliant EICR's are lower than desired. Compliance reports in early November reported EICR compliance in domestic properties varying between 66% (Dover) and 27% (Folkestone and Hythe). This means that there is still a significant amount of work required to ensure that EICR compliance reaches an acceptable level. For this reason, the second recommendation is also considered to be only partially implemented with a positive direction of travel. See below for levels of EICR compliance as at early November.

#### **Communal Blocks**

	CCC	DDC	F&H	TDC
Compliant	302	132	143	204
Non-Compliant	178	242	3	0
Total props	480	374	146	204
Compliant %	63%	35%	98%	100%

#### **Domestic properties**

	CCC	DDC	F&H	TDC
Compliant	2495	2852	930	892
Non-Compliant	2611	1465	2466	2119
Total props	5106	4317	3396	3011
Compliant %	48%	66%	27%	30%

EKH recognised the need for better compliance reporting around EICR's and have purchased software to aid with EICR compliance reporting. Compliance staff have undertaken a significant amount of work to implement the software, but that work is still ongoing, and not likely to be completed until around March 2020. Whilst the software will not improve levels of EICR compliance as that can only be achieved by undertaking work on properties. It will however ensure that EICR compliance is accurately reported more easily and that outstanding remedial work and EICR renewals is better and more efficiently planned.

The controls around the addressing of faults initially raised on EICR certificates have improved significantly, particularly around C1 faults. Analysis undertaken by staff has identified large numbers of non-existent EICR's in both Communal blocks and Domestic properties. While a significant amount of work has already been complete, there remains a significant amount of work still outstanding.

EKH expect that by March 2020, the Corgi software will be fully operational and reporting on EICR compliance, which should have also significantly improved by that point in time.

#### **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: Housing Allocations; Otterpool Park Governance; Waste management; 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 5<sup>th</sup> 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 31<sup>st</sup> December 2019, 204.93 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 57% 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 31<sup>st</sup> December 2019 against the agreed 2019/20 Audit plan.
- Appendix 4 Balanced Scorecard of performance indicators to 31<sup>st</sup> December 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.
Capital		
<p>1 Management should ensure that guidance is available to staff and members on the appraisal methodology for determining and measuring clear demonstrable links between the Council’s objectives/ priorities and aspirations against which capital funding bids should be assessed.</p> <p>To enable this project lead officers must ensure that expected measurable outcomes have been fully identified as this will provide management and members with a clear understanding of the value of the project and enable effective post implementation assessment of the scheme.</p> <p>To ensure that a holistic and formalised approach to capital scheme planning is formulated and put into practice (ensuring that individual scheme linkages between corporate priorities, business needs, financial resources, asset management plan and commercial appetite are identified and documented) Management should consider fully utilising the Asset Management Board.</p>	<p>The development of a clearer appraisal methodology will be developed over the coming year (in liaison with the Asset Management Board).</p> <p>This will be built into the Capital Strategy which will be revised alongside the Medium Term Financial Statement and considered in the Autumn 2019.</p> <p><b>Proposed Completion Date</b> 31 October 2019</p> <p><b>Responsibility</b> Group Accountant (LW) &amp; Assistant Director – Finance, Customer &amp; Support Services in liaison with Corporate Leadership Team</p>	<p>Progress on developing the appraisal methodology has been delayed due to other work priorities. The concept was discussed with the Asset Management Board in April 2019 however to date no further progress has been made with developing the methodology to date.</p> <p>New capital schemes coming forward as part of the Budget Strategy for 2020/21 have followed the same appraisal process used in previous years; or new capital schemes coming forward for consideration and approval recently continue to be done so on an individual basis not following a set appraisal methodology at this stage, instead being evaluated on a case by case basis.</p> <p>Deferred and planned to be undertaken in readiness for the 2021/22 budget process.</p> <p>Proposed revised completion date 30 September 2020.</p> <p><b>Outstanding.</b></p>

**SUMMARY OF CRITICAL /HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AFTER FOLLOW-UP – APPENDIX 1**

<b>Original Recommendation</b>	<b>Agreed Management Action, Responsibility and Target Date</b>	<b>Manager’s Comment on Progress Towards Implementation.</b>
This would require the Council’s aspirations to be laid out clearly for officers to ensure that predicated project outcomes are linked to these.		

<b>SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED</b>			
<b>Service</b>	<b>Reported to Committee</b>	<b>Level of Assurance</b>	<b>Follow-up Action Due</b>
East Kent Housing – Tenancy & Right to Buy Fraud	March 2019	Limited	Quarter 4
East Kent Housing – Tenant’s Health & Safety	September 2019	Limited / No	Work-in-Progress – Part complete
Taxi’s & Private Hire	December 2019	Reasonable / Limited	Quarter 2
General Data Protection Regulations	December 2019	Limited	Quarter 2



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

<b>Review</b>	<b>Original Planned Days</b>	<b>Revised Planned Days</b>	<b>Actual - 31/12/2019</b>	<b>Status and Assurance level</b>
<b>FINANCIAL SYSTEMS</b>				
Bank Reconciliation	10	10		Carry over to 2020/21
Business Rates	10	10		Carry over to 2020/21
Council Tax Reduction Scheme	10	10	9.57	Finalised - Substantial
Insurance	10	0		Deferred to 2020/21
Treasury Management	10	10	10.70	Finalised - Substantial
<b>HOUSING SYSTEMS</b>				
Housing Allocations	10	10	2.20	Work in progress
<b>ICT SYSTEMS</b>				
ICT review	10	10		Quarter 4
<b>HUMAN RESOURCES SYSTEMS</b>				
Employee Allowances & Expenses	10	10	4.79	Finalised - Substantial
<b>GOVERNANCE RELATED</b>				
Financial Procedures Rules	10	10	10.16	Finalised - Reasonable
Constitution	10	10	10.01	Finalised – Substantial
Counter Fraud Arrangements	2	2	0.51	Work in progress
Oportunitas Governance	10	10		Quarter 4
<b>SERVICE LEVEL</b>				
E-Procurement & Purchase Cards	10	10	0.18	Carry over to 2020/21
Corporate Responsive Repairs	10	10	10.54	Finalised - Reasonable
Dog Enforcement	10	10	0.65	Quarter 4
Engineers	10	10		Quarter 4
Grounds Maintenance	10	10		Quarter 4
Industrial Estates	10	10	8.64	Finalised - Reasonable
Land Charges	10	10	0.34	Carry over to 2020/21
Licensing	10	10	1.57	Quarter 4
Lifeline	10	10	0.14	Carry over to 2020/21
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

<b>Review</b>	<b>Original Planned Days</b>	<b>Revised Planned Days</b>	<b>Actual - 31/12/2019</b>	<b>Status and Assurance level</b>
Folkestone Community Works Grant	8	10	0.08	Quarter 4
Waste Management	10	10	1.50	Work in progress
<b>OTHER</b>				
Committee reports & meetings	10	10	15.64	Ongoing
S151 meetings & support	11	11	10.22	Ongoing
Corporate advice / CMT	2	3	1.00	Ongoing
Liaison with External Audit	1	1	0.43	Ongoing
Audit plan prep & meetings	10	10	5.82	Ongoing
Follow Up Reviews	15	15	7.65	Ongoing
Election duties		4	6.62	Completed – N/A
<b>FINALISATION OF 2018-19 AUDITS</b>				
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 Park Governance			7.43	Work in progress
Business Continuity				Carry over to 2020/21
<b>Total</b>	<b>361.38</b>	<b>361.38</b>	<b>204.94</b>	<b>57% complete as at 31/12/2019</b>

**EAST KENT HOUSING LIMITED:**

<b>Review</b>	<b>Original Planned Days</b>	<b>Revised Planned Days</b>	<b>Actual - 31/12/2019</b>	<b>Status and Assurance Level</b>
<b>Planned Work:</b>				
CMT/Audit Sub Ctte/EA Liaison	4	4	11.11	Work-in-progress throughout 2019-20
Follow-up Reviews	4	4	10.24	Work-in-progress throughout 2019-20
Rent Accounting, Collection & Debt Mngmt.	40	40	32.44	Work in progress
Rechargeable Works	10	10	0	Postponed till future year
Tenants' Health & Safety	15	15	21.89	Finalised – Ltd - No
Customer Contact	12	12	0	Postponed till future year
East Kent Housing Improvement Plan	10	10	0	Postponed till future year
Estate Management Inspection	15	15	0	Postponed till future year
Anti-Social Behaviour	15	15	0	Postponed till future year
Employee Health, Safety & Welfare	15	15	5.02	Work in progress
<b>Finalisation of 2018-19 Work-in-Progress:</b>				
Days under delivered in 2018-19	0	19.50		Allocated
Staff Performance Management			9.12	Work-in-Progress
Welfare Reform			8.23	Finalised - Substantial
Repairs & Maintenance			37.33	Work-in-Progress
Service Level Agreements			0.97	Finalised
<b>Responsive Work</b>				
Data Integrity			4.46	
<b>Total</b>	<b>140</b>	<b>159.50</b>	<b>140.81</b>	<b>88.28% as at 31/12/2019</b>



## 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 3		Reported Annually		
Chargeable as % of available days	85%	80%	• Cost per Audit Day	£	£332.50
Chargeable days as % of planned days			• Direct Costs	£	£428,375
CCC	62.82%	75%	• + Indirect Costs (Recharges from Host)	£	£10,530
DDC	60.72%	75%			
F&HDC	56.71%	75%	• - 'Unplanned Income'	£	Zero
TDC	70.16%	75%			
EKS	56.52%	75%	• = Net EKAP cost (all Partners)	£	£438,905
EKH	88.28%	75%			
Overall	64.55%	75%			
Follow up/ Progress Reviews;					
• Issued	29	-			
• Not yet due	12	-			
• Now due for Follow Up	28	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Full			

