



Agenda

Meeting: **Audit and Governance Committee**
Date: **28 September 2021**
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>.

Although social distancing rules have been relaxed, for the safety of the public, elected members and staff, we will continue to seat members of the public approximately one metre apart. This means that there will be 13 seats available for members of the public, which will be reserved for those speaking or participating at the meeting. The remaining available seats will be given on a first come, first served basis.

All attendees at meetings are kindly asked to wear face coverings, unless they are addressing the meeting.

1. **Apologies for Absence**
2. **Declarations of Interest (Pages 3 - 4)**

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

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Email: committee@folkestone-hythe.gov.uk or download from our
website www.folkestone-hythe.gov.uk

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

3. **Minutes (Pages 5 - 10)**

To consider and approve, as a correct record, the minutes of the meeting held on 29 July 2021.

4. **Quarterly Internal Audit Update Report from the Head of East Kent Partnership (Pages 11 - 30)**

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 31st August 2021.

5. **Grant Thornton Audit Progress Report (Pages 31 - 56)**

Grant Thornton's report gives a progress update on recent audit work undertaken and highlights topical issues.

6. **Auditor's Annual Report 2020/21 (Pages 57 - 84)**

Grant Thornton are required to undertake a review annually to satisfy themselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Following review they prepare the Annual Report to provide commentary relating to the arrangements in place.

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	Thursday, 29 July 2021
Present	Councillors Mrs Ann Berry (Vice-Chair), Laura Davison, Philip Martin (Chairman) and Rebecca Shoob and Andy Vanburen (Independent Member)
Apologies for Absence	Councillor Terence Mullard
Officers Present:	Kate Clark (Case Officer - Committee Services), Cheryl Ireland (Chief Financial Services Officer), Amandeep Khroud (Assistant Director), Mrs Christine Parker (Head of Audit Partnership) and Charlotte Spendley (Director of Corporate Services)
Others Present:	Paul Dossett (Grant Thornton)

1. **Declarations of Interest**

There were no declarations of interest.

2. **Minutes**

The minutes of the meeting held on 27 May 2021 were submitted, approved and signed by the Chairman.

3. **Annual Governance Statement 2020-2021**

Under the Accounts and Audit (England) Regulations 2015, local authorities are required to produce an Annual Governance Statement. This report describes the process followed and seeks approval for the Annual Governance Statement for the year 2020/21.

The Assistant Director, Governance and Law, highlighted various changes within the report.

Members comments included:

- ICO Decision Notice issued in March 2021, could members be updated once concluded? Confirmation received that this will be noted.
- CIPFA Statement – work in progress. Members asked if anything had emerged. The Chief Financial Services Officer confirmed work in progress and most procedures were compliant.
- This committee will continue to have an ongoing role with regard to governance around Otterpool Park.
- The outstanding objection to the 2018/19 accounts had been resolved. Grant Thornton had responded.

Proposed by Councillor Rebecca Shoob
Seconded by Councillor Mrs Ann Berry and

Resolved:

- 1. That AuG/21/09 is received and noted.**
- 2. That the Annual Governance Statement for 2020/21 is approved.**
- 3. That the Council's Corporate Action Plan outlined in Appendix 1 of the agenda for 2021/22 is approved.**

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

4. Quarterly Code of Conduct Complaints update

This report provided an update to the Committee on Member Code of Conduct complaints received during the final quarter of 20/21 (1 January to 31 March 2021).

Members were taken through the report which culminated in a question being asked about actions taken as a result of a complaint.

Action taken, if appropriate, would warrant investigation, contact made with the relevant clerk, dialogue with those concerned, followed by the offer of training. Members were reminded that eight complaints were received for the final quarter of 2020/21, none of which required further investigation.

Proposed by Councillor Mrs Ann Berry
Seconded by Councillor Philip Martin

Resolved:

That AuG/21/04 is received and noted.

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

5. Review of Corporate Risk Register

This report provided an update to the Corporate Risk Register.

The Director of Corporate Services outlined the report to members advising that the new Corporate Plan had been adopted in February this year with a

subsequent new Corporate Risk Register reflecting new challenges and pandemic recovery.

Cyber risk had been added, this is sector wide and a real concern for all local authorities. Waste Management is the highest risk for reasons already publicised.

Members noted the following:

- Good to see Carbon Neutrality on the register, which is considered a significant risk.
- Organisational Capacity – how this impacts on people's day to day jobs. Resources need to be strengthened in key areas and extra staff have been deployed.
- Waste management – could the problems have been spotted earlier? Aspects of the service were incorporated in the register as pressures identified due to the pandemic.
- Department Risk Register – two thirds of departments have completed their risk registers
- Training is encouraged which would hopefully have the effect of slowing risks and strengthening the risk process.
- The committee requested that the Corporate Risk Register could be shared with members before the standard agenda deadlines.

Proposed by Councillor Rebecca Shoob

Seconded by Councillor Laura Davison

Resolved:

1. That AuG/21/10 is received and noted.

2. That the updated Corporate Risk Register is received and noted.

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

6. Internal Audit Annual Report 2020-21

Report AuG/21/08 provided a summary of the work undertaken by the East Kent Audit Partnership to support the annual opinion. The report included the Head of Audit Partnership's opinion on the overall adequacy and effectiveness of the system of internal control in operation and informed the Annual Governance Statement for 2020-21, together with details of the performance of the EKAP against its targets for the year ending 31 March 2021.

The Head of Audit Partnership took members through this report and drew members' attention to certain parts of the report. Thanks was given to all for their engagement regarding EKAP returning to the audit plan after being redeployed in Quarter One, this had enabled sufficient work to have been undertaken to provide an opinion, in accordance with the advice from CIPFA.

A member asked about Compliance with Professional Standards (Point 3.6) and whether any further work needs to be completed. An update was suggested

alongside the Plan at the March meeting, which the Director of Corporate Services was happy to provide, although did point out that a detailed evaluation and report is normally carried out in five yearly intervals.

Proposed by Councillor Mrs Ann Berry
Seconded by Councillor Laura Davison

Resolved:

- 1. That the opinion of the Head of Audit Partnership in report AuG/21/08 is received and noted.**
- 2. That the Annual Report detailing the work of the EKAP and its performance to underpin the 2020-21 opinion is received and noted.**

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

7. Internal Audit Quarterly Update Report form the Head of East Kent Audit Partnership

Report AuG/21/07 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 June 2021.

The Head of Audit Partnership presented the summary of work along with the appendices.

The summary of reports shows three were providing substantial, eight were reasonable assurance and one was not applicable for an assurance and members were reassured that these would be followed up and reported back to this committee. In addition, three follow up reviews had been completed during the period. In response to a question, it was also confirmed that any changes made to the Scheme of Delegations would be presented to the Audit & Governance Committee before seeking approval from Full Council.

Members were impressed with the level of assurance with regard to Housing Tenants' Health and Safety and progress made by all those involved.

Proposed by Councillor Rebecca Shoob
Seconded by Councillor Philip Martin

Resolved:

- 1. That Report AuG/21/07 is received and noted.**
- 2. That the results of the work carried out by the East Kent Audit Partnership are noted.**

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

8. Grant Thornton update

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

Mr Paul Dossett, Grant Thornton, highlighted aspects of the reports; progress made; value for money and the strong arrangements put in place.

Proposed by Councillor Mrs Ann Berry
Seconded by Councillor Philip Martin

Resolved:

That Report AuG/21/06 and Grant Thornton's Update Report is received and noted.

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

9. Draft Statement of Accounts

In accordance with the Accounts and Audit (Amendment) Regulations 2021 the council must consider and approve its Statement of Accounts no later than 30 September 2021. The Accounts presented are subject to audit which is ongoing at the time of drafting this report.

The Chief Financial Services Officer presented the report and confirmed to members the amended submission deadline and publication of the Statement of Accounts. The final audit will be presented to this committee in September 2021.

Proposed by Councillor Mrs Ann Berry
Seconded by Councillor Philip Martin

Resolved:

- 1. That Report AuG/21/05 is received and noted.**
- 2. That the Draft Statement of Accounts 2020/21 is approved.**

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

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This Report will be made public on 20 September 2021



Report Number **AuG/21/12**

To: Audit and Governance Committee
Date: 28 September 2021
Status: Non-Executive Decision
Corporate Director: Charlotte Spendley – Director – Corporate Services (S151)

SUBJECT: QUARTERLTY INTERNAL AUDIT UPDATE 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 31st August 2021.

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/21/12.**
- 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 meeting.

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 no 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 five audit reports completed during the period. These have been allocated assurance levels as follows: one was providing substantial, two were reasonable, one was limited assurance and one was not applicable. Summaries of the report findings are detailed within Annex 1 to this report.
- 3.2 In addition, three 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 31st August 2021 139 chargeable days were delivered against the planned target of 350 days, which equates to achievement of 39% of the planned number of days.

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 (s.151). 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@folkestone-hythe.gov.uk

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

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

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

Attachments

Annex 1 – Quarterly 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 31st August 2021.

2. SUMMARY OF REPORTS

Service / Topic		Assurance level	No of recs	
2.1	ICT Review	Substantial	C H M L	0 0 2 1
2.2	Community Safety Partnership	Reasonable	C H M L	0 4 4 0
2.3	Housing Voids Management	Reasonable	C H M L	0 0 4 0
2.4	Community Infrastructure Levy & S106	Limited	C H M L	0 4 4 4
2.5	Internal Process Investigation & Lessons Learned Review	N/A	C H M L	N/A

2.1 ICT review – Substantial Assurance

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure robust processes are in place for the various ICT functions.

2.1.2 Summary of Findings

The ICT service was brought back in-house in December 2020. ICT Services provides essential support to all Council departments and users and has been vitally important during the Covid pandemic. Amongst its many functions, the service maintains servers, takes action to secure the network, backs-up stored information, supports individual users and helps to provide ICT solutions.

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

- The Council has an up to date and approved ICT Strategy; other ICT policies, such as ‘Use of Computers’ dated 2012, are currently being reviewed but are unlikely to fundamentally change.
- Network security undergoes an annual health check by an external, industry approved, provider and the Council has been compliant since the introduction of IT health checks in 2006.
- A business continuity service is in place and around 40% of systems are currently cloud based, with the aim to increase this to 80% within the next two years.
- All calls to the helpdesk are logged, tracked and dealt with as quickly as possible; approximately 600 calls/month are received.
- Obsolete equipment is disposed of using WEEE (Waste Electrical and Electronic Equipment) certified disposal providers.