<b><u>CUSTOMER PERSPECTIVE:</u></b>	<b><u>2019-20 Actual</u></b>	<b><u>Target</u></b>	<b><u>INNOVATION &amp; LEARNING PERSPECTIVE:</u></b>	<b><u>2019-20 Actual</u></b>	<b><u>Target</u></b>
	<b>Quarter 3</b>		<b>Quarter 3</b>		
<b>Number of Satisfaction Questionnaires Issued;</b>	<b>46</b>		<b>Percentage of staff qualified to relevant technician level</b>	<b>74%</b>	<b>75%</b>
<b>Number of completed questionnaires received back;</b>	<b>14</b>		<b>Percentage of staff holding a relevant higher level qualification</b>	<b>38%</b>	<b>36%</b>
	<b>= 30%</b>		<b>Percentage of staff studying for a relevant professional qualification</b>	<b>15%</b>	<b>N/A</b>
<b>Percentage of Customers who felt that;</b>			<b>Number of days technical training per FTE</b>	<b>4.1</b>	<b>3.5</b>
• Interviews were conducted in a professional manner	<b>100%</b>	<b>100%</b>	<b>Percentage of staff meeting formal CPD requirements (post qualification)</b>	<b>36%</b>	<b>36%</b>
• The audit report was 'Good' or better	<b>100%</b>	<b>90%</b>			
• That the audit was worthwhile.	<b>100%</b>	<b>100%</b>			

### 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 25 February 2020



Report Number **AuG/19/23**

**To:** Audit and Governance Committee  
**Date:** 4 March 2020  
**Status:** Non-Executive Decision  
**Corporate Director:** Charlotte Spendley – Director – Corporate Services (S151)

**SUBJECT: INTERNAL AUDIT CHARTER AND DRAFT INTERNAL AUDIT PLAN 2020-21**

**SUMMARY:** This report includes the Audit Charter for the East Kent Audit Partnership which sets out the overarching vision, aims and strategy for the Internal Audit Service together with the draft plan of work for the forthcoming 12 months for approval.

**REASONS FOR RECOMMENDATION:**

The Committee is asked to agree the recommendations set out below because: In order to comply with best practice, the Audit & 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/19/24.
2. That Members approve (but not direct) the Council's Internal Audit Plan for 2020/21
3. That Members approve to adopt the Internal Audit Charter for delivery of the internal audit service for the next three years.

1. **Introduction and Background.**

- 1.1 The purpose of the Council's Audit and Governance Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

1.2 In accordance with current best practice, the Audit and Governance Committee should “review and assess the annual internal audit work plan”. The purpose of this report is to help the Committee assess whether the East Kent Audit Partnership has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with the professional standards for Internal Auditors.

## 2.0 **Audit Mission & Charter.**

2.1 The Audit Mission is a simple high-level statement setting out the objectives for the service, please see attached as Annex A.

2.2 The Audit Charter is an important document setting out the expectations of how the Internal Audit function will be delivered. Not only does having a Charter and keeping it up to date assist the Council in complying with best practice, but by considering the Audit Charter, the Audit and Governance Committee is also demonstrating its effectiveness by ensuring that these mechanisms are in place and are working effectively.

2.3 The Audit Charter establishes the purpose, authority, objectives and responsibility of the East Kent Audit Partnership, it goes on to set out the Terms of Reference, Organisational Relationships and Independence, Competence and Standards of Auditors, the Audit Process and in providing an Internal Audit function to the partner councils; as well as the resources required across the four partnership sites and details how the resource requirements will be met.

2.4 The Audit Charter is attached as Annex B to this report. It is essentially the ‘Why’ and ‘How’ the East Kent Audit Partnership will provide the Internal Audit Service. It is a document that does not materially change from year to year and consequently it was suggested last year that this be approved for the next three years (to 31<sup>st</sup> March 2023) with the caveat that should any significant changes be required a revised Charter will be presented for consideration. Having undertaken a detailed self-assessment against the revised Public Sector Internal Audit Standards (PSIAS) minor aspects of the Charter were refreshed, consequently the attached version contains the tracked changes as showing, so that the areas updated can be easily identified. It is proposed again, that subject to there being any future changes to the standard having a knock on effect to the Charter, this document will next be brought back to this Committee in March 2023.

## 3.0 **2020/21 Risk Based Internal Audit Plan.**

3.1 The Audit Plan for the year 2020 to 2021 is attached as Annex C and has the main components to support the Audit Charter. The plan is produced in accordance with professional guidance, including the Public Sector Internal Audit Standards (PISAS). A draft risk based plan

is produced from an audit software database (APACE) maintained by the EKAP which records our risk assessments on each service area based upon previous audit experience, criticality, financial risk, risk of fraud and corruption etc. Then amendments have been made following discussions with senior management, taking account of any changes within the Council over the last 12 months, and foreseen changes over the next.

3.2 The plan has then been further modified to reflect emerging risks and opportunities identified by the Chief Executive, Directors, and the links to the Council's Corporate Plan and Corporate Risk Register. This methodology ensures that audit resources are targeted to the areas where the work of Internal Audit will be most effective in improving internal controls, the efficiency of service delivery and to facilitate the effective management of identified risks.

3.3 Furthermore, wider risks are considered, by keeping abreast of national issues and advice from the auditing profession / firms. Over the last year, incidents of money laundering, sexual misconduct at the workplace, fraud, cyberattacks, and data privacy scandals grabbed news headlines, and provided a reminder of why effective governance, risk management, and compliance are so important. For this year we have considered the inclusion of the top ten Institute of Internal Audit identified risks;

- 1 **Data Management & Privacy Risk** – the data protection regulations that came in to being in May 2018 affect information governance, and audits have been built into the plan to provide assurance on these risks.
- 2 **Cyber Risk** – As new cyber-attacks develop, so too do cyber resilience efforts need to be stepped up. We have some ICT reviews built into the audit plan to support the network and digital environment.
- 3 **Brexit** – with more negotiations to come post 31<sup>st</sup> January 2020 regarding the trade relationship between the UK and Europe; we have considered this risk and determined that it is too early for us to include anything specific relating to Brexit in the 20-21 audit plan, also taking into account all the collective work the Council has been undertaking with its partners to date.
- 4 **Third Party Risk** – the non-performance of contractors and suppliers is always a risk to the Council, just about everything we do today has some level of third-party involvement, whether we are aware of it or not. Not only risks of third parties gaining access to sensitive data, we are consequently proposing reviews of Contract Management in the plan.
- 5 **Conduct & Culture Risks** – this risk is an emerging area for assurance, only 30% of bodies have audited this despite honesty and personal conduct being behind several big national (sector wide) headlines. Reviews that we have typically carried out in this area include Gifts and Hospitality, Anti-fraud & corruption,

whistleblowing, Ethics and compliance with Codes of Conduct. We will keep a watching brief on developments for future consideration, noting that all of our work contributes to the assurances given in the Annual Governance Statement.

- 6 **Climate Change Risk**- organisations are facing a broad range of risks, based in a rapidly changing and evolving area; new rules and legislation are to be anticipated, weaving climate change elements into relevant key risk areas is being considered for the 20/21 plan.
- 7 **Digital Transformation Risk** – the Council is undertaking various development and digital projects, we have specifically considered this risk, it has been agreed that provision for EKAP to become involved at key stages of projects will be agreed on a case by case basis. Key areas to keep abreast of are 'big data', data mining and cloud computing.
- 8 **Workforce Risk** – Hiring and retaining the talent needed has been considered and a review is not proposed for 20/21.
- 9 **Regulatory Risk** – this is a constant risk as the external environment throws new laws at a council and it has to respond. New legislation is something we consider for each area within the audit plan, and thus a separate 'cross cutting' review has not been proposed for 20/21.
- 10 **Fraud** – is an ongoing risk assessed in every area of activity that the Council undertakes. We have given due consideration in assessing the Counter Fraud Framework within which the Council operates.

3.4 There are insufficient audit resources to review all areas of activity each year. Consequently, the plan is based upon a formal risk assessment that seeks to ensure that all areas of the Council's operations are reviewed within a strategic cycle of audits. In order to provide Members with assurance that internal audit resources are sufficient to give effective coverage across all areas of the Authority's operations, a strategic plan has been included.

3.5 To comply with the best practice, the agreed audit plan should cover a fixed period of no more than 1 year. Members are therefore being asked to approve the 2020/21 plan at the present time, and the future years are shown as indicative plans only, to provide Members with assurance that internal audit resources are sufficient to provide effective coverage across all areas of the Authority's operations within a rolling cycle.

3.6 The plan has been prepared in consultation with the Directors and the Council's statutory s.151 Officer. The plan is also designed to meet the requirements expected by the External Auditors for ensuring key controls are in place for its fundamental systems. This Committee is also part of the consultation process, and its views on the plan of work for 2020/21 are sought to ensure that the Council has an effective internal audit of its activities and Members receive the level of

assurance they require to be able to place assurance on the annual governance statement.

3.7 The risk assessment and consultation to date has resulted in;

- 70% Core Assurance Projects- the main Audit Programme
  - 3% Fraud Work – fraud awareness, reactive work and investigating potential irregularities
  - 9% Corporate Risk – testing the robustness of corporate risk mitigating action
  - 18% Other Productive Work – Corporate meetings, follow up, general advice, liaison
- Total number of audits 26.

For 2020/21 the days available for carrying out audit is 330 days. When compared to the resources available and working on the basis that the highest risk areas should be reviewed as a priority, the EKAP has sufficient resources to review all of the high risk areas and all of the medium risk areas this equates to 26 audits.

3.8 At a previous Audit & Governance Committee meeting it was requested that reference to the previously assessed limited assurance functions highlighted during the past year be referenced. In order to provide assurance that these reviews are not overlooked and have been considered for review in the plan.

3.9 The reviews allocated a Limited or No assurance which had been brought before the Audit & Compliance Committee during the 2019/20 year include the reviews listed in the following table

Presented to Committee	Assurance	Follow Up	Notes
<b>EKH Tenants' Health &amp; Safety - Gas</b>			
September 2019	Limited	Substantial	Gas safety has been brought up to date for the landlord checks.
<b>EKH Tenants' Health &amp; Safety – Legionella</b>			
September 2019	No	Reasonable	The legionella service has been split out from the gas servicing contract and has been re-let.
<b>EKH Tenants' Health &amp; Safety – Electrical Safety</b>			
September 2019	No	Limited	Work on category 1 and 2 faults is progressing. New software has been

			introduced for recording electrical faults and it has been agreed to set the testing to a five year period.
<b>EKH Tenants' Health &amp; Safety – Lifts</b>			
September 2019	No	To complete	Follow up is to be completed when EKH had made sufficient progress. (imminent)
<b>EKH Tenants' Health &amp; Safety – Fire Safety</b>			
September 2019	No	To complete	Follow up is to be completed when EKH has made sufficient progress.
<b>Taxi's &amp; Private Hire</b>			
December 2019	Reasonable / Limited	To complete	The main finding was regarding the review of the setting of the fees and charges and this is to be undertaken for the 2021/22 year.
<b>General Data Protection Regulations</b>			
December 2019	Limited	To complete	The basics have been completed for the GDPR compliance with further work being progressed on additional areas.

- 3.10 With regard to the East Kent Housing Tenants' Health & Safety reviews a significant amount of work is being undertaken to meet the required level of safety. This is being overseen by the Housing Regulator and the new EKH Board comprising of the four partner Chief Executives.
- 3.11 With respect to the two remaining reviews, it is suggested that Taxi's & Private Hire and General Data Protection Regulations are not in need of additional EKAP resources at this time apart from the required follow up which will be completed in due course.
- 4.0 **Benchmarking the level of Internal Audit Provision.**
- 4.1 Members should have regard to how audit resources within the Council compare to other similar organisations when considering the adequacy and effectiveness of the internal audit plan. The results of benchmarking show that the average number of internal audit days provided by district councils within Kent is circa 400 days annum. The audit plan of Folkestone & Hythe District Council of 330 days plus their share of the East Kent Housing audit plan totals 350. The Folkestone &

Hythe plan is therefore 12.5% less well-resourced than the Kent average.

**5.0 Head of Internal Audit Opinion of the 2020/21 Internal Audit Plan.**

5.1 This report is presented to Members by the Council’s Director - Corporate Resources whose s.151 responsibility it is to maintain an effective internal audit plan. In the interests of openness and transparency and in order to enable Members to make an informed decision on the internal audit plan presented for their approval consideration should also be given to the opinion of the Head of Internal Audit on the effectiveness of the plan.

5.2 Due to the timing of the report deadlines the Draft EKH Plan is not being presented in March, assurance is however given that 140 Days have been allocated for 2020/21 regarding further EKAP reviews of this function together with the outstanding Progress Reports which will be completed in due course. An update will be given at the July meeting, alongside the EKH Annual Report for 2019/20.

5.3 It is the professional opinion of the Head of the East Kent Audit Partnership that the draft 2020/21 internal plan presented for Members consideration will allow for an opinion to be given on the Council’s key risk areas and systems. This should be sufficient coverage to inform the Annual Governance Statement. The Head of the East Kent Audit Partnership recommends that Members approve the 2020/21 internal audit plan as drafted.

**4. RISK MANAGEMENT ISSUES**

4.1 A summary of the perceived risks follows:

<b>Perceived risk</b>	<b>Seriousness</b>	<b>Likelihood</b>	<b>Preventative action</b>
Non completion of the audit plan	Medium	Low	Review of the audit plan on a regular basis
Non implementation of agreed audit recommendations	Medium	Medium	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 Director – Corporate Services (S151). The internal audit service helps provide assurance as to the adequacy of the arrangements in place.

### **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 comments detailed in the report are the East Kent Audit Partnership's own, except where shown as being management comments.

### **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](mailto:Christine.parker@dover.gov.uk)

Charlotte Spendley Director – Corporate Services (S151)  
Telephone: 01303 853420 Email: [Charlotte.spendley@folkestone-hythe.gov.uk](mailto:Charlotte.spendley@folkestone-hythe.gov.uk)

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



Internal Audit Annual Plan 2019/20 - Previously presented to and approved at the March 2019 Audit & Governance Committee meeting.  
Internal Audit working papers - Held by the East Kent Audit Partnership.

Previous audit strategies – previously presented and approved at Audit & Governance meetings

### **Attachments**

Annex A Audit Mission

Annex B EKAP Internal Audit Charter

Annex C Folkestone & Hythe District Council draft 2020/21 Internal Audit Plan

## **East Kent Audit Partnership Mission**

The four East Kent authorities Canterbury City Council (CCC), Dover District Council (DDC), Folkestone & Hythe District Council (F&HDC), and Thanet District Council (TDC) formed the East Kent Audit Partnership (EKAP) in order to deliver a professional, cost effective, efficient, internal audit function. A key aim for the EKAP, supported by an agreed Audit Charter, is to build a resilient service that provides opportunities to port best practice between the four councils, East Kent Services and East Kent Housing Ltd acting as a catalyst for change and improvement to service delivery as well as providing assurance on the governance arrangements in place.

EKAP provides an independent, objective assurance and consulting activity designed to add value and improve the councils' operations. It helps the partners accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The mission for internal auditing (linked to the definition above) is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight reflecting each Councils' Corporate Objectives.



## **EAST KENT AUDIT PARTNERSHIP AUDIT CHARTER**

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  - 8.3 Value for Money Reviews
9. Amendment to Charter

## **1 Introduction**

- 1.1 This Charter establishes the purpose, authority, objectives and responsibility of the Audit Partnership, in providing an Internal Audit function within the Partner Councils.
- 1.2 The EKAP is committed to the highest standards and prides itself on complying with the definition of Internal Auditing the ethical codes that the profession requires and adopting the International standards.
- 1.3 The Audit Partnership is hosted by Dover District Council. The four East Kent authorities Canterbury City Council (CCC), Dover District Council (DDC), Folkestone & Hythe District Council (F&HDC), and Thanet District Council (TDC) formed the East Kent Audit Partnership (EKAP) in order to deliver a professional, cost effective, efficient, internal audit function. A key aim for the EKAP is to build a resilient service that provides opportunities to port best practice between the four sites, acting as a catalyst for change and improvement to service delivery as well as providing assurance on the governance arrangements in place.
- 1.4 The Audit Partnership is sufficiently independent of the activities that it audits, and this enables the auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations.
- 1.5 The organisational status of the Audit Partnership is such that it is able to function effectively. The Head of Audit Partnership must be able to maintain their independence and report to members. The Head of Audit Partnership has sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with the senior management and audit committees of the individual partners.
- 1.6 Accountability for the response to the advice and recommendations of the Audit Partnership lies with each partner's own management.
- 1.7 The Audit Partnership reports to those committees charged with governance. The main objective is to independently contribute to the councils' overall process for ensuring that an effective internal control environment is maintained. The work of the Audit Partnership for each of the partner authorities is summarised into an individual annual report, which assists in meeting the requirements to make annual published statements on the internal control systems in operation as required by Section 6 of the Accounts and Audit Regulations 2015.

## **2 Terms of Reference**

### **2.1 Strategy & Purpose**

Internal Audit is a statutory requirement under the Local Government Act 1972 (Section 151). It is the strategy of the Audit Partnership to comply with best practice as far as possible. The East Kent Audit Partnership has therefore adopted the best practice principles set out in the Public Sector Internal Audit Standards (PSIAS). The definition of Internal Audit taken from their guidance is as follows:

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

This definition sets out the primary purpose of the Audit Partnership, but the guidance also recognises that other work may be undertaken which may include consultancy services and fraud-related work. Where relevant and applicable the Audit Partnership also follows the professional and ethical standards of the Institute of Internal Auditors, being that many of the staff are members of this Institute.

## **2.2 Responsibility & Scope**

### **2.2.1 Internal Audit is responsible for appraising and reviewing:**

- a) the completeness, reliability and integrity of information, both financial and operational,
- b) the systems established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by the management of the organisation, or externally,
- c) the means of safeguarding assets,
- d) the economy, efficiency and effectiveness with which resources are employed, and
- e) whether operations are being carried out as planned and objectives and goals are being met.

### **2.2.2 The scope of the Audit Partnership includes the review of all activities of the partner councils, without restriction. In doing this, the purpose of Internal Audit is to:**

- a) Advise the Chief Executive, Directors, Senior Managers and Audit Committee on appropriate internal controls and the management of risk,
- b) Assist the Chief Executive, Directors, Senior Manager and Audit Committee with the way that organisational objectives are achieved at operational levels,
- c) Assure the Chief Executive, Directors, Senior Managers and Audit Committee of the reliability and integrity of systems, and that they are adequately and effectively controlled,
- d) Alert the Chief Executive, Directors, Senior Managers and Audit Committee to any system weaknesses or irregularities.

### **2.2.3 In addition, the Audit Partnership may carry out special investigations as necessary, and agreed with the s.151 Officer or Monitoring Officer as appropriate, in respect of cases of fraud, malpractice or other irregularity, or carry out individual ad hoc projects as requested by management and agreed by the Head of Audit Partnership and the partners' client officer.**

### **2.2.4 Assurance to third parties may be agreed, by the Head of Audit Partnership with the relevant s.151 Officer on a case by case basis; such as acting as the First Level Controller for Inter Reg Grant Claims. The rate charged to a third party for assurance work is set by the Joint s.151 Client Officer Group at £375 per audit day. The decision to provide such a service is informed by**

the required timing of the work, whether the skills and resources are available and if it is in the best interest of the EKAP and the Partners to do so, the nature of this work may include, for example the verification of claims or returns.

- 2.2.5 The decision to undertake consultancy services will be made in conjunction with the relevant partner's s.151 Officer and other management as necessary. The EKAP is able to avoid conflicts of interest if carrying out consultancy work due to the flexibility of the arrangements, as auditors may be rotated accordingly. The decision to provide such a service is informed by the required timing of the work, whether the skills and resources are available and if it is in the best interest of the EKAP and the Partners to do so, the nature of this work may include for example, being involved on project teams for new systems development. There are no contingency provisions within the agreed audit plans, therefore if work has not been included in the plan from the outset, a variation will need to be agreed for any consultancy work, to re-allocate time within the relevant partner's own plan, or through buying in additional resource to back-fill whilst partnership staff carry out the assignment.