Scope for improvement was however identified in the following areas:

- Provide the Infrastructure and ICT Support Specialist with administrative rights to the helpdesk (Salesforce) system, the system can be tailored to make service improvements and provide resilience within ICT Services.
- Provide administrative rights to the helpdesk so that the customer satisfaction survey can be reintroduced; this will help identify common user needs and may reduce calls to the service desk.
- On the staff intranet A-Z, re-categorise ICT policies/guidance according to the subject instead of the document title.

2.2 Community Safety Partnership – Reasonable Assurance

2.2.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the input from the Council to the Community Safety Partnership in order to achieve the Council objectives and to meet legislation which places a duty on local councils to consider how their services impact on crime and disorder.

2.2.2 Summary of Findings

The Council is a named body who is required to contribute to the Community Safety Partnership (CSP), which is required to exist by legislation in relation to community safety. The Community Safety Unit (CSU) is a multi-agency team coordinated by the Council which supports the work of the CSP and liaises with the Police, KCC, Probation Services, Health and other key partners (e.g. PCC) to achieve the objectives of the Community Safety Partnership.

The Community Safety Partnership meets formally on a quarterly basis with all the members of the partnership. They produce a Strategic Assessment each year together with a Community Safety Plan, which will now be produced every three years with an annual review undertaken. The Community Safety Unit meets on a weekly basis with the more operational members of the team.

The Council has two officers who are involved with the Community Safety Partnership and these are the Health Wellbeing and Partnerships Senior Specialist and the Community Safety Specialist who is the main liaison between the Council and the CSP.

An assurance opinion of Reasonable has been concluded in respect of whether the CSP meets its objectives and thus assists in ensuring that the Council meets its statutory responsibilities regarding community safety.

The primary findings giving rise to the Reasonable opinion are as follows:

- The Community Safety Partnership through its partner role, is ensuring that the Partnership as a group produces a Community Safety Plan and also completes an annual strategic assessment, which are both laid down requirements.
- The CSU is facilitating many projects that meet its own specific objectives and that of the CSP, as well as reacting to current community safety concerns.
- The Council's Overview & Scrutiny Committee is acting as the Crime & Disorder Committee as required by legislation.
- There is various information available to the general public in relation to community safety on the Council's website.

There are however some areas which require some improvement and these include:

- It should be confirmed if the Community Safety Plan is part of the policy framework and if so should be noted by Full Council, or if not then the Council's Constitution should be amended to reflect this change.
- The role of the Overview and Scrutiny Committee when acting as the Crime and Disorder Committee should be documented to ensure that the members of the committee are fully aware of their role when they are acting as the Crime & Disorder Committee.

2.3 Housing Voids Management – Reasonable Assurance

2.3.1 Audit Scope

To provide assurance on the processes and procedures that are in place to effectively manage void properties to ensure that they are returned to the rental stock as quickly as possible to reduce loss of rental income and that they are in a good state of repair for the new tenants.

2.3.2 Summary of Findings

Housing services returned as an in-house function in October 2020. There are on average 10-20 void properties per week requiring works to bring them up to standard; these are managed by the Inspection Team. Repair works are undertaken mainly by the Council's contractor, Mears, and other specialist contractors where necessary. The Council is reviewing the existing contract arrangements and preparing to undertake a procurement tender exercise in 2022.

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

- The Council has a draft voids management procedure document in place.
- Repairs contract arrangements are satisfactory and charges are in line with the National Housing Federation schedule of rates.
- All void works are inspected upon satisfactory completion before invoice payments are authorised.
- The tenant is prompted of their responsibilities in a number of ways and comprehensive information is available on the Council's website.
- Undisputed repair costs are recharged to tenants held responsible, however recovery rates are not known.
- Controls are in place to correctly identify/allocate capital and revenue works within the Northgate system.

Scope for improvement was however identified as follows:

- Explore the possibility of making pre-void inspections (during notice period) a condition of the tenancy agreement.
- Efforts should be made to inform the Inspection Team that notice has been given at a property in order to attempt a pre-void inspection.
- Try to prioritise completion of the Tenant Handbook since there are many references to it in the Tenancy Agreement.
- Make arrangements to extract recharge recovery rates from the efinancials system.

2.4 Community Infrastructure Levy (CIL) & S106 – Limited Assurance

2.4.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Community Infrastructure Levy scheme (CIL)

and Section 106 agreements are correctly administered, and adequate monitoring is undertaken of monies due, collected and spent.

2.4.2 Summary

Planning obligations are legal obligations entered into to assist in mitigating the impact of development and benefits local communities and supports the provision of local infrastructure i.e. local schools, health and social care facilities etc. The Council can seek funding for delivering this infrastructure from multiple sources and developer contributions can be accessed:

- Through planning conditions – to make development acceptable that would otherwise be unacceptable.
- Through planning obligations in the form of Section 106 agreements – where it is not possible to address unacceptable impacts through a planning condition for major residential schemes of 10 units or more.
- Through the Community Infrastructure Levy (CIL) – a fixed charge levied on new development to fund infrastructure.

Any conditions or obligations placed on planning permission should be kept to a minimum and only imposed where they are necessary, relevant, enforceable, precise and reasonable.

Changes due to the introduction of the Community Infrastructure Levy Regulations 2010 and the introduction of a CIL scheme in FHDC may reduce the amount of contributions which are collected through the S106 process.

The basis for collecting contributions is planning policy SS5 of the Council's adopted Core Strategy Local Plan, as well as other policies within the Local Plan relating to requirements for open and play space provision. The Local Plan has been reviewed and a revised document went out to consultation earlier this year; responses to which are currently being reviewed.

In summary, it would appear that a number of the issues highlighted below have arisen as a result of the heavy workload and lack of available resource capacity within the planning team at present.

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

- The annual indexation to the CIL charges was being miscalculated.
- There is a lack of documented CIL income collection procedures.
- The percentage of contracted hours that any officer i.e. the CIL/S106 and Enforcement Team Leader, or the Strategy & Policy Senior Specialist etc. spend administering the CIL scheme should be formally determined in order to support the Council retaining 5% of CIL funding to cover the administrative burden.
- There were incidences identified of a lack of a full evidential trail on file to support the calculation of individual contributions.

- There is a lack of consistent and timely monitoring of S106 trigger points to enable prompt invoicing for contributions due and to the application and calculation of S106 monitoring fees.

Effective control was however evidenced in the following areas:

- The responsibility for negotiating and managing planning obligations has been appropriately defined.
- An end of year financial statement on planning obligations (CIL and S106) is being prepared, approved and published in line with regulations.
- A comprehensive level of planning obligation information is available on the Council's Website.
- The CIL charging schedule has been formally approved.

2.5 Internal Process Investigation & Lessons Learned Review – N/A

2.5.1 Audit Scope

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

- the Pay Policy is complied with, both in respect of new appointments and voluntary redundancy or severance payments; and
- the Constitution is complied with, with regards to Member decision making and delegated approvals.

2.5.2 Summary of Findings

EKAP were commissioned to establish the facts surrounding the voluntary redundancy payment made in 2020-21, and the appointments to the three Corporate Director Posts regarding the circumstances leading up to the breach of the Council's Pay Policy. Paying particular attention to whether this was a one-off breach / set of circumstances or whether additional internal controls are required to provide assurance that it cannot happen again.

This work was conducted as a special investigation and is classed as responsive work, which does not carry an assurance opinion. Steps to prevent any future occurrence have already been introduced, and a retrospective report to Full Council is being considered. The primary findings are as follows:

The Council's rules as set out in the Pay Policy Statement make provision for Severance Payments that-

- "Full Council will be offered the opportunity to vote on severance packages which are greater than £100,000. Severance payments may include salary paid in lieu, redundancy compensation, pension entitlements, holiday pay and any bonuses, fees or allowances paid. Bonuses may include any payment not normally paid to the employee and not formally identified within this document".

- The one off error of omission was caused by the Responsible Officer confusing various rules (Council and HMRC) and not including Pay In Lieu of Notice in the calculation. This was a one off error, and is the reason the matter was not referred to Full Council for approval, the figure excluding the pay in lieu of notice was below the delegated authority levels. A new control has been introduced to prevent this from reoccurring in future.

The Council’s rules within the Pay Policy Statement make provision for Chief Officer Appointments that-

- “Full Council will be offered the opportunity to vote on salary packages, at the time of an employee’s appointment, which are greater than £100,000 a year. Salary packages include the annual salary, bonuses, fees or allowances routinely payable to the appointee and benefits in kind to which the officer is entitled as a result of their employment”.
- The one off error of omission (applying to the three Director posts appointed in 2019-20) was caused by the fact that this is the first time the rule has applied to a post other than the Chief Executive post.
- All three Directors were appointed to point 1 on the new scales agreed in 2019. The £100K threshold had only ever applied to the Chief Executive post in the past. But when taken together, salary point 1 and the car allowance exceed the £100K threshold and it became necessary to seek Full Council approval. Noting that no enhancements were being offered to any applicant, they were engaged on the first spinal point of the scale. This requirement for approval for a total pay package over £100K had been overlooked in error.

FOLLOW UP OF AUDIT REPORT ACTION PLANS

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS

3.1 As part of the period’s work three 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
Waste Management	Reasonable / Limited	Reasonable	C 0 H 4 M 2 L 3	C 0 H 0 M 1 L 0

Complaints Monitoring	Reasonable	Reasonable	C 0 H 1 M 2 L 4	C 0 H 0 M 0 L 0
Licensing	Reasonable / Limited	Reasonable / Limited	C 0 H 1 M 3 L 1	C 0 H 1 M 2 L 0

- 3.3 Details of any individual critical or high priority recommendations outstanding after follow-up are included at Annex 1 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they are now being escalated for the attention of the s.151 Officer and Members of the Audit & Governance 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.

3.4 Licensing

The reason for highlighting the High category recommendation for the Licencing review is that it is still not yet due to be completed for over a year, and therefore presents a risk to the Council until it has been completed.

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 Benefit Overpayments, Princes Parade, Housing Benefit DHP, Safeguarding and Housing Garage Management.

5.0 CHANGES TO THE AGREED AUDIT PLAN

- 5.1 The 2021/22 audit plan was agreed by Members at the meeting of the Audit & Governance Committee on 4th March 2021.
- 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 on behalf of Folkestone-Hythe District Council.

7.0 INTERNAL AUDIT PERFORMANCE

7.1 For the period ended 31st August 2021 139 chargeable days were delivered against the planned target of 350 which equates to achievement of 40% of the original planned number of days.