### 2.3 Authority

- 2.3.1 The procedures for auditing the Council are included within each of the councils' Constitutions. This typically includes words to the effect that the Authority shall:
- a) Make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has the responsibility for the administration of those affairs, and
  - b) Shall maintain an adequate and effective system of Internal Audit of their accounting records and control systems.

Additionally, there may be delegated authority to the Chief Executive and Directors to establish sound arrangements for the planning, appraisal, authorisation and control of the use of resources, and to ensure that they are working properly. Maintaining adequate and effective controls is necessary to:

- a) carry out activities in an orderly, efficient and effective manner,
  - b) ensure that policies and directives are adhered to,
  - c) ensure compliance with statutory requirements,
  - d) safeguard assets & to prevent fraud,
  - e) maintain complete and reliable records and information, and
  - f) prevent waste & promote best value for money.
- 2.3.2 The Audit Partnership is authorised to complete a programme of audit reviews within the Partner Councils through the delegation of powers to Dover District Council, as the Lead body for the Audit Partnership.
- 2.3.3 The Head of Audit Partnership works principally with a nominated officer, the s.151 Officer, for each of the Partner councils, to ensure that a continuous internal audit review of the accounting, financial and other operations of the Council is performed. Progress on the work undertaken shall be submitted regularly to the appropriate committee with responsibility for Internal Audit.

- 2.3.4 All employees and Councillors shall comply with the requirements of the Council's internal and external auditors who have authority to:-
- a) enter at all reasonable times on any Council premises or land,
  - b) have access to all Council assets such as records, documents, contracts and correspondence, including computer hardware, software and data,
  - c) require and receive such explanations as are necessary concerning any matters under examination, and
  - d) require any employee of the Council to produce cash, stores or any other Council property under his/her control.
- 2.3.5 Employees and Councillors of any of the Partners may report any financial irregularity or suspected irregularities to the Head of Audit Partnership, who shall then ensure that the matter is dealt with in accordance with the individual council's Anti-Fraud and Corruption Strategy.

## **2.4 Avoiding Conflicts of Interest**

- 2.4.1 An additional benefit of four councils working in partnership to provide an internal audit service, is providing sufficient staff to give flexibility and the opportunity for the rotation of Auditors. Where consultancy projects are requested and agreed, conflicts of interest will be avoided by preventing the Auditor undertaking that project from reviewing that area of operation for a period of time equivalent to current year plus one (see also paragraph 3.2 below). The EKAP provides a pure audit arrangement and does not have any "non audit" or operational responsibilities that would otherwise have the potential to cause a conflict of interest.

## **3 Organisational Relationships and Independence**

### **3.1 Audit Partnership Management and Staffing**

The audit service is managed by the Head of Audit Partnership, who is responsible for providing a continuous internal audit service under the direction of the Section 151 Officers. The auditor assigned to each individual review is selected by the Head of Audit Partnership, based on their knowledge, skills, experience and discipline to ensure that the audit is conducted properly and in accordance with professional standards.

### **3.2 Relationship with Service Managers**

- It is the responsibility of management, not auditors, to maintain systems of internal control.
- To preserve its independence and objectivity, staff involved in the Audit Partnership shall not have direct responsibility for, or authority over, any of the activities subject to audit review. Staff transferring to EKAP may not review an area they were previously operationally responsible for, for a period of two years (current year plus one).
- The involvement of an auditor through conducting an audit review, or providing advice, does not in any way diminish the responsibility of line management for the proper execution and control of their activities.



- Co-operative relationships will be fostered with management to enhance the ability of the Audit Partnership to achieve its objectives effectively.
- All employees should have complete confidence in the integrity, independence and capability of the Audit Partnership. We recognise that the relationship between auditors and service managers is a privileged one, and information gained in the course of audit work will be treated confidentially, and only reported appropriately.

### **3.3 Reporting Relationship with Line Management and Statutory Officers**

3.3.1 The Head of Audit Partnership will have regular meetings with each of the Partner's s.151 Officer / nominated client officer. Any events that may have an adverse affect on the audit plan, or a significant impact on the Council will be reported immediately.

3.3.2 Any high risk matters of concern, which have not been adequately dealt with after an appropriate period of time and after follow up, will be escalated to the s.151 Officer / nominated client officer, who will be asked to decide for each high risk matter whether:

- Resources should be allocated to enable the risk to be reduced in the agreed way, or
- To approve that the risk will be accepted and tolerated, or
- To determine some other action to treat the risk.

The outcome of which will be report to the Audit Committee, whose attention will be drawn to critical or high risk matters outstanding after follow up.

3.3.3 The Head of Audit Partnership has unrestricted access to the s.151 Officer, the Monitoring Officer and the Head of Paid Service as appropriate. Engagement with the statutory officers is not prescribed, however regular attendance at CMT with IA updates is desirable.

### **3.4 Reporting Relationship with the Partners**

3.4.1 The Head of Audit Partnership has a line reporting relationship directly to the Dover District Council's Director of Finance, Housing and Communities the Council's s.151 Officer. Together under the Collaboration Agreement for the provision of one shared Internal Audit Service, the four s.151 Officers form the "Client Officer Group" which is the key governance reporting line for the EKAP. The s.151 Client Officer Group meets collectively with the Head of Audit Partnership to consider the strategic direction and development of the partnership and any performance matters.

3.4.2 The East Kent Audit Partnership overall performance is reported to all the partner authorities annually. Key performance measures and indicators have been agreed and these are also reported quarterly. As well as individual assurance reports, and the quarterly Audit Committee reports, EKAP will present an Annual Audit Report that is used to inform the councils' governance statement to:

- Provide an individual summary of the work completed for each Partner,

- Compare actual audit activity with that planned,
- Provide an opinion on the adequacy and effectiveness of the councils framework of governance, risk management and control,
- Summarise the performance of the East Kent Audit Partnership against its performance criteria, and provide a statement of conformance with professional standards, with details of the quality assurance and improvement programme,
- Include the cost of the service for the partner.

The Accounts and Audit Regulations section 5 requires that a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Charter sets out how the EKAP will meet this requirement.

### 3.5 **Relationship with Audit Committees**

Please note the PSIAS refer to the 'board', and it is expected that the audit committee will fulfil the role of the board in the majority of instances.

The East Kent Audit Partnership has a direct relationship with those charged with the responsibility for governance. Consequently, the Head of Audit Partnership issues a report summarising the results of its reviews to each meeting. The Annual Report is the foundation for the opinion given through the Governance Assurance Statement, which is published annually. The Accounts and Audit Regulations section 3 requires that a relevant authority has a sound system of internal control which

- facilitates the effective exercise of its functions and the achievement of its aims and objectives,
- ensures that the financial and operational management of the authority is effective, and
- includes effective arrangements for the management of risk.

This Charter establishes how the EKAP contributes to complying with the regulations and creates the link to the Annual Governance Statement. The Committee will also approve the annual work plan for their Council.

The Head of Audit Partnership will escalate any critical or high-risk matters of concern that have not been adequately actioned by management at the progress report stage to the committee via the quarterly update report, drawing attention to significant matters in the annual report. The Head of Audit Partnership may meet privately with the chair of the audit committee and has direct access to the committee should this be required.

The Audit Committee will note decisions relating to the appointment and removal of the Head of Audit Partnership.

### 3.6 **Relationship with External Audit**

- The Head of Audit Partnership will liaise with the External Auditors to:
  - Foster a co-operative and professional working relationship,
  - Reduce the incidence of duplication of effort,
  - Ensure appropriate sharing of information, and
  - Co-ordinate the overall audit effort.

- In particular the Head of Audit Partnership will:
  - Discuss the annual Audit Plan with the External Auditors to facilitate External Audit planning,
  - Hold meetings to discuss performance and exchange thoughts and ideas,
  - Make all Internal Audit working papers and reports available to the External Auditors,
  - Receive copies of all relevant External Auditors reports to Management, and
  - Gain knowledge of the External Auditors' programme and methodology.

### **3.7 Other Regulators, Inspectors and Audit Bodies**

The Head of Audit Partnership will foster good relations with all other audit bodies, regulators and inspectors. In particular protocols regarding joint working, access to working papers, confidentiality and setting out the respective roles will be agreed where applicable. The EKAP will only become involved with external regulators and inspectors if expressly required by the partner authority as part of the agreed audit plan.

### **3.8 Relationship with the Public**

The councils' Anti-Fraud, Corruption, Bribery and Whistleblowing policies encourage staff, members, contractors and members of the public to raise their concerns in several ways, one of which includes making contact with Internal Audit. This Charter therefore considers the responsibility EKAP has with investigating complaints made from contractors, staff or the general public about their concerns. It is concluded that each case must be assessed on its own merits and agreement with the s.151 Officer reached before EKAP resources are directed towards an investigation.

## **4 Competence and Standards of Auditors**

### **4.1 Competence**

The Head of Audit Partnership will ensure that those engaged in conducting audit reviews, possess the appropriate knowledge, qualifications, experience and discipline to carry them out with due professional care and skill.

### **4.2 Standards**

Regardless of membership, all auditors will be expected to work in accordance with the Public Sector Internal Audit Standard and practice statements issued by the Institute of Internal Auditors and CiPFA. The East Kent Audit Partnership strives to meet best practice as highlighted in paragraph 2.1. The auditors must also observe the Codes of Ethics of the Institute of Internal Auditors and CiPFA, which call for high standards of honesty, objectivity, diligence and loyalty in the performance of their duties and responsibilities. In addition to professional codes of ethics, the EKAP staff are bound to the DDC Code of Conduct through their employment contract.