7.2 The financial performance of the EKAP for 2021/22 is on target.

Attachments

- Appendix 1 Summary of high priority recommendations outstanding or in progress after follow up
- Appendix 2 Summary of services with limited / no assurances yet to be followed up.
- Appendix 3 Progress to 31st August 2021 against the 2021/22 Audit plan.
- Appendix 4 Balanced Scorecard to 30th June 2021
- Appendix 5 Assurance Definitions.

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.
Licensing (excluding taxis and hackney carriages)		
The cost neutral exercise should be carried out when the licensing function moves across to the Salesforce Platform to reflect the new ways of working and to ensure that the service is cost neutral. After the initial exercise has been carried out then it should be carried out on a regular basis.	<p>Discretionary fees reviewed, with proposals for 2023/2024 financial year subject to implementation of sales force. However if this implemented earlier then the proposed review may be carried out sooner.</p> <p>Proposed Completion Date / Responsibility</p> <p>31st August 2022 - Environmental Health & Licensing Senior Specialist</p>	<p>This will need to be carried out by the new Environmental Health and Licensing Senior Specialist once appointed.</p> <p>Recommendation is Outstanding</p>

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED			
Service	Reported to Committee	Level of Assurance	Follow-up Action Due
None			

PROGRESS AGAINST THE F&HDC AUDIT PLAN 2021/22

Review	Original Planned Days	Revised Planned Days	Actual To 31/08/2021	Status and Assurance level
FINANCIAL SYSTEMS				
Business Rates	10	0	-	Deferred
Housing Benefit Overpayments	10	11	10.71	Work in progress
Housing Benefit DHP	10	8	7.35	Work in progress
Housing Benefit Subsidy	10	10	-	Quarter 4
HOUSING SYSTEMS				
Homelessness	10	10	0.14	Quarter 4
Rent Setting, Accounting & Collection	10	10	-	Quarter 2
Resident Engagement	10	8	8.14	Finalised - Reasonable
Voids Management	10	14	14.62	Finalised - Reasonable
Tenants' Health & Safety	10	10	0.03	Quarter 3
Contract Management	10	10	0.16	Quarter 4
Data Integrity	10	10	0.16	Quarter 2
Garage Deposits/ Management	10	10	4.22	Work in progress
Housing Regulator	10	10	0.03	Quarter 3
Right to Buy	10	10	0.03	Quarter 4
ICT SYSTEMS				
ICT review	10	12	11.66	Finalised - Substantial
HUMAN RESOURCES SYSTEMS				
Flexi, Leave and Sickness	10	10	-	Quarter 3
GOVERNANCE RELATED				
Freedom of Information	10	10	-	Quarter 3
Fraud Resilience Arrangements	10	0	0	Replaced with Grants Review
Otterpool Park Governance	10	10	-	Quarter 4
SERVICE LEVEL				
Business Continuity / Emergency Planning	10	0	-	Quarter 4
Councillor Grants	10	10	5.73	Quarter 2
Climate Change	10	10	2.13	Quarter 3
E-Procurement & Purchase Cards	10	10	-	Quarter 3
Engineers / Coast Management	10	10	-	Quarter 2
Garden Waste / Recycling Management	10	10	-	Quarter 1
Lifeline	10	10	0.10	Quarter 4

Review	Original Planned Days	Revised Planned Days	Actual To 31/08/2021	Status and Assurance level
Folkestone Community Works Programme	10	10	-	Quarter 2
Planning Income	10	0	-	Deferred
Safeguarding	10	10	9.35	Work in progress
OTHER				
Committee Reports & Meetings	10	10	4.81	Ongoing
S151 Meetings & Support	10	10	3.72	Ongoing
Corporate Advice / CMT	5	5	1.52	Ongoing
Liaison with External Audit	1	1	0.03	Ongoing
Audit plan prep & Meetings	10	10	2.49	Ongoing
Follow Up Reviews	14	14	11.84	Ongoing
FINALISATION OF 2020-21 AUDITS				
Scheme of Delegations	10	1	1.29	Finalised - Reasonable
Community Safety Partnership		3	3.19	Finalised - Reasonable
Planning CIL & S106		7	7.18	Finalised - Limited
Grounds Maintenance		1	0.68	Finalised - Reasonable
Housing Compliance		6	6.58	Finalised - Substantial
RESPONSIVE WORK				
Election Duties	0	2	1.74	Completed
Princes Parade	0	12	12.07	Work in progress
COVID Grants	0	10	3.43	Quarter 2
Pay Policy	0	4	3.69	Work in progress
Total	350	350	138.82	39.66% at 31/08/2021

BALANCED SCORECARD

Appendix 4

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2021-22 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2021-22 Actual</u>	<u>Original Budget</u>
	Quarter 1		Reported Annually		
Chargeable as % of available days	90%	80%	<ul style="list-style-type: none"> • Cost per Audit Day 	£	£356.35
Chargeable days as % of planned days			<ul style="list-style-type: none"> • Direct Costs 	£	£459,443
CCC	25.92%	25%	<ul style="list-style-type: none"> • + Indirect Costs (Recharges from Host) 	£	£10,945
DDC	40.50%	25%	<ul style="list-style-type: none"> • - 'Unplanned Income' 	£	Zero
TDC	18.84%	25%			
F&HDC	22.94%	25%			
EKS	18.78%	25%			
Overall	25.75%	75%	<ul style="list-style-type: none"> • = Net EKAP cost (all Partners) 		£470,388
Follow up/ Progress Reviews;					
<ul style="list-style-type: none"> • Issued 	28	-			
<ul style="list-style-type: none"> • Not yet due 	21	-			
<ul style="list-style-type: none"> • Now due for Follow Up 	15	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Full			

<u>CUSTOMER PERSPECTIVE:</u>	<u>2021-22 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	Actual	Target
	Quarter 1		Quarter 1		
Number of Satisfaction Questionnaires Issued;	17		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	7		Percentage of staff holding a relevant higher level qualification	39%	39%
	= 41%		Percentage of staff studying for a relevant professional qualification	15%	N/A
Percentage of Customers who felt that;			Number of days technical training per FTE	1.4	3.5
<ul style="list-style-type: none"> • Interviews were conducted in a professional manner • The audit report was 'Good' or better • That the audit was worthwhile. 	100%	100%	Percentage of staff meeting formal CPD requirements (post qualification)	39%	39%
	100%	90%			
	100%	100%			

Definition of Audit Assurance Statements & Recommendation Priorities

CiPFA Recommended Assurance Statement Definitions:

Substantial assurance - A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable assurance - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited assurance - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No assurance - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

EKAP Priority of Recommendations Definitions:

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

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

Medium – A finding where the Council is in (actual or potential) breach of - or where there is a weakness within - its own policies, procedures or internal control measures, but which does not directly impact upon a strategic risk, key priority, or the operational service objective of the area under review. Medium priority recommendations are likely to require remedial action within three to six months and are actions which the Council should take.

Low – A finding where there is little if any risk to the Council or the recommendation is of a business efficiency nature and is therefore advisory in nature. Low priority recommendations are suggested for implementation within six to nine months and generally describe actions the Council could take.

This Report will be made public
on 20 September 2021



Report Number **Aug/21/13**

To: Audit and Governance Committee
Date: 28 September 2021
Head of Service: Charlotte Spendley, Director of Corporate Services
Cabinet Member: Councillor David Monk, Leader of the Council

SUBJECT: Grant Thornton Audit Progress Report

SUMMARY:

Grant Thornton's report gives a progress update on recent audit work undertaken and highlights topical issues.

REASONS FOR RECOMMENDATION:

The Committee is asked to formally note progress made on recently undertaken audit work and receive the update on sector issues contained within the report.

RECOMMENDATIONS:

1. To receive and note report AuG/21/13.
2. To consider Grant Thornton's update report.

1. INTRODUCTION AND BACKGROUND

- 1.1 It was previously agreed that the external auditors should submit regular progress and update reports to meetings of this Committee. The latest report is attached at Appendix 1.
- 1.2 A representative from Grant Thornton will be attending the meeting to present the report and answer Members' questions.
- 1.3 The report outlines the status of the current annual audit of the financial statements, in addition to the value for money assessment. Progress is outlined on pages 4 – 6.
- 1.4 The remainder of the update commencing on page 6 provides an insight into sector updates relevant to the audit process and committee.

2. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

- 2.1 **Legal Officer's Comments (AK)**
There are no legal implications arising directly out of this report.
- 2.2 **Finance Officer's Comments (CS)**
There are no financial implications arising directly out of this report.
- 2.3 **Diversity and Equalities Implications (CS)**
There are no diversity and equality implications arising directly out of this report.

3. 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 of Corporate Services
Tel: 07935 517986
E-mail: charlotte.spendley@folkestone-hythe.gov.uk

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

None

Appendices:

Appendix 1: Grant Thornton Update Report

Folkestone and Hythe District Council Audit Progress Report and Sector Update

Year ending 31 March 2021

September 2021

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Audit Deliverables	06
Sector Update	07

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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Introduction

Your key Grant Thornton team members are:

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Key Audit Partner

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Manager

E emily.mckeown@uk.gt.com

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

The paper also includes:

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

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

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

Progress at September 2021

Financial Statements Audit

We commenced our audit work in July 2021, and expect to conclude during October 2021. The next available Audit and Governance Committee for reporting this is December 2021, therefore as it stands the Audit Findings Report will be submitted to that committee meeting. This does not include the Auditor's Annual Report on Value for Money which is complete and is included alongside this report. We will discuss expediting the accounts work with management. For clarity this delay is due a combination of Grant Thornton resourcing issues plus additional technical focus on aspects of the Council's accounts, mainly the former.. The delay is not due to the Council's working papers or support of the audit process.

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Additional audit work has been completed regarding the developing complexities in the accounts in recent years. This includes but is not limited to consolidating the group elements and the assessment of the investment properties. This has led to the Engagement Partner, Paul, electing to have the accounts reviewed by Grant Thornton's technical accounting support team. This has not resulted in any additional cost to the council but has contributed to the delay on our side. It gives both the council and the audit team further assurances that these complexities are being actioned appropriately and thus will be carried forwards in future years correctly.

Another of the key changes in approach for 2020/21 relates to the revisions to the auditing standard for auditing accounting estimates (ISA 540). Further information is given in this report. The Audit and Governance Committee will need to reconfirm and approve management's approach to forming material accounting estimates, in accordance with the revised standard.

We will report our work in the Audit Findings Report and aim to give our opinion on the financial statements by the end of October 2021.

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay. We have completed and concluded this work and issue our Annual Audit Report alongside this report.

We raised no key or statutory recommendations, but did raise three improvement recommendations for your management to consider in the coming year.

Progress at September 2021 (cont.)