## **5 Audit Process**

- 5.1 The EKAP seeks to deliver effective outcomes by;

- Understanding the four partner councils, EKS and EKH their needs and objectives,
- Understanding its position with respect to other sources of assurance and to plan our work accordingly,
- Embracing change and working with the four councils to ensure our work supports management,
- Adding value and assisting the partners in achieving their objectives,
- Being forward looking, knowing where the partners wish to be and being aware of the local and national agenda, and their impact,
- Being innovative and challenging,
- Helping to shape the ethics and standards of the four councils, and
- Sharing best practice and assisting with the joint working agenda.

## 5.2 Planning

5.2.1 The internal audit process is to follow a planned approach based upon risk assessments. The planning framework comprises the following:

- A Strategic Plan, which ensures that coverage of each of the partner councils as a whole, over a time frame of three to five years, is maintained and reviewed annually, to take into account the new priorities and risks of each authority. This focuses internal audit effort on the risks of the four partner's objectives and priorities. It also seeks to add value to the partners by reviewing areas that most support management in meeting their objectives. The Head of Audit Partnership works together with the two Deputy Heads of Audit to consult relevant service managers and heads of service at each site to assist in formulating the strategic audit plans. Each council's corporate aims and objectives, individual service plans, risk registers, time spent on previous audits, any problems encountered, and level and skill of service staff involved are taken into account and information is entered into the audit software. All areas as identified in the strategic plan are then subject to a risk assessment to identify their risk level and whether or not they are to be included in the proposed annual plan. The audit plans are generated from the audit software based on the risk scores of each area of activity identified through the consultation process
- An Annual Plan for each partner, specifying the planned audits to be performed each year, their priority and the resource requirements for each planned audit review.

5.2.2 For each audit review undertaken, the planning framework comprises the following:

- An Audit Brief, specifying the objectives, scope and resources for the audit.
- Where appropriate either a detailed Audit Programme of tests to be conducted, or a CiPFA Audit Matrix of testing to follow.

The Audit Brief is prepared by the Head of Audit Partnership or Deputy Heads of Audit and reviewed and agreed with the client manager prior to the commencement of the audit review (except where an unannounced visit is necessary).

### 5.3 Documentation

The EKAP is committed to continuous improvement and has standardised all the working practices across the partnership. The Internal Audit team has access to a common Audit Manual to ensure that the same processes are operational across all the partner sites. The Audit Manual is subject to (at least) annual review. Audit working papers contain the principal evidence to support the report and they provide the basis for review of work. The Auditors employ an audit methodology that requires the production of working papers, which document the following:

- The samples of transactions collected when examining the adequacy, effectiveness and application of internal controls within the system.
- The results of the testing undertaken.
- Other information obtained from these examinations.
- Any e-mails, memos or other correspondence with the client concerning or clarifying the findings.
- A report summarising significant findings and recommendations for the reduction of risk or further control improvement.
- The Service Manager's response to the draft report and then agreed recommendations made in the final audit report.

### 5.4 Consultation

5.4.1 Prior to the commencement of an audit, the Head of Audit Partnership or Deputy Heads of Audit will communicate by phone, e-mail or face to face meeting with the relevant Manager to discuss the terms of reference. Having agreed the proposed brief with the Manager, the Head of Audit Partnership or Deputy Heads of Audit will:

- issue a copy of the proposed Audit Brief by e-mail, and
- where appropriate arrange a pre-audit meeting between the Service Manager and the Auditor to discuss the purpose, scope and expected timing of the work.

In the case of special investigations, such prior notification may not be given where doing so may jeopardise the success of the investigation. In such an event, the prior approval of the Chief Executive, s.151 Officer or Monitoring Officer will be obtained.

5.4.2 During the conduct of reviews, Auditors are to consult orally and / or in writing with relevant staff to:

- ensure that information gathered is accurate and properly interpreted,
- allow Management to present adequate/reliable evidence to ensure a balanced judgment is formed,
- ensure recommendations add value, are cost effective and practicable, and
- keep Management informed of the progress of the audit.

### 5.5 Reporting

5.5.1 A written discussion document (draft report) is prepared and issued by the responsible Auditor at the conclusion of each audit. Prior to its issue, the appropriate Deputy Head of Audit reviews the draft together with the

supporting working papers. The purpose of this document is to allow the service manager the opportunity to confirm factual accuracy and challenge any of the findings of the review.

- 5.5.2 The draft document will contain an outline action plan listing proposed individual recommendations for internal control improvement. These recommendations are categorised to indicate whether there is a high, medium or low risk of the control objectives failing. It is at this stage that the Service Manager accepts or negotiates that the risks are in fact present, that they accept responsibility for the risks and discuss how they proposed to mitigate or control them.
- 5.5.3 The document is then updated, and if changes are required following the discussion, is presented to the Service Manager as a Draft Report. On completion of the Action Plan, a final version of the report containing “Agreed Actions” is issued to the Service Manager with a copy to the relevant Director. Additional copies are circulated as agreed with each Partner Authority.
- 5.5.4 The agreed actions will be followed up, and high priority recommendations will be tested to ensure they have been effective after their due date has passed.
- 5.5.5 Audit reports are to be clear, objective, balanced and timely. They are to be constructed in a standardised format which will include:
- The objectives of the audit,
  - The scope of the audit, and where appropriate anything omitted from the review,
  - An overall conclusion and opinion on the subject area,
  - Proposed actions for improvement,
  - Service Manager’s comments (where appropriate), and
  - A table summarising all the Proposed/Agreed Actions, risk category, a due date and any management responses.
- 5.5.6 Each Final Report carries one of four possible levels of Assurance. This is assessed as a snapshot in time, the purpose of which is for all stakeholders to be able to place reliance on that system of internal controls to operate as intended; completely, consistently, efficiently and effectively. Assurance given by Internal Audit at the year-end is based on an overall assessment of the assurance opinions it has given during that year, and can only apply to the areas tested. There are insufficient resources to audit every aspect of every area every year.
- 5.5.7 In addition to individual audit reports for each topic, the performance of the East Kent Audit Partnership is analysed and reviewed as described in section 3.4 of this Charter.

## 5.6 Follow Up

- 5.6.1 The Audit Partnership will follow up on management action arising from its assignments. Each individual recommendation is recorded on the specialist auditing software used. Each recommendation is classified as to whether it is high, medium or low risk. The due date for implementation and the responsible person are also recorded.

- 5.6.2 Following the last due date within the Action Plan, the auditors follow up whether or not action has been taken to reduce the identified risk. They ask the responsible officer for each individual recommendation whether:
- a. The control improvement has successfully been implemented
  - b. Progress is being made towards implementing the control improvement
  - c. No action has yet occurred due to insufficient time or resources
  - d. That after agreeing the action, the risk is now being tolerated
  - e. That the control improvement is no longer relevant due to a system change
  - f. Other reason (please specify).
- 5.6.3 Further testing will be carried out where necessary (e.g. critical and high risk recommendations) to independently confirm that effective action has in fact taken place.
- 5.6.4 A written summary of the results of the follow up action is issued to the relevant Service Manager and Director, and where appropriate a revised assurance level is issued. The results of follow-up reviews and the revised assurance opinions issued are also reported to the audit committee.
- 5.6.5 Any areas of concern after follow up, where it is thought that management has not taken appropriate action, will be escalated to senior management and ultimately the Audit Committee as described in paragraph 3.3.2 of this Charter.

## **6 Resources**

### **6.1 Staff Resources**

- 6.1.1 Dover District Council is the host authority for the shared internal audit service therefore it employs or contracts with all the staff engaged to deliver the service. The current team is made up of full or part time staff all providing a range of skills and abilities within the Internal Audit profession. Those staff accredited to a professional body are required to record their Continued Professional Development (CPD) in order to evidence that they maintain their skills and keep up to date. Additionally, the staff are bound by the professional standards and code of ethics for their professional body, either CIPFA, the ACCA or the CIIA.
- 6.1.2 A mix of permanent staff and external contractors will provide the resources required to fill the required number of chargeable audit days. Internal Audit staff will be appropriately qualified and have suitable, relevant experience. Appropriate professional qualifications are ACCA, IIA or AAT. The DDC appraisal scheme including an assessment of personal development and training needs will be utilised to identify technical, professional, interpersonal and organisational competencies. Having assessed current skills a personal development plan will be agreed for all EKAP staff intended to fill any skill gaps.
- 6.1.3 The Dover District Council's Personal Performance Review process will be the key driver to identifying any skill gaps, and training, where appropriate, will be investigated at an individual level, as well as across the team, and on a Kent wide basis (through collaborative arrangements at Kent Audit Group). In

the short-term, the specialised computer audit skills gap may be addressed through the engagement of contractors for specialist work, and where possible, a team member will shadow the “expert” to gain additional skills.

## **6.2 Budget**

The EKAP budget is hosted by DDC and apportioned between the partners based on the agreed number of audit days. The cost per audit day is a metric reported annually in the Annual Report. The budget includes direct and indirect costs to the partnership. The individual salaries paid to the staff, including the Head of the Audit Partnership are standard grades as assessed by the DDC Job Evaluation system.

## **7. Quality assurance**

The quality assurance arrangements for the EKAP include all files being subject to review by either the Deputy Head of Audit for the site and/or by the Head of Audit Partnership (particularly if the review has ‘no’ or ‘limited’ assurance). The review process is ongoing and includes adequate supervision of the audit staff and of the audit work performed. This review ensures that the work undertaken complies with the standards defined in the Public Sector Internal Audit Standards and with the requirements of this Charter. In addition to the ongoing review of the quality of individual working papers and reports and performance against the balanced scorecard of performance indicators; an annual assessment of the effectiveness of Internal Audit is undertaken separately by each of the partner authorities. To comply fully with the PSIAS the EKAP has presented the options for an external quality assessment to be undertaken before October 2017. However, the s.151 Client Officer Group at its meeting held 16.11.16 has decided to not spend resources on an External Quality Assessment. This decision was confirmed again at the annual meeting on 05.12.19.

## **8. Additional Services**

### **8.1 Special Investigations and Fraud Related Work**

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. The prevention and detection of fraud and corruption is ultimately the responsibility of management within the four partner authorities. However, EKAP is aware of its role in this area and will be alert to the risk of fraud and corruption when undertaking its work. The EKAP will immediately report to the relevant officer any detected fraud or corruption identified during the course of its work; or the discovery of any areas where such risks exist.

Consequently, a provision for additional time in the event of fraud related work being required has not been included in any of the annual audit plans. Any special investigations which the EKAP is requested to undertake may be accommodated from re-allocating time within the relevant partner’s own plan, or through buying in additional resource to either investigate the case, or to back-fill whilst partnership staff carry out the investigation. The provision of resources decision will be made on a case-by-case basis in conjunction with the relevant partner’s s.151 Officer and other management as necessary.



An added advantage due to the flexibility of the arrangements within the EKAP means that we are able to use auditors who are not necessarily known at an authority to complete special investigations as this strengthens independence.

The s.151 Officer will keep the Head of Audit Partnership apprised via the regular meetings of any disciplinary action taken by the council that may be relevant to internal audit planning and risk assessments, if staff have been found to act deceitfully or circumvent controls etc.

## **8.2 Ad Hoc / Consultancy Work/ External Bodies**

A contingency has not been included in any of the partners' plans. Therefore if work has not been included in the plan from the outset, a variation will need to be agreed for any subsequently requested work, to re-allocate time within the relevant partner's own plan, or through buying in additional resource, to back-fill whilst partnership staff carry out the assignment. The decision will be made in conjunction with the relevant partner's s.151 Officer and other management as necessary. Conflicts of interest may be avoided if carrying out consultancy work due to the flexibility of the arrangements within the EKAP, as we are able to rotate auditors accordingly. Approval of requests from Management for additional projects are subject to certain criteria, to include whether the EKAP has the relevant skills and capacity to undertake the assignment.

Requests for assurance work from external bodies are not anticipated, nor does the EKAP have capacity or spare resource to deliver such requests. However, in the event that a request is received, the s.151 Client Officer Group would consider and authorise such an undertaking and a separate legal agreement confirming the engagement would be drawn up with DDC as the host authority (EKAP not being a separate legal entity). The Head of Audit Partnership would give the same consideration to conflicts of interest, capacity, skills and competency when assessing the scope of the work, as it if were an internal assignment, before agreeing to undertake the engagement

## **8.3 Value for Money (VFM) Reviews**

VFM relates to internal audit work that assesses the economy, efficiency and effectiveness of an activity. The work of EKAP is planned to take account of VFM generally, indeed this is supported by the objective to port best practice between sites where appropriate. Audit plans may have a specific provision for VFM reviews (or a review of VFM arrangements). Where possible VFM reviews will be run concurrently with other sites within East Kent where this is deemed to be most beneficial to participating authorities. The EKAP staff are alert to the importance of VFM in their work, and to report to management any examples of actual or possible poor VFM that they encounter in the course of their duties.

## **9. Amendment to Audit Charter**

Amendment of this Charter is subject to the approval of the Partners' Audit Committees, Chief Executives, s.151 Officers and the Head of Audit Partnership.

February 2020

**References:**

Former Audit Strategy

Audit Manual

Public Sector Internal Audit Standards (PSIAS)

CIPFA Local Government Application Note to PSIAS

**Folkestone & Hythe District  
Council Annual Audit Plan & 4  
Year Strategic Plan 2020-24**

Risk Register/ Corp plan	Plan Area	Year last audited	Previous assurance level	Follow up assurance	2020-21 Planned days	2021-22 Planned days	2022-23 Planned days	2023-24 Planned days
	<b>Financial Systems:</b>							
C4	Bank Reconciliation	2015-16	Substantial	Substantial	10			
C4	Budgetary Control	2018-19	Substantial	Substantial			10	
C4	Capital	2018-19	Reasonable	Reasonable			10	
C4	Car Parking & Enforcement	2018-19	Reasonable	Reasonable			10	
C4	Creditors & CIS	2018-19	Substantial	Substantial			10	
C4	Insurance	2014-15	Substantial	Substantial	10			
C4	Miscellaneous Income	2016-17	Reasonable	Reasonable		10		
C4	Treasury Management	2019-20	Substantial	Substantial				10
C4	VAT	2018-19	Reasonable	Reasonable			10	
	<b>Residual Housing Systems:</b>							
C13	EKH audit reviews	2019-20	See EKH Plan		15	15	15	15
CP	Homelessness inc rent deposit	2013-14	Reasonable	Substantial	15			
CP	Housing Allocations	2015-16 (2019)	Reasonable	Substantial				10
Service	HRA Business Plan	2018-19	Substantial	Substantial			10	
CP	Right to Buy	2016-17	Reasonable	Substantial		10		
	<b>Governance Related:</b>							
CP	Constitution	2019-20	Substantial	Substantial				0

	<b>Plan Area</b>	<b>Year last audited</b>	<b>Previous assurance level</b>		<b>2020-21 Planned days</b>	<b>2021-22 Planned days</b>	<b>2022-23 Planned days</b>	<b>2023-24 Planned days</b>
C11	Complaints Monitoring	2016-17	Substantial	Substantial		10		
	Corporate/Governance and Audit Committee		N/A		35	35	35	35
Service	Data Protection/FOI/Information Management	2018-19	Limited			15		15
C4	Financial Procedure Rules	2019-20	Reasonable	Substantial				10
C4	Fraud assurance	2018						10
C4	Fraud Resilience Review	2016-17	Reasonable	Reasonable	10			
C1	Local Code of Corporate Governance	2017-18	Substantial	Substantial			10	
C1	Members' Code of Conduct and Standards Arrangement	2015-16	Substantial	Substantial	10			
C1	Officers' Code of Conduct	2015-16	Reasonable	Reasonable		10		
C3	Otterpool Park Governance	New (2019)						10
C11	Performance Management	2016-17	Reasonable	Reasonable	10			
C1	Risk Management	2017-18	Substantial	Substantial		10		
C1	Scheme of Officer Delegations	2016-17	Reasonable	Substantial		10		
C8	Transformation Governance	2019	Reasonable					10
C1	Whistleblowing / Anti Money arrangements	2015-16	Reasonable	Reasonable	9			

	Plan Area	Year last audited	Previous assurance level		2020-21 Planned days	2021-22 Planned days	2022-23 Planned days	2023-24 Planned days
	<b>Other:</b>							
	Liaison with External Auditor		N/A		1	1	1	1
	Previous Year Work in Progress b/fwd		N/A		10	10	10	10
	Follow-up		N/A		15	15	15	15
	<b>Contract Audits:</b>							
C8	Contract Monitoring	New review			10		15	
C8	Contract Standing Orders	2015-16	Reasonable/Ltd	Reasonable	10			9
C8	E-Procurement inc corporate purchase cards	2015-16	Substantial	Substantial	10			10
C8	Special Projects	2019-20	N/A	N/A	10	10	10	10
	<b>Service Level:</b>							
Service	Asset Management	2018-19	Substantial	Substantial			10	
Service	Building Control Income	2018-19	Reasonable	Reasonable			10	
C11	Cemeteries and Crematorium	2017-18	Reasonable	Reasonable			10	
C11	Child Protection - Safeguarding	2017-18	Reasonable	Reasonable		10		
C11	Community Safety Partnership	2014-15	Reasonable	Reasonable	10			
Service	Coast Protection / Engineers	2015-16 (2019)	Reasonable	Reasonable				10
Service	Corporate Responsive Repairs	2019-20	Reasonable					10
C11	Dog Warden Enforcement	2015-16 (2019)	Ltd / Reasonable	Reasonable				10

	Plan Area	Year last audited	Previous assurance level		2020-21 Planned days	2021-22 Planned days	2022-23 Planned days	2023-24 Planned days
C1	Electoral Finance	2017-18	Reasonable	Reasonable			10	
C11	Environmental Health - Food Safety / H&S	2016-17	Reasonable	Substantial		10		
C11	Environmental Protection - Pollution / Noise	2017-18	Reasonable	Reasonable			10	
C11	Environmental Health – Public Health Burials	2018-19	Substantial	Substantial			10	
C11	Emergency Out of Hours service	2018-19	Reasonable	Reasonable			10	
C11	Emergency Planning / Business Continuity	2016-17	Substantial	Substantial	10			
Service	Employee Health, Safety and Welfare	2017-18	Reasonable	Reasonable			10	
Service	Equality and Diversity	2017-18	Reasonable	Reasonable		10		
	Events Management	2018-19	Substantial	Substantial			10	
C12	Folkestone Community Works Programme	New			10			
Service	Grounds Maintenance	2015/16	Reasonable	Reasonable	10			
CP	Improvement Grants/DFG	2017-18	Substantial	Substantial		10		
CP	Land Charges	2015-16	Reasonable	Substantial	10			
C4	Licensing	2015-16 (2019)	Reasonable	Reasonable				10
Service	Lifeline	2015-16	Reasonable	Reasonable	10			
C1	Members Allowances and Expenses	2018-19	Reasonable	Reasonable			10	
C1	Oportunitas Governance	2015 -16 (2019)	Substantial	Substantial				10
C4	Planning Income	2016-17	Reasonable	Reasonable		10		
C4	Planning Section 106s / CILS	S 106s 2013-14	Limited	Reasonable	10			

	Plan Area	Year last audited	Previous assurance level		2020-21 Planned days	2021-22 Planned days	2022-23 Planned days	2023-24 Planned days
	Printing & post processes	2016-17	Reasonable	Reasonable		10		
C4	Property Charges - Ind Estates	2019-20	Reasonable					10
	Security of the civic building	2019-20	Reasonable					10
C4	Sports Income	2019-20	Reasonable	Reasonable				10
	Swimming Pool (Hythe)	2017-18	Reasonable	Reasonable		10		
	Taxis	2019-20	Reasonable / Ltd			10		10
C8	Waste Management	2014-15 (2019)	Reasonable	Reasonable				10
C8	Waste (Green) Recycling	2016-17	Reasonable/Ltd	Reasonable	10			
C4	Ward Councillor Grants	2017-18	Reasonable	Reasonable		10		
	<b>Sub-Total Authority Planned Days</b>				<b>270</b>	<b>251</b>	<b>271</b>	<b>290</b>
	<b>Human Resources:</b>							
C1	Recruitment/Leavers	2018-19	Reasonable	Substantial			10	
	Flexi / Sick Leave	2016-17	Reasonable	Reasonable		10		
C4	Payroll, SMP and SSP	2018-19	Substantial	Substantial	10		10	
C4	Employee Allowances and Expenses	2015-16 (2019)	Substantial	Substantial				10
C4	Employee benefits-in-kind	2017-18	Substantial	Substantial		10		
	<b>Sub-Total Human Resources Planned Days</b>				<b>10</b>	<b>20</b>	<b>20</b>	<b>10</b>