Other areas

Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2020/21 claim is due to begin later in the year.

Meetings

We met with Finance Officers in July and August as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive to discuss the Authority's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority including the Financial Reporting Workshop in February, which helps to ensure that members of Finance Teams are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2020/21 is the third year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 and 2019/20 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit and Governance Committee alongside this report.

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

Following the closure of their 2019/20 accounts, PSAA have recently allocated an additional £6k to the Council. In the government's response to the Redmond Review (further detailed on page 20), an additional £15m of funding from MHCLG was also announced to support local authorities with the additional audit costs arising from new regulatory requirements. The consultation as to the distribution methodology for these funds has recently closed.

Audit Deliverables

2020/21 Deliverables

Audit Plan

We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.

Planned Date

Completed

Status

Completed

Audit Findings Report

The Audit Findings Report will be reported to the December Audit and Governance Committee.

December 2021

Not yet due

Auditors Report

This is the opinion on your financial statements.

December 2021

Not yet due

Auditor's Annual Report

This Report communicates the key issues arising from our Value for Money work.

Completed

September 2021

Completed and presented alongside this report

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

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

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

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

A teal rectangular button with the text "Public Sector" in white, sans-serif font.

Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font.

Local
government

The new approach to Value for Money

The nature of value for money work

Section 20 and 21 of the Local Audit and Accountability Act 2014 (the Act), require auditors to be satisfied that the body “has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources”. The auditor’s work on VFM arrangements is undertaken in accordance with the Code and its supporting statutory guidance. The Comptroller and Auditor General has determined through the 2020 Code and guidance that the key output from local audit work in respect of VFM arrangements is the commentary as reported in the Auditor’s Annual Report. It is therefore not a VFM arrangements ‘conclusion’ or an ‘opinion’ in the same sense as the opinion on the financial statements themselves. The Act and the Code require auditors to consider whether the body has put in place ‘proper arrangements’ for securing VFM. The arrangements that fall within the scope of ‘proper arrangements’ are set out in ‘AGN 03 Auditors’ work on VFM arrangements’, which is issued by the NAO. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria:

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services, including how the body:

- ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- plans to bridge its funding gaps and identifies achievable savings;
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;

- ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Governance

How the body ensures that it makes informed decisions and properly manages its risks, including how the body:

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

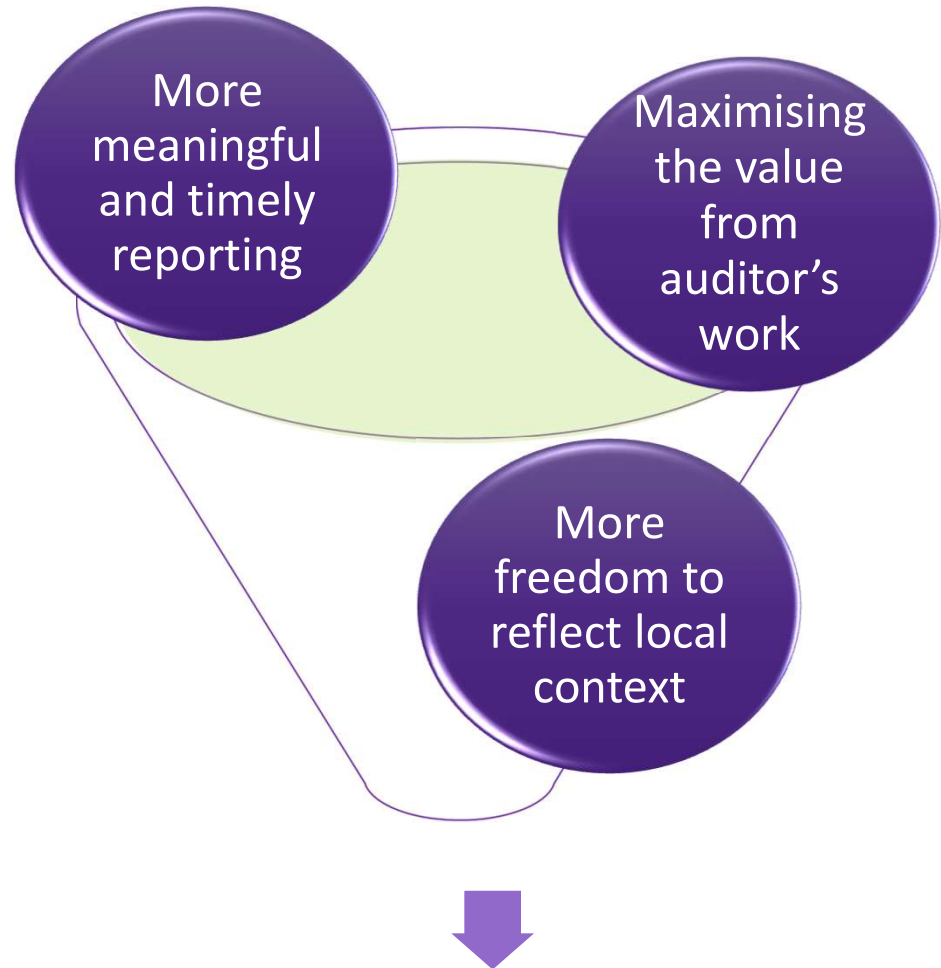
The new approach to Value for Money

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the body evaluates the services it provides to assess performance and identify areas for improvement;
- how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

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VFM arrangements commentary and recommendations

The new approach to Value for Money

The table below details what will be reported in the Auditor's Annual Report:

Section of report	Content
Commentary on arrangements	An explanation of the VFM work that has been undertaken during the year, including the risk assessment and any further risk-based work. It will also highlight any significant weaknesses that have been identified and brought to the body's attention. The commentary will allow auditors to better reflect local context and draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself.
Recommendations	Where an auditor concludes that there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement.
Progress in implementing recommendations	Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily.
Use of additional powers	Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this should be reported in the auditor's annual report.
Opinion on the financial statements	The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements.

The table below details the three types of recommendations that auditors can make. Auditors may make recommendations at any time during the year.

Type of recommendation	Definition
Statutory recommendation	Where auditors make written recommendations to the body under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. A recommendation of this type requires the body to discuss and respond publicly to the report.
Key recommendation	Where auditors identify significant weaknesses in a body's arrangements for securing value for money, they have to make recommendations setting out the actions that the body should take to address them
Improvement recommendation	Where auditors do not identify a significant weakness in the body's arrangements, but still wish to make recommendations about how the body's arrangements can be improved

Revised auditing standard: Auditing Accounting Estimates and Related Disclosures

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

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

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

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

Specifically do Audit and Governance Committee members:

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

Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021 in all areas summarised above for all material accounting estimates that are included in the financial statements.

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

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 financial instruments, including those held by the Pension Fund

The Authority's Information systems

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

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

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

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

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

Estimation uncertainty

Under ISA (UK) 540 (Revised December 2018) we are required to consider the following:

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

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

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

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

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

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

How can you help?

As part of our planning risk assessment procedures we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc. Responses to these enquires are completed by management and confirmed by those charged with governance at an Audit and Governance Committee meeting. For our 2020/21 audit we will be making additional enquiries on your accounting estimates in a similar way (which will cover the areas highlighted above). We would appreciate a prompt response to these enquires in due course.

Further information

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

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

Insight into accounting for grants in local government financial statements – Grant Thornton

The government has provided a range of financial support packages throughout the COVID-19 pandemic.

We have issued a brief bulletin aimed at helping local government bodies identify the key things they should consider when determining the accounting treatment for these grants in their financial statements for 2020/21.

There are no changes to the accounting treatment for grants as required by the CIPFA Code of Practice on Local Authority Accounting. What has changed, is the extent of additional funding to support the cost of services, to offset other income losses along with grant packages to be paid out to support local business. Local authorities need to consider the nature and terms of the various COVID-19 measures in order to determine whether there is income and expenditure to be recognised in the Comprehensive Income and Expenditure Statement in 2020/21.

The report highlights the factors to consider, including:

- Where the funding is to be transferred to other parties, is the authority acting as principal or as agent?
- Are there grant conditions outstanding?
- Is the grant a specific or non-specific grant?

Our bulletin provides you with links to further information on the various support packages and summarises features that may be relevant to your judgements as you determine the appropriate accounting treatment.

Local authorities need to demonstrate their judgements on the accounting treatment to be reasonable and soundly based and, where these have a significant effect on the accounts, to ensure they include sufficient disclosures to meet the requirements of IAS 1:122.

Please ask your audit manager for the full report:



What can be learned from Public Interest Reports? – Grant Thornton

2020 will be remembered as a tumultuous year in local government, with the pandemic creating unprecedented pressure on the sector. It also saw the appearance of two Public Interest Reports (PIRs), followed by another in January this year – the first to be issued in the sector since 2016. PIR's can be issued by local auditors if there are significant concerns around council activity, such as major failings in finance and governance.

The recent PIRs have made headlines because, up to this point, very few have ever been issued. But, as our latest report “Lessons from recent Public Interest Reports” explores, all three illustrate some of the fundamental issues facing the wider sector and provide a lesson for all local authorities around: weaknesses in financial management; governance and scrutiny practices; and council culture and leadership; which, when combined, can provide fertile ground for the kind of significant issues we might see in a PIR.

The COVID-19 pandemic highlighted four essential factors we probably always knew about local government, have often said, but which are now much better evidenced:

- 1) Local government has provided fantastic support to its communities in working with the NHS and other partners to deal with the multifaceted challenges of the pandemic.
- 2) Britain's long centralised approach to government has been exposed to some degree in terms of its agility to tailor pandemic responses to regional and local bodies. This is recognised by the current government who continue to pursue the options for devolution of powers to local bodies. Track and Trace delivered centrally has not been as successful as anticipated and, according to government figures, local interventions have had more impact.

- 3) Years of reduced funding from central government have exposed the underlying flaws in the local authority business model, with too much reliance on generating additional income.
- 4) Not all authorities exercise appropriate care with public money; not all authorities exercise appropriate governance; and not all authorities have the capability of managing risk, both short and long term. Optimism bias has been baked into too many councils' medium-term plans.

The PIRs at Nottingham City Council (August 2020), the London Borough of Croydon (October 2020), and Northampton Borough Council (January 2021) are clear illustrations of some of the local government issues identified above. The audit reports are comprehensive and wide-ranging and a lesson for all local authorities. Local authorities have a variety of different governance models. These range from elected mayor to the cabinet and a scrutiny system approach, while others have moved back to committee systems. Arguments can be made both for and against all of these models. However, in the recent PIR cases, and for many other local authorities, it's less about the system of governance and more about how it operates, who operates it and how willing they are to accept scrutiny and challenge.