	Plan Area	Year last audited	Previous assurance level		2020-21 Planned days	2021-22 Planned days	2022-23 Planned days	2023-24 Planned days
	<b>Revenues &amp; Benefits &amp; ICT</b>							
CP	Housing Benefits – Overpayments	2017-18	Substantial	Substantial		10		
CP	Housing Benefits – Admin & Assessment	2018-19	Substantial	Substantial			10	
CP	Housing Benefits - Quality	2013-14	Substantial	Substantial	10			
CP	Housing Benefits - DHP	2017-18	Substantial	Substantial		10		
CP	Housing Benefits Subsidy	2016-17	Substantial	Substantial		10		
CP	Council Tax	2018-19	Substantial	Substantial		10		10
CP	Council Tax Reduction Scheme	2019-20	Substantial	Substantial			10	
C4	Write offs	2013-14	Substantial	Substantial		10		
C11	Customer Services	2011-12	Substantial	Substantial	10			
CP	Business Rates	2013-14	Substantial	Substantial	10		10	
CP	Business rates relief	2018-19	Substantial	Substantial				10
C4	Debtors	2014-15	Reasonable	Reasonable	10			
C8	ICT reviews	2017-18	Reasonable	Reasonable	10	9	9	10
	<b>Sub-Total Planned Days</b>				<b>50</b>	<b>59</b>	<b>39</b>	<b>30</b>
	<b>Total Planned Days</b>				<b>330</b>	<b>330</b>	<b>330</b>	<b>330</b>

Where (2019) is shown these reviews are in the 2019/20 plan but are not yet completed.



This Report will be made public on 25 February 2020



Report Number **AuG/19/24**

**To:** Audit & Governance  
**Date:** 4th March 2020  
**Status:** Non key decision  
**Head of service:** Charlotte Spendley, Director – Corporate Services  
– Section 151 Officer  
**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 the updated Corporate Risk Register.

## **1. BACKGROUND**

- 1.1 The Risk Management Policy and Strategy was updated and agreed by Cabinet in December. Both Cabinet and this committee considered the Risk Register at their December meetings.
- 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.

## **2. 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 12 risks (following the removal of one risk), which can be categorised as 1 low level risks, 5 moderate and 4 high and 2 extreme level risk (previously 1 low level risks, 3 moderate and 7 high and 2 extreme level)
- 2.3 The key changes made include:

C1 – Organisational Instability – the likelihood has been reduced to 2 (unlikely) from 3 (likely) bringing the overall level of risk to a moderate level risk, following the appointment of a new Corporate Leadership team, work progressing on the Corporate Plan & Transformation project and the commencement of new political arrangements.

C3 – Otterpool Park Delivery – the likelihood has been reduced to 2 (unlikely) from 3 (likely) bringing the overall level of risk to a moderate level, this change has been made following the Council earmarking £100 million towards the project and the successful acquisition of the Cozumel land.

C5 – Brexit – this risk has been removed from the corporate risk register as it is no longer felt to be of significant risk to the district. If future decisions taken affect this position the risk faced can be considered at that time.

Other narrative changes have been made to the register to reflect the current position, but they will not in every instance require a change in scoring.

## **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 July. 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	Medium	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, Director – Corporate Services

Telephone: 07935 517986

Email: [charlotte.spendley@folkestone-hythe.gov.uk](mailto: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. <b>Potential escalation of the Coronavirus and impact on council services from staff issues.</b>	Phase 1 implemented on 19/11/19, early indications are positive. <b>Phase 2 Transformation consultation completed.</b> New Member training has been concluded. Corporate Plan Working Group established and have met to progress future Corporate Plan, <b>Group Leaders have discussed proposals with individual political groups. Collaboration on Cabinet agreed with Green and Liberal Democrat parties. Three new Corporate Directors appointed.</b>	2	3	6	Treat	Training matrix being developed for all Phase 1 staff. Lessons learnt to be captured from Phase 1 transformation to inform Phase 2. <b>Public consultation to be undertaken to inform Corporate Plan.</b>	March 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. <b>New Corporate Director of Place externally recruited.</b>	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. <b>Recent acquisition of partners share, all major landholdings / options within Council control. Further funding received from Home England.</b>	2	3	6	Treat	Continue to engage specialist advice where required. <b>Specific advice has been commissioned to progress options for Delivery Vehicle, decision to be considered by Members in Spring 2020.</b> 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	Charlotte Spendley (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. <b>New system will take effect from April 2021.</b>	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 Finance Officers Group. <b>Balanced budget for 2020/21.</b>	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.	Ongoing	2	2	4
Page 142	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).	Corporate Plan Working Group established and met three times with the principle of 10 year plan established. <b>Draft objectives agreed and discussed by Group Leaders with their parties.</b>	3	3	9	Treat	<b>Public consultation to be undertaken to inform Corporate Plan.</b>	March 20 & Ongoing	2	2	4
	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 Children's Partnership Group and South Kent Coast Health and Wellbeing Board. <b>Regular close liaison with EKH Chief Executive, EK Chief Executives now act as Board of EKH. Paper to agree future of housing to be considered on 19 February.</b>	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. <b>Continued liaison with EKH Chief Executive / Board ( Joint Owners), decision due on 19 February regarding future of EKH.</b>	Ongoing	3	1	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
C8	Failure to deliver Transformation change including key components of ICT & People Strategy	Susan Priest (HoPS); Cllr David Monk (Leader), Cllr Hollingsbee (Communities)	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 2 & 3 agreed by Transformation Board. Skype for Business & new Customer Contact Centre and Staff Hub ICT & first phase of Built Environment module in place. Phase 1 staffing changes launched. Phase 2 staff consultation concluded.	2	3	6	Treat	Phase 2 implementation in Spring. Process redesign underway and to continue throughout 2020, alongside IT Arcus project.	Key milestone March 20 & ongoing	1	3	3
C9	Failure to deliver Strategic Projects due to complexity	Andy B (Housing & Operations Director); Cllr David Godfrey (Housing, Transport & Special Projects)	Ambitious Strategic Development & housing 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

C8  
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**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
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. <b>Issues arising from landlord statutory functions.</b>	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. <b>Additional governance of compliance work directly overseen by Council with focus on ensuring compliance activity given high priority. LGSR activity now fully compliant with other key compliance areas being actioned.</b>	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. <b>Regular meetings held with Housing Regulator, and Voluntary undertaking to be agreed by March. Risk of challenge to Examination in Public (EIP) to be manged through appointment of experienced barrister.</b>	Ongoing	1	3	3
C11	Reputational Risks	Susan Priest (HoPS); Cllr David Monk (Leader)	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

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
C12	Non-compliance with ESIF regulations for the Folkestone Community Works (FCW) programme	Katharine Harvey (Chief officer) & 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	In-depth 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. PMT resources increased to include a Project Support Officer, to ensure project compliance. Quarterly claim checks by Managing Authorities ensure satisfactory processes and evidence in place. Managing Authorities are satisfied with process during annual On the Spot Inspection Visits.	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 both for compliance and management. Interim Director in place to support transition of service. Council Chief Executives now constitute the EKH Board and senior management changes within EKH effected to address ongoing issues. Specialist council staff now working within EKH and action plan developed with support of Penningtons, a specialist housing consultancy, and ongoing liaison with the Housing Regulator. Council to submit a voluntary undertaking to the regulator to address identified recognised weaknesses. Interim Director in place to support transition of service to Council control following decision at Council (19 February 2020) and new Director of Housing and Operations appointed to be responsible for service.	4	4	16	Treat	Full Council to consider council landlord functions on 19 February following tenant consultation. Review findings and recommendations resulting from the full review into service failures in relation to LGSRs and the wider service failures identified by the work completed by EKAP. Dependant on decision, arrangements will need to be put in place to continue to deliver the function on future. Arrangements are currently being put in place to ensure positive transition of service to mitigate current issues and to improve the service over the medium term. CLT deep dive into transition arrangements scheduled for March.	Ongoing	1	2	2

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**Matrix - Corporate Risk Register**

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

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This Report will be made public on 25 February 2020



Report Number **AuG/19/26**

**To:** Audit and Governance Committee  
**Date:** 04 March 2020  
**Head of Service:** Charlotte Spendley, Director - Corporate Services  
**Cabinet Member:** Councilor David Monk, Leader of the Council

**Subject:** Accounting Policies 2019/20

**Summary:** Accounting Policies are the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements. This report presents the Accounting Policies proposed to be adopted for the 2019/20 financial statements.

**Reasons for recommendations:**

The Committee is asked to agree the recommendations set out below because the council is required to adopt Accounting Policies in order to prepare the annual Statement of Accounts.

**Recommendations:**

1. To receive and note Report AuG/19/26.
2. To approve the Accounting Policies 2019/20.

## **1. INTRODUCTION**

- 1.1 The council should adopt the accounting policies most appropriate to its particular circumstances for the purpose of giving a true and fair view.
- 1.2 The accounting policies should be reviewed regularly to ensure that they remain appropriate, and are changed when a new policy becomes more appropriate.