There are a number of lessons to be learned from the recent PIR reports and these can be broken down into three key areas which are explored further in our report:

- 1) The context of local government in a COVID-19 world
- 2) Governance, scrutiny, and culture
- 3) Local authority leadership.

The full report is available here:

[Lessons from recent Public Interest Reports | Grant Thornton](#)

Annual Transparency Report – Grant Thornton

As auditors of several listed entities as well as nearly one hundred major local audits, we are required as a firm to publish an annual transparency report.

The report contains a variety of information which we believe is helpful to Audit and Governance Committees as well as wider stakeholders. The Financial Reporting Council (FRC) in their thematic review of transparency reporting noted that they are keen to see more Audit and Governance Committee Chairs actively engaging and challenging their auditors on audit quality based on the information produced in Transparency reports on a regular basis. We agree with the FRC and are keen to share our transparency report and discuss audit quality with you more widely.

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The transparency report provides details of our:

- Leadership and governance structures
- Principle risks and Key Performance Indicators
- Quality, risk management and internal control structure
- Independence and ethics processes
- People and culture
- Compliance with the Audit Firm Governance code and EU Audit directive requirements

We have made significant developments in the year as part of our Local Audit Investment Plan to improve our audit quality. We welcome an opportunity to discuss these developments and our transparency report should you wish.



The full report is available here:

[Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

Local government finance in the pandemic – National Audit Office

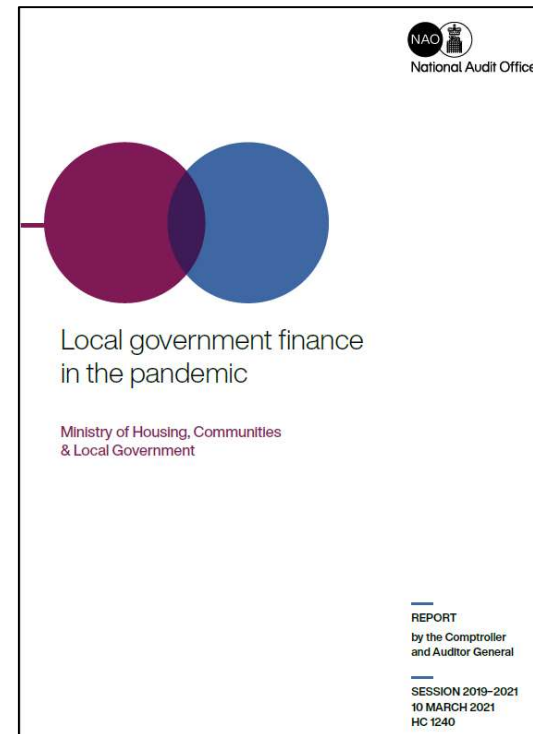
The National Audit Office (NAO) report, published in March, notes “The COVID-19 pandemic has been an unprecedented public health and economic emergency. Local authorities in England have made a major contribution to the national response to the pandemic, working to protect local communities and businesses, while continuing to deliver existing services. The pandemic has in turn placed significant pressure on local authorities’ finances, which in many cases were already under strain going into the pandemic.”

Page 48 The NAO report examines if the Department’s approach to local government finance in the COVID-19 pandemic enabled it to assess and fund the costs of new services which local authorities have been asked to deliver. It also examines whether the Department fulfilled its responsibilities in securing financial sustainability across the sector.

The NAO report concludes “Steps taken by the government, led by the Department, have supported local authorities in the COVID-19 pandemic response. The Department’s successful monthly collection of data and continued intensive engagement with the sector provided a good evidence base to underpin the financial and other support provided by government. Action by the Department and wider government to support the sector has averted system-wide financial failure at a very challenging time and means that the Department has managed the most severe risks to value for money in the short term.

However, the financial position of local government remains a cause for concern. Many authorities will be relying on reserves to balance their 2020-21 year-end budgets. Despite continuing support into 2021-22 the outlook for next year is uncertain. Many authorities are setting budgets for 2021-22 in which they have limited confidence, and which are balanced through cuts to service budgets and the use of reserves.”

The NAO report found that “the combined impact on spending and non-tax income in 2020-21 is £9.7bn – equivalent to 17.6% of revenue expenditure. So far the government has announced £9.1bn of financial support, leaving a deficit of £605m.”



The full report can be obtained from the NAO website:

[Local government finance in the pandemic - National Audit Office \(NAO\) Report](#)

Local authority Covid-19 pressures – MHCLG

Outturn figures from the Ministry for Housing, Communities and Local Government (MHCLG) show that local authorities in England reported additional cost pressures of £12.8bn relating to Covid-19 in 2020-21. Overall, local authorities spent £7.2bn responding to the pandemic last year, with the largest share of additional expenditure going on adult social care services at £3.2bn.

Additional expenditure due to COVID-19 by class and service area (£ millions) (2020-21)

	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Adult Social Care – total	0.473	1,254.880	848.656	663.404	413.842	3,181.254
Children's social care - total (excluding SEND)	0.000	94.933	131.127	89.799	62.987	378.846
Housing - total (including homelessness services) excluding HRA	63.129	5.254	74.949	42.281	112.971	298.584
Environmental and regulatory services - total	33.564	68.097	67.512	66.704	63.556	299.433
Finance & corporate services - total	48.222	53.445	83.984	76.923	78.284	340.858
All other service areas not listed in rows above	184.550	634.578	584.924	564.737	395.137	2,363.926
Total	329.937	2,111.187	1,791.153	1,503.848	1,126.777	6,862.902



The figures are available in full here: <https://www.gov.uk/government/publications/local-authority-covid-19-financial-impact-monitoring-information>

Income losses due to COVID-19 by class and source of income (£ millions) (2020-21)

	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Business rates	276.498	0.000	194.192	207.351	537.667	1,215.708
Council tax	399.037	0.000	217.633	191.219	232.727	1,040.616
Sales fees and charges	516.426	194.923	553.907	396.745	475.728	2,137.728
Commercial income	82.448	24.159	120.629	204.211	52.154	483.600
Other	33.494	39.947	27.163	53.664	45.166	199.435
Total	1,307.903	259.029	1,113.524	1,053.190	1,343.441	5,077.087

CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "CIPFA's Financial Resilience Index is a comparative analytical tool that may be used by Chief Financial Officers to support good financial management, providing a common understanding within a council of their financial position.

The Index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by extensive financial resilience work undertaken by CIPFA over the past five seven years, public consultation and technical stakeholder engagement.

Section 151 officers may also use the index in their annual report to the council setting out the proposed budget for the year and medium-term financial strategy.

While the impact of COVID-19 resulted in a delay to the publication of the index, it is still able to provide a comprehensive pre-COVID baseline, illustrating the financial resilience of authorities as they entered the pandemic."

CIPFA found that "there was a real-terms reduction of £800m in the level of reserves in 2020 compared with the previous year. At the end of March 2020 council reserves levels stood at £24.6bn, around 3% lower than £25.4bn recorded at the same period in 2019."

CIPFA note "The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index-2021?crdm=0>

Good practice in annual reporting – National Audit Office

The National Audit Office (NAO) state that the guide, launched in February, “Sets out our good practice principles for good annual reporting and provides illustrative examples taken from public sector organisations who are leading the way in this area.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance

The NAO also state that the guide “provides further examples where bodies have made their context more understandable to the reader through use of graphics and clear language and signposting.”

However, The NAO observe “Done well, reporting in the public sector enables the public and Parliament to understand – with ease and confidence – an organisation’s strategy and the risks it faces, how much taxpayers’ money has been spent and on what, and what has been achieved as a result.”

Further, the NAO note “The significant impacts of the pandemic emerged in the UK in mid-March 2020. This means that, for many organisations, the reporting impact will be greater in 2020-21 than in the prior year. Transparent annual reporting will help stakeholders understand the impact of COVID-19 on an organisation’s strategy, plans and operational and financial performance.”



The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/good-practice-in-annual-reports-february-2021/>

Government response to Redmond review – MHCLG

Government has published an update on the Ministry of Housing, Communities & Local Government response to Sir Tony Redmond’s independent review into the effectiveness of external audit and transparency of financial reporting in local authorities.

The MHCLG press release states “The Audit, Reporting and Governance Authority (ARGA) – the new regulator being established to replace the Financial Reporting Council (FRC) – will be strengthened with new powers over local government audit, protecting public funds and ensuring councils are best serving taxpayers.

Page 52 The new regulator, which will contain a standalone local audit unit, will bring all regulatory functions into one place, to better coordinate a new, simplified local audit framework.

ARGA will continue to act as regulator and carry out audit quality reviews as the FRC does now. It will now also provide annual reports on the state of local audit and take over responsibility for the updated Code of Local Audit Practice – the guidelines councils are required to follow.

The government has confirmed that the Public Sector Audit Appointments (PSAA) will continue as the appointing body for local audit, in charge of procurement and contract management for local government auditors.

In the immediate term, MHCLG will set up and chair a Liaison Committee, which will comprise senior stakeholders across the sector that will oversee the governance of the new audit arrangements and ensure they are operating effectively.”

The press release goes on to state the “measures finalise the government’s response to Sir Tony Redmond’s independent review into local audit, carried out last year.

The government has already announced £15 million to support councils with additional costs in audit fees, and recently consulted on the distribution of this funding. Government is also consulting on improving flexibility on audit fee setting and has extended the deadline for when councils must publish their audited accounts.



The press release can be found here:

<https://www.gov.uk/government/news/government-publishes-update-to-audit-review-response>

2019/20 audited accounts – Public Sector Audit Appointments

In December 2020 Public Sector Audit Appointments (PSAA) published figures relating to the audit of 2019/20 local authority financial statements.

PSAA report “Audit arrangements in local councils, police, fire and other local government bodies are continuing to exhibit signs of stress and difficulty. In the latest audit round, focusing on 2019/20 financial statements and value for money arrangements, fewer than 50% of bodies’ audits were completed by the revised target of 30 November.

Figures compiled by PSAA, the organisation responsible for appointing auditors to 478 local bodies, reveal that 55% (265) of audit opinions were not issued by 30 November. This is a further deterioration on 2018/19 audits when 43% of opinions (210 out of 486) were delayed beyond the then target timetable of 31 July.”

By 30 November, Grant Thornton had signed 113/208 audits (a 55% completion rate), meaning that only 45% of audit opinions were not signed by 30 November, compared to the 55% all firms average.