## **2. ANNUAL REVIEW**

- 2.1 The annual review of accounting policies has found that some minor changes are required to existing policies and two new policies are required to be adopted for the 2019/20 financial statements.
- 2.2 The council purchased Westenhanger Castle in August 2019 which is classed as a heritage asset and therefore an accounting policy to appropriately account for heritage assets must be adopted for the 2019/20 financial statements.
- 2.3 In November 2019 Council approved the decision to borrow £100 million for the Otterpool Park project. In order to present a true and fair view of the costs of property, plant and equipment the council needs to enhance its accounting policy for borrowing costs incurred where items of property, plant and equipment take a substantial period of time to get ready for their intended use.

Previously borrowing costs have been charged as an expense to the Comprehensive Income and Expenditure Statement in the financial year in which they were incurred. The new approach will be to capitalise borrowing costs for qualifying assets which better reflects the costs of property, plant and equipment and helps ensure that those benefiting from the use of the asset meet those costs.

- 2.4 The accounting policies to be used in the preparation of the 2019/20 financial statements can be found at Appendix 1.

## **3. CONCLUSION**

- 3.1 The Committee is asked to approve the Accounting Policies for 2019/20.

## **4. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS**

### **4.1 Legal Officer's Comments (AK)**

There are no additional legal comments arising from this report.

### **4.2 Finance Officer's Comments (CI)**

There are no financial implications arising from this report.

### **4.3 Diversity and Equalities Implications (CI)**

There are none arising directly from this report

## **5. CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

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

*Cheryl Ireland – Lead Accountant*

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*Charlotte Spendley – Director of Corporate Services*

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

### **Appendices:**

**Appendix 1: Accounting Policies 2019/20**

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## 1. Accounting Policies

### 1.1 General Principles

This Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year end of 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 which require preparation in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20* supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts has been prepared on a 'going concern' basis. The accounting convention adopted is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments:

Class of Assets	Valuation Basis
Property, Plant and Equipment - Dwellings	Current value, comprising existing use value for social housing Dwellings are valued using market prices for comparable properties, adjusted to reflect occupancy under secured tenancies.
Property, Plant and Equipment – Land and Buildings	Current value, comprising existing use value  Where prices for comparable properties are available in an active market, properties are valued at market value taking into account the existing use. Where no market exists or the property is specialised, current value is measured at depreciated replacement cost
Property, Plant and Equipment – Surplus Assets	Fair value
Investment Properties	Fair value
Financial Instruments – Available for Sale Assets	Fair value
Pensions Assets	Fair value

### 1.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place (not simply when cash payments are made or received) and with due regard to material levels of adjustment. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are

transferred to the service recipient in accordance with the performance obligations in the contract.

- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for income that might not be collected.

### **1.3 Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the CIES until conditions attached to the grant or contributions have been satisfied. The grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non ring-fenced revenue grants and all capital grants) in the CIES.

### **1.4 Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

### **1.5 Changes in Accounting Policy**

In 2019/20 the Council has purchased land which includes the freehold of the former Folkestone Racecourse site and several houses as part of the Otterpool Park Garden Town project. In order to present a true and fair view of the cost of property, plant and equipment the Council has changed its accounting policy for borrowing costs incurred where items of property, plant and equipment take a substantial period of time to get

ready for their intended use. Previously the Council had expensed borrowing costs as they were incurred. A review of past transactions has not identified any similar assets with substantial construction periods where there would be a material misstatement of the asset balance and so no prior period adjustment is required.

## **1.6 Exceptional Items**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the CIES or in the notes to the accounts, depending on how significant the items are to the understanding of the Council's financial performance.

## **1.7 Overheads and Support Services**

The costs of the Council's overheads and support services are fully charged, where relevant, to those that benefit from the supply or service.

## **1.8 Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the MiRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account to score against (Surplus) or Deficit on the Provision of Services in the CIES. An amount is then transferred from the earmarked reserve to the General Fund via an entry in the MiRS so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, retirement and employee benefits, council tax and business rates income and financial instruments. They do not represent usable resources for the Council. These reserves are explained in the relevant policies.

## **1.9 Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment (PPE).

### **Recognition**

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

The Council has set a de minimis level in respect of the recognition of capital expenditure of £10,000.

## Measurement

Items of PPE are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, where relevant.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the exchange transaction has no commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction - depreciated historical cost
- dwellings – current value, determined using the basis of Existing Use Value for Social Housing (EUV-SH)
- surplus assets – current value measurement basis is fair value, estimated at highest and best use from a market participant's perspective
- all other assets - current value, determined as the amount that would be paid for the asset in its existing use.

Where there is no market based evidence of fair value, because of the specialist nature of the asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non property assets have short useful lives or low values (or both) depreciated historical cost is used as a proxy for fair value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains may be credited to the CIES where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

The Revaluation Reserve contains revaluations gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### **Impairment**

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### **Depreciation**

Depreciation is provided for on all PPE assets, by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets), assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight line allocation usually over 5-7 years
- infrastructure – straight line allocation usually over 20 years

Where a PPE asset has a major component whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been charged based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## **Disposal**

When an asset is disposed of or decommissioned, the net book value of the asset and the receipt from the sale are both charged to the CIES which could result in a net gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

All sale proceeds in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts below £10,000 are considered de minimis and treated as revenue.

The net gain or loss on disposals has no impact on taxation requirements as the financing of non-current assets is provided for under separate arrangements.

### **1.10 Borrowing Costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and will be capitalised when it is probable that they will result in future economic benefits or service potential to the authority and the costs can be measured reliably. All other borrowing costs will be recognised as an expense in the period in which they are incurred.

Borrowing costs are interest and other costs that an authority incurs in connection with the borrowing of funds and may include:

- interest expense calculated using the effective rate of interest method, and
- finance charges in respect of finance leases.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

The commencement date for capitalisation of borrowing costs is the date when the authority first meets all of the following conditions:

- it incurs expenditure for the asset
- it incurs borrowing costs, and
- it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs shall be suspended during extended periods in which active development of a qualifying asset is suspended.

Capitalisation of borrowing costs will cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete; this may require capitalisation to be carried out in relation to specific parts of a project if the parts are capable of being used while preparation continues on other parts.

### **1.11 Non-current Assets Held For Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES.

Gains in fair value are recognised only up to the amount of any previously recognised losses in the (Surplus) or Deficit on the Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held For Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

### **1.12 Heritage Assets**

Heritage assets are defined as assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for its contribution to knowledge and culture.

Heritage assets are initially recognised at cost or value in accordance with the Council's accounting policy on recognising Property, Plant and Equipment. Where information on the cost or value is not available, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, that asset is not recognised on the Balance Sheet and an appropriate disclosure is made instead.

Heritage assets are then carried at valuation rather than current or fair value, reflecting the fact that sales and exchanges of heritage assets are uncommon. Valuations may be made by any method that is appropriate and relevant, including replacement cost, purchase cost and insurance valuation. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations, but the carrying amounts of heritage assets carried at valuation must be reviewed with sufficient regularity to ensure they remain current. In some cases it may not be practicable to establish a valuation for a heritage asset, in which case the asset is carried at historical cost if this information is available.

Depreciation or amortisation is not required on heritage assets which have indefinite lives.

### **1.13 Investment Property**

An investment property is one that is used solely to earn rentals or for capital appreciation or both. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment property is initially measured at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date.

As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Any gain or loss arising from a change in the fair value of investment property is recognised in the Financing and Investment Income and Expenditure line in the CIES. The same treatment is applied to gains and losses on disposal.

Rentals received are credited to the Financing and Investment Income and Expenditure line in the CIES.

Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the MiRS and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

#### **1.14 Revenue Expenditure Funded from Capital under Statute (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the CIES in the year. Where the Council has determined to meet the cost of such expenditure from existing capital resources or borrowing, a transfer in the MiRS from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on council tax.

#### **1.15 Employee Benefits**

##### **Benefits Payable during Employment**

Short term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid on a monthly basis and reflected as expenditure in the relevant service line in the CIES.

##### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These costs are charged on an accruals basis to the relevant service line in the CIES.



## Post-Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Kent County Council (KCC). The Scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees work for the Council.

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- the liabilities of the KCC pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of earnings for current employees.
- the assets of the KCC pension fund attributable to the Council are included in the Balance Sheet at their fair value.
- the change in the net pensions liability is analysed into the following components:
  - i) Service cost comprising:
    - current service cost - the increase in liabilities as a result of years of service earned for the year - allocated in the CIES to the services for which the employees worked
    - past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the (Surplus) or Deficit on the Provision of Services in the CIES as part of Non-distributed Costs
    - net interest on the net defined liability - the expected increase in the present value of liabilities during the year as they move one year closer to being paid offset by the interest on assets held at the start of the year and cash flows occurring during the period. The net interest expense is charged to the Financing and Investment Income and Expenditure line in the CIES.
  - ii) Re-measurements comprising:
    - the return on plan assets excluding amounts included in net interest and actuarial gains and losses (changes in the net pensions liability that arise because the actuaries have updated their assumptions). These are charged to the CIES as Other Comprehensive Income and Expenditure.
  - iii) Contributions paid to the KCC pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated in accordance with the relevant standards. This means that in the MiRS there are appropriations to or from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The debit balance that arises on the

Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### **1.16 Events after the Reporting Period**

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the authorisation for issue are not reflected in the Statement of Accounts.

### **1.17 Financial Assets**

Dividends are credited to the CIES when they become receivable by the Council.

Financial assets are classified into one of three categories:

- Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement.
- Fair Value Through Other Comprehensive Income (FVOCI) – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.
- Fair Value through Profit and Loss (FVPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances (including

balances outstanding at the date of de-recognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES.

Changes in the value of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

### **1.18 Financial Liabilities**

Financial liabilities are recognised when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable, plus any accrued interest, and interest charged to the CIES is the amount payable for the year in the loan agreement. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

### **1.19 Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made about the amount of the obligation.

Provisions are charged to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

### **1.20 Value Added Tax**

Value added tax is included in income and expenditure accounts only to the extent that it is irrecoverable.

### **1.21 Interests in Companies and Other Entities**

Where the Council has a material interest in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities, group accounts will be prepared. In the Council's own single entity accounts, any interest in companies and other entities will be recorded as financial assets at cost, less any provision for losses.

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