PSAA go on to note “This year’s timetable has been deliberately eased by Ministers in recognition of the underlying pressures on the audit process and the significant added complications arising from the Covid-19 pandemic. The pandemic has posed practical challenges for bodies in producing accounts and working papers, and for auditors to carry out their testing. Both sets of staff have had to work remotely throughout the period, and the second national lockdown came at a critical point in the cycle.

Questions and concerns about the potential implications of the pandemic for some bodies have meant that both finance staff and auditors have needed to pay particular attention to the financial position of each entity. Additionally, following a series of increasingly challenging regulatory reviews, auditors have arguably been more focused than ever on their professional duty to give their opinion only when they are satisfied that they have sufficient assurance.”



The news article can be found here:

[News release: 2019/20 audited accounts – PSAA](#)

Consultation on 2023-24 audit appointments – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) is consulting on the Draft prospectus for 2023 and beyond.

PSAA state “Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework.”

The plans include proposals to adjust the procurement ratio between quality and costs from an equal 50:50 to 80:20, as well as trying to bring new suppliers in to the market.

The consultation on the PSAA’s proposals closes on 8 July.



The news article can be found here:

<https://www.psa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/prospectus-2023-and-beyond/draft-prospectus-for-2023-and-beyond/page/7/>

Councils given power to build more homes for first time buyers and for social rent – MHCLG

The Ministry of Housing, Communities & Local Government (MHCLG) has announced that councils in England will have more freedom on how they spend the money from homes sold through Right to Buy to help them build the homes needed in their communities.

The MHCLG press release states the “package will make it easier for councils to fund homes using Right to Buy receipts, including homes for social rent, and give them greater flexibility over the types of homes they provide to reflect the needs of their communities.

It will also give councils more time to use receipts and to develop ambitious building programmes. The government wants homes supplied using Right to Buy receipts to be the best value for money, and to add to overall housing supply, to help towards delivering 300,000 new homes a year across England by the mid-2020s.”

The press release goes on to note “New measures include:

- extending the time councils have to spend Right to Buy receipts from 3 years to 5 years
- increased cap on the percentage cost of new homes councils can fund from Right to Buy receipts raised from 30% to 40% per home, making it easier to build replacement homes
- allowing receipts to be used for shared ownership, First Homes, as well as affordable and social housing, to help councils build the homes their communities need
- introducing a cap on the use of Right to Buy receipts for acquisitions to help drive new supply.”



The press release can be found here:

<https://www.gov.uk/government/news/councils-given-power-to-build-more-homes-for-first-time-buyers-and-for-social-rent>



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This Report will be made public
on 20 September 2021



Report Number **AUG/21/14**

To: Audit and Governance Committee
Date: 28 September 2021
Head of Service: Charlotte Spendley, Director of Corporate Services
Cabinet Member: Councillor David Monk, Leader of the Council

SUBJECT: Auditor's Annual Report 2020/21

SUMMARY:

Grant Thornton are required to undertake a review annually to satisfy themselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Following review they prepare the Annual Report to provide commentary relating to the arrangements in place.

REASONS FOR RECOMMENDATION:

The Committee is asked to formally note the draft Auditor's Annual Report and the recommendations made by them.

RECOMMENDATIONS:

1. To receive and note report Aug/21/14.
2. To receive and note Grant Thornton's draft Annual Report.

1. INTRODUCTION AND BACKGROUND

- 1.1 Section 20(1)(c) of the Local Audit and Accountability Act 2014 requires the External Auditors (Grant Thornton) to satisfy themselves with the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 1.2 As previously noted by the committee, the code & guidance followed by external auditors for 2020 has determined a new approach to Value for Money. They will not reach an 'opinion' in the same way as they would for the financial statements but instead report annually on the assessment undertaken, reporting their commentary and also significant matters which have come to their attention.
- 1.3 They are required by the Audit Code of Practice to draw out significant weaknesses and make key recommendations. For 2020/21 they have not made any key recommendations but have drawn out three improvement recommendations for the council to consider.
- 1.4 The report also considers how the Council's arrangements have adapted to respond to the new risks faced due to COVID-19.
- 1.5 A representative from Grant Thornton will be attending the meeting to present the report and answer Members' questions.

2. VALUE FOR MONEY ARRANGEMENTS

- 2.1 The new arrangements require the auditors to provide commentary under three specified reporting criteria:
 - Financial sustainability – how the Council plans and manages its resources to ensure it can continue to deliver its services
 - Governance – how the Council makes informed decisions and properly manages its risks
 - Improving economy, efficiency & effectiveness – how the Council uses information about its costs and performance to improve the way it manages and delivers its services.
- 2.2 The auditors have assessed the arrangements for each of these criteria. They have not identified any key recommendations.
- 2.3 The report highlights two improvement recommendations under the Governance criteria and one improvement recommendation under the Improving economy, efficiency & effectiveness criteria. Improvement recommendations are where no significant weakness in our arrangements are identified by the auditors, but they still wish to make a recommendation about how our arrangements can be further improved.

3. SUMMARY

- 3.1 The draft Annual Report does not currently report on the opinion of the financial statements as this work remains ongoing. The findings of the financial statements will be reported to the committee at their next meeting.
- 3.2 Once the Auditor's Annual Report has been fully finalised it will be reported in due course to Full Council.

4. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

- 2.1 **Legal Officer's Comments (AK)**
There are no legal implications arising directly out of this report.
- 2.2 **Finance Officer's Comments (CS)**
There are no financial implications arising directly out of this report.
- 2.3 **Diversity and Equalities Implications (CS)**
There are no diversity and equality implications arising directly out of this report.

3. 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 of Corporate Services
Tel: 07935 517986
E-mail: charlotte.spendley@folkestone-hythe.gov.uk

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

Appendices:

Appendix 1: Auditor's Annual Report

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Auditor's Annual Report on Folkestone and Hythe District Council

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2020-21

30 September 2021



Contents



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

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



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

Executive summary



Value for money arrangements and key recommendation(s)

We have assessed the Council's Value for Money arrangements across the 3 metrics of:

Financial Sustainability; Governance; Improving economy, efficiency and effectiveness; and for 2020/21 we have also assessed arrangements concerning Covid-19.

This assessment has been completed between June and September 2021 with the data available in this timeframe in relation to the financial year 20/21 and 21/22 in respects of planning for future periods. Note has also been given to longer term plans (i.e Capital) where these are available.

We have conducted this assessment through;

Interviewing senior leadership and other key personnel;

Reviewing financial documents such as budgets, outturn reports and capital plans;

Reviewing non-financial documents such as CQC and Ofsted reports, staff surveys, workforce and business plans; and

Incorporating sector, regulator and other market knowledge and experience

No significant weaknesses have been confirmed and thus no key recommendations have been made. However several improvement recommendations have been included.



Financial sustainability

We assessed the arrangements concerning Financial Sustainability and raised no indications of potential significant weaknesses.

We did not conduct further risk based work on Governance arrangements. Therefore whilst we have raised improvement recommendations, we have raised no key recommendations.



Governance

We assessed the arrangements concerning Governance and raised no indications of potential significant weaknesses.

We did not conduct further risk based work on Governance arrangements. Therefore whilst we have raised improvement recommendations, we have raised no key recommendations.



Improving economy, efficiency and effectiveness

We assessed the arrangements concerning EEE and raised no indications of potential significant weaknesses.

We did not conduct further risk based work on Governance arrangements. Therefore whilst we have raised improvement recommendations, we have raised no key recommendations.



Opinion on the financial statements

The audit opinion is not yet completed.

Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

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

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

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

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



Financial sustainability

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



Governance

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



Improving economy, efficiency and effectiveness

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



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 5 to 14. Further detail on how we approached our work is included in Appendix B.

Financial sustainability



We considered how the Council:

1. identifies all the significant financial pressures it is facing and builds these into its plans
2. plans to bridge its funding gaps and identify achievable savings
3. plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
4. ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
5. identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

1. identifies all the significant financial pressures it is facing and builds these into its plans

The MTFs identified that the Council faced a budget shortfall of £3.5m in 2021/22. The Corporate Leadership Team, Assistant Directors and Chief Officers have reviewed current budget allocations and savings proposals. Budget growth of £296k was added to this. The Council have set a balanced budget which includes a 1.99% rise in council tax, a 50% rates retention in the Kent pool and £1.1mil of internally generated savings as identified in the budget strategy process. We have no concerns that funding going forwards has not been appropriately reflected in the business plans.

There are no concerns that the Council is leaning too heavily on its' investment properties to ensure financial stability. We can see that they have budgeted consistent; not growing income from interest and investment properties into 21/22. This is consistent with our understanding of the value of the properties. There are no indications that finances are being managed in the short-term only, with the Council investing heavily in long-term capital projects.

Having reviewed the Council's budgets and section 25 report we conclude that there is no evidence that the Council's financial plans are based on key assumptions that are unrealistic, e.g. are over-reliant on uncertain income streams that are significant to the delivery of the plans, or not backed by appropriate supporting evidence. Examples of this include recognition about the finite lifespan of the new homes bonus and the lack of predicted income growth through commercial ventures in-year.

Cashflow forecasting has been undertaken and for a sufficient time period; there are no projected cashflow gaps in the foreseeable future, hence this does not pose a significant weakness to the Council.

Arrangements in place to keep the body's financial plans under review, with budgets being set on a "controllable factor" basis only. There is no indication from our work that budgets are fixed and inflexible to changing environments.

2. plans to bridge its funding gaps and identify achievable savings

Combined with the aforementioned savings targets the Council plans to draw on its' reserves in year. Given the Council have £20mil in reserves this is an appropriate and not imprudent use of them. There is no lack of plan to address the gap in the medium term.

The borrowing at Folkestone and Hythe increased significantly in 2011 but as a total figure has been decreasing since, it is placed 5th of 10 in comparable Kent districts for borrowing which to some extent is a factor of its' ambitious capital development plan. There is no indication of defaulting on these loans, all of which are with the PWLB and as such are low risk. From our work we found no evidence that these loans are being used to prop up the revenue position.

the Council has a strong financial history and a stable reserves position. They are not reliant on non-recurrent savings to achieve targets. The use of reserves is minimal and equates to <5% of useable reserves, this is not an unsustainable use.

Financial sustainability

the Council, has to this point, not relied heavily on non-recurrent savings to bridge their financial gap. This means that they have potential capacity to do this should they need additional headroom, this includes not filling existing vacancies. There is however no intention to sell off assets or lend to bridge the gap. To assist with mitigating the risks associated with budget preparation there is a centralised contingency within the budget to allow for unforeseen events and to assist with ensuring corporate priorities are delivered.

We do not consider this to be an indicator of a significant weakness. This is due to the fact that the Council has significant reserves which are designed to be drawn upon in difficult times, there is unlikely to be a period of time which counts as more 'difficult' than the pandemic and so use of the reserves, rather than for instance cutting services is a sensible choice. The Council have continued to fund community hubs and other resources such as council tax support scheme, this is a more practical and long term approach to financial and service sustainability than cutting services to benefit the bottom line rather than drawing upon reserves.

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We considered whether appropriate stakeholders were consulted during the development of savings plans and concluded that they were. Depending on the nature of the savings plans, stakeholders included include staff, local residents, service users, the voluntary sector and local businesses. The arrangements in place for approving and monitoring these schemes is sufficient.

3. plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The financial planning demonstrates a clear understanding of the cost of delivering core statutory services as distinct from discretionary areas of spend. It is clear that discretionary spend has been prioritised to support the corporate strategy (creating tomorrow together) and managed within the available funding envelope, this includes investing in the high street and increased recycling income. Therefore we see a coherent link between stated corporate strategic priorities and the design of the budget, particularly in regard to investment in services, and the approach to financial sustainability.

Identifiers of significant weakness in the Council's ability to deliver these plans could include significant issues with; ICT infrastructure, financial skills, chain of budget responsibility, supervision, authorisation and review of financial processes, poor senior management challenge of performance, holding budget holders to account, and making decisive interventions, and positive financial culture and a 'tone from the top'. We have found no issues to note with any of these areas throughout our engagement with the Council.

4. ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning

the Council does not have a workforce plan, which is something we may expect for an organisation of this size. However the elements of workforce planning, for example monitoring of vacancy rates and planned new posts are completed in other documents ie the MTFs and the corporate plan. Specific posts are mentioned in the growth and savings proposals for 21/22 with values assigned to these. We therefore consider this to be appropriate and not a signifier of a significant weakness.

We can see through the increase in the Minimum Revenue Provision (MRP) and the recognition of interest repayments that the ongoing revenue costs of major capital investments been properly reflected in the revenue budget.

the Council has been able to use short term liquid cash to meet its underlying borrowing need through internal borrowing, reducing its exposure to credit risk. Secondly, the return from the strategic investments in pooled funds have continued to provide cash returns in excess of inflation. This is appropriate and prudent and mitigates risk whilst optimising the contribution that borrowing and investment can offer.

5. identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

the Council has appropriate arrangements for incorporating risks into its financial plans and discussing them with Cabinet. These risks take into account uncertainty, volatility and other financial risks.

As previously mentioned the Council has sufficient reserves to draw on should unplanned changes occur in year or if savings and income plans are not achieved.

No significant weaknesses have been identified in relation to Financial Sustainability.

Governance



We considered how the Council:

1. monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
2. approaches and carries out its annual budget setting process
3. ensures effectiveness processes and systems are in place to ensure budgetary control
4. ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
5. monitors and ensures appropriate standards.

1. monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

the Council has arrangements in place to identify strategic risks, understand them, record them within their risk management system and assess them. the Council used the traditional risk scoring matrix which is prepared and reviewed internally by management before presentation at committee. the Council has appropriate arrangements in place to report risks to Cabinet. Risks are identified and reviewed to provide assurance that they are being appropriately managed and the risk management process enables Cabinet to focus on the key corporate risks, i.e. not reporting on too many risks. The Audit and Governance Committee are responsible for considering the effectiveness of the authority's risk management arrangements, and to seek assurance that action is being taken to mitigate those risks identified. The Corporate Risk Register is presented regularly to the Audit and Governance Committee. In addition the committee reviews the Council's Risk Policy and Strategy and Corporate Risk Register annually, ahead of these documents being presented to Cabinet for adoption. This is appropriate preparation and chain of scrutiny.

the Council runs a 'tolerate, treat, transfer or terminate' system to dictate the type of mitigating actions it should take. However within this there is not a clear link to the assurances or key controls applied. We judge this to not be a risk of significant weakness as there are mitigations and action plans, they are just not the best practise as we have viewed at comparative councils. This is not an indication that the Council is not acting on risks or mitigations, but is a manifestation that the Council have several very high level risks which are mitigated against in very high level ways.

Improvement Recommendation A: the Council should consider how to present its mitigating actions or assurances of change against risk areas in a more linear and direct fashion. This will provide scrutineers with assurance that management are mitigating risks and will provide a basis for challenge of the effectiveness of those mitigations.

There is an adequate and effective internal audit function in place to monitor and assess the effective operation of internal controls, the Internal audit function has delivered a sufficient portion of its plan and there is no evidence of significant gaps in the assurance provided.

Throughout our engagement with the Council we have found no evidence of pervasive and significant weaknesses in internal controls, especially where these have had a significant financial/service-delivery impact or exposed the body to fraud.

The Anti-Fraud & Anti-Corruption Framework is formed of five documents, including the Anti-Fraud & Anti-Corruption Strategy, the Fraud Response Plan, the Whistle Blowing Protocol, the Anti-Money Laundering Policy and the Anti Bribery Policy. This framework is currently in the process of being reviewed by the Section 151 Officer and Monitoring Officer however this to merely ensure it is up to date; not an indication of a failure or breach of the policies.

2. approaches and carries out its annual budget setting process

There is evidence of consideration of trends including analysis and extrapolation and their impact on the projected final out-turn throughout the reporting at the Council. Additionally we have viewed several instances of forecasts being subject to risk and sensitivity analysis. Such items are especially prevalent in treasury management, capital projects and quarterly budget monitoring, the Council includes a list of risks alongside its budget. These risks include the knock-on financial impact to the budget of one of these risks coming into fruition. Where alternative actions are possible the impact of these is also presented for discussion, again this is especially prevalent in capital projects.

There is evidence that the impact of expected investment and borrowing activity is reflected in the annual budget; Financial planning for both revenue and capital expenditure is integrated with Treasury Management as part of the annual budget setting process. the Council has adopted a strategic and integrated approach to asset management with an Asset Management Board, which has included the Cabinet Member for Property Management and Environmental Health, a Corporate Director and the Council's Corporate Property Officer amongst other key players overseeing the delivery of the Asset Management Strategy.

There are no concerns that the Council is leaning too heavily on its' investment properties to ensure financial stability. We can see that the Council have budgeted consistent rather than growing income from interest and investment properties into 21/22. This is consistent with our understanding of the value of the properties. Our headline review of these budgets indicates that they are reviewed by various levels and chains of management thoroughly before submission to scrutiny.

It is clear from our work that the annual budget setting process is informed by the medium-term financial strategy (MTFS) which lists 4 core corporate aims. There is a clear linkage between the priorities in the annual budget and these overarching ambitions in the MTFS. Our interviews and document reviews show there is adequate internal and external engagement in the budget setting process, including revenue and capital expenditure. This includes but is not limited to service area management, service user consultations and specific advisory boards. The chain of review by management and scrutineers is sufficient, timely and appropriate.

3. ensures effectiveness processes and systems are in place to ensure budgetary control

Arrangements are in place for the finance team to engage with budget holders to review financial performance and identify actions to resolve adverse variances by providing

accurate and timely profiled financial monitoring reports for budget holders. Regular budget monitoring took place in 2020-21 in order to manage the Council's net revenue budget. Regular meetings were held virtually between officers and the Cabinet Portfolio Holders to discuss any specific budget issues and budget monitoring reports were presented to the Overview & Scrutiny Committee or Finance & Performance Sub Committee and Cabinet on a quarterly basis. It was appropriate to have an additional focus on the Council's revenue budget monitoring during 2020/21 due to the unprecedented impacts of the pandemic on council finances. Therefore in addition to the regular monitoring that was undertaken papers were also tabled in November to Cabinet (in addition to the Finance & Performance Sub-Committee) noting the action required in year, the current reserves position and potential call upon reserves required in year.

Financial monitoring reports and minutes demonstrate that in year forecast variances are being picked up promptly, and budget holders are being held to account for delivering to budget and/or developing adequate mitigating action.

the Council has an established Performance Management Framework (PMF) in place to keep the Council on track and focused on delivery of its key priorities, by providing elected members, managers and staff with the information and tools they need to deliver high-quality and high-performing services which help to achieve good outcomes for residents.

Keeping within budget is featured in the Job descriptions of budget holders. Through conversation with the CEO it is clear that there is a focus on this when appraising staff members. The consultation process for creating budgets ensures that accountability is instilled from the beginning of the process.

Relevant non-financial information, such as service activity and workforce information, integrated into financial reports to Cabinet. the Council has a Performance Management Framework. Key Performance Indicators (KPIs) are reviewed annually to ensure the Council are focused on key priorities and those aspects that need to be monitored more closely, e.g. for improvement purposes. The outturn performance for the Councils KPIs was reported to the June Cabinet meeting alongside the financial performance.

There is no integrated report as this has been judged to be too cumbersome to be useful however information is presented alongside each other. For significant projects the reporting of KPIs alongside financial information is easier as it is more discrete. Evidence of this can be seen in the Otterpool reporting and business planning.

Budget reporting is at a level of detail that enables the Cabinet to make effective decisions, i.e. not overly complex but not too simplistic either.

4. ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

the Council ensures that all relevant information is provided to decision makers before major decisions are made and arrangements are in place for the challenge of key strategic decisions before they are taken. As a local authority the chains of review, approval and scrutiny are very clear and well documented. For example a budget will be created by management in consultation with budget holders, debated and approved through the finance sub-committee, sent upwards through the scrutiny and oversight committee and then ultimately up through Cabinet. Papers for these must be published in advance of the meeting for additional time to scrutinise. An extra layer of oversight is provided by the fact that as a local authority these papers must be published online, therefore theoretically being overseen by the general public and potentially challenged through the appropriate channel.

There is evidence of service user consultation however the Council are finding it difficult to galvanise public interest in the consultation process; despite widening their targeting they received limited pieces of feedback to the local budget setting agenda.

Consultation is more widely accessible through projects, for example the Otterpool project and the Tenancy engagement strategy and outreach. These areas garner more public interest.

These projects factor into the strategic plans of the Council and so are in fact the best place to have heightened interest in feedback.

There are further plans for how to engage stakeholders in the new MTFS showing the direct link between setting the MTFS and enacting it with the consideration of stakeholders' wishes. This is also true of the tenancy engagement strategy which has been instigated after housing services were brought back in-house - thus showing commitment to getting it right for the user.

Our experiences with the Council show that there is no indication of reactive rather than proactive decision making, there is a long term focus with regeneration and investment and an appropriate tone from the top.

Attendance at audit committee provides us with evidence of effective challenge of officers by some members. TCWG are making best use of the skills and experience of its members. The committee has received training from both Grant Thornton and its' internal audit function. Audit Committee is stable and has benefited from the addition of an independent member.

5. monitors and ensures appropriate standards.

Arrangements in place to monitor compliance with legislation and regulatory standards, this includes communicating effectively to its staff what behaviours are expected/not expected of them. Leadership from senior officers and members illustrates required standards of behaviour, in turn establishing and maintaining an appropriate culture within the Council.

There have been no instances of non-compliance with the constitution. There have been considerations of the constitution in regards to council meetings which under COVID restrictions were permitted to be via Zoom but on lifting of those restrictions had to be available in person (with the potential for a hybrid meeting).

There is no repeated deviation from required standards. There was one instance of an ICO failure to comply notice under section 51 (see screenshot of legislation). This is in response to a failure to issue information under the FOI act in the required timeframe. Procedures for review of these decisions have been put in place since.

This does not constitute a significant weakness as it was a single breach related to a complex and ongoing redevelopment, therefore whilst new procedures are put in place to protect from this going forwards it is not an element which is core to the Council operations and occurs often.

Online there is a register of gifts and hospitality for councillors but this is only viewable against each councillor and for 1 year time frames. This means that it is not very transparent. For example if you wished to check whether any councillors had received gifts from ABC Construction Ltd you would have to click on each councillor and change the time frame for each year you were interested in. There is also no description as what constitutes a gift or hospitality. Finally this only covers the Councillors, not very senior leadership as would be expected. It does not constitute a significant weakness as the information is largely present, just in a difficult format. There is also no indication of how up-to-date this information is because the policy and the compliance are not accompanying the data.

Improvement recommendation B: Improve the accessibility and completeness of the information of the gift and hospitality register.

No significant weaknesses have been identified in relation to Governance.

Improving economy, efficiency and effectiveness



We considered how the Council:

1. uses financial and performance information to assess performance to identify areas for improvement
2. evaluates the services it provides to assess performance and identify areas for improvement
3. ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
4. ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

1. uses financial and performance information to assess performance to identify areas for improvement

In reporting KPI's to the scrutiny committees of the Council management must assure themselves of the accuracy of the financial and non-financial data. This is done through use of direct download reports, the use of specialists within the Council who are 'close' to the data and would recognise error and a chain of review up through senior management before publication. There is no indication that any data presented to scrutiny committees is inaccurate.

the Council is part of the Kent CFO group and the generally close working relationships of those organisations. This includes a shared internal audit function and until 20/21 a housing management service with some of the fellow District councils.

There are examples of benchmarking on specific areas:

- National Planning Policy Framework (NPPF) in 2012 has sought to significantly boost housing land provision and has created a metric for measuring the likely future housing need, this has been used by the Council
- the CIPFA resilience index (however noting that the most recent publication for this is for 19/20).
- the climate emergency emissions planning.
- Monthly collaboration and data sharing with the Kent Financial Officers Group (KFOG).

This last point in particular allows for consideration of outliers and identification of best practise . It also informs choices on provisions of services re cost. This is best practise and is far more collaborative than we see in other council groups.

There is evidence too that the Council seeks to learn from the reports of regulators and act upon their findings, for example in relation to the Landlord Gas Safety regulations (LGSR) regarding East Kent Housing.

A review of benchmarking data from the CFO Insights (CFOI) tool by Grant Thornton shows three trends to bring to the attention of the Council for their review on whether these factors are something they wish to investigate further:

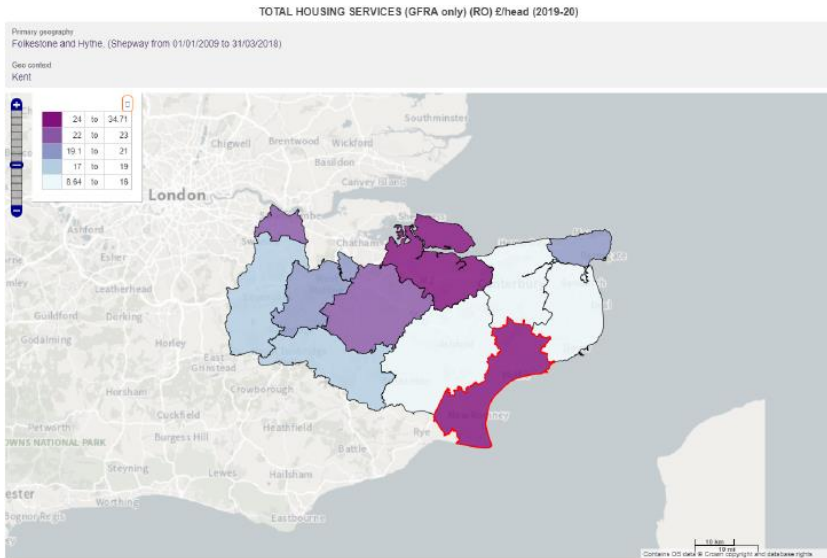
1. The cost per head of population of housing services in FHDC is the highest in Kent
2. Within Kent the number of households with support needs (which nationally averages at 45%) is the lowest, at 20% of households.
3. Within Kent the Council has the 10th of 11 lowest numbers of households in temporary accommodation.

Infographics for this are considered on the following page.

CFO Insights – Housing data for Folkestone and Hythe District Council

Expenditure: Total housing services

Unit cost £/head on total housing services



Initial Assessments: Support needs

Nationally, approximately 45.0% of households were identified as having one or more support needs

Support needs: Households with one or more support needs - Total (2019-06)

Top (1)	Area (11)	Bottom (11)
Area: Maidstone Count: 175	Area: Folkestone and Hythe, (Shepway from 01/01/2009 to 31/03/2018) Count: 20	Area: Folkestone and Hythe, (Shepway from 01/01/2009 to 31/03/2018) Count: 20

Temporary Accommodation: total

Accommodation type (TA): Total number of households in TA (2018-06)

Top (1)	Area (10)	Bottom (10)
Area: Thanet Count: 228	Area: Folkestone and Hythe, (Shepway from 01/01/2009 to 31/03/2018) Count: 24	Area: Folkestone and Hythe, (Shepway from 01/01/2009 to 31/03/2018) Count: 24

Rank	Area	Count
1	Thanet	228
2	Ashford	165
3	Swale	164
4	Dover	146
5	Maidstone	107
6	Gravesham	87
7	Sevenoaks	65
8	Tunbridge Wells	45
9	Tonbridge and Malling	35
10	Folkestone and Hythe, (Shepway from 01/01/2009 to 31/03/2018)	24
	Canterbury	(no data)

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These are complex areas with significant inter-dependencies, as part of this work we are not making a value judgement on these data-driven indicators, but are sharing them given the focus at the Council on housing.

As part of this work we have considered whether these indicators show potential significant weaknesses. Given the work put into the new housing service, including working with the regulators, we have no concerns that the quality of the housing services provided by the Council are of poor quality.

In terms of cost of the housing service it is likely that this has increased in the short-term due to the changes and challenges of bringing this back 'in-house'. Again, we do not consider this to be a signifier of a significant weakness.

2. evaluates the services it provides to assess performance and identify areas for improvement

With the exception of the previously explored East Kent Housing there have been no instances of a failure to meet minimum service standards in core service areas. Given the refreshed MTFs and the internalisation of the housing service there is evidence that the Council has actively reviewed and challenged strategic priorities and cost-effectiveness of existing activities.

A signifier of potential significant weakness could be that the Council have not considered alternative or lower cost options for delivery of services in the long term. We considered this through a review of Otterpool Park and Princes Parade development projects. We see that projects are costed over the full life of the project and so whilst cost is not the only driver (service potential, speed, environmental concerns) it is appropriately considered. the Council is growing, it has high borrowings comparably to furnish the redevelopments which come with interest charges, these are costed into the schemes. We reviewed the tender documentation and found that competitive tendering was pursued and that value for money re cost and capital financing requirements were a significant component of the assessment criteria.

the Council has no history of repeated failures to achieve efficiency or financial targets and it has a strong reserves and cash position. Under covid funding arrangements from central government it has received additional funding for general use. the Council has ensure that redevelopments such as Otterpool and Princes parade have not been curtailed financially.

3. ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve

There are examples of strategies being developed at a partnership level leading to meaningful action. For example The proposal to extend Mountfield Road Industrial Estate, New Romney is seeking to diversify the local economy to mitigate the loss of over 1000 jobs arising from the closure of Magnox A and proposed closure of Dungeness B Power Stations. The development is being delivered by means of a joint venture with East Kent Spatial Development Company (EKSDC). Construction of this business hub is well underway and will be completed by the end of 2021. As has previously been noted, the Council works closely as a finance group (KFOG) and under other initiatives such as the Kent Resilience Forum (KRF).

Partnership work is reported through the same process as work completed just within the

Council, ie through the finance and performance sub-committee, on to the overview and scrutiny and up to cabinet. The differences exist in partnership working for big projects which then have its' own reporting chain. For example Otterpool Park LLP exists to deliver the Otterpool Park project. Regular meetings (at least quarterly) between the Council and the LLP Board are held and provide opportunity for dialogue and assessment of progress against the approved Business Plan, including detailed consideration of financial matters and project risks.

Our reviews have shown us that the Council is transparent, collaborative and open with significant partners about performance so that it can build up a shared understanding of common challenges and design improvements to address them. the Council publishes extensively on its' website thus much of the information is publicly available, if for example a private contractor wanted to see the full plans for Princes parade they are listed online.

We have viewed throughout this assessment several targeted engagement strategies including the tenancy engagement strategy, the corporate plan strategy and strategies related to large regeneration projects. There is no evidence that local priorities have not been considered.

4. ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits

the Council has an established procurement strategy in place which was updated in 2020. We have found no evidence of a significant procurement happening outside of this policy.

We have not found any instances of the Council failing to consider the risk and rewards when undertaking significant commercial ventures, outsourcing, shared service arrangements or partnerships. However we draw attention again to East Kent Housing and the re-establishing this as an in-house service.

Now that the service has had chance to settle and establish itself the Council should consider whether they have constructed a cost efficient programme. We see from our comparison data that in 19-20 the Council had the highest housing costs per head. We recommend, given that the new service is within FHDC, that the cost per head of population of the housing service is now reviewed against its' peers. This includes a consideration as to how many households have support needs which contribute to higher unit costs and how many families are in temporary accommodation.

As mentioned previously this is not an indicator of significant weakness as the programme which contributed to these figures closed in 20-21 and this data is from 19-20 only, therefore we cannot take this as sole evidence that it is performing poorly in terms of cost because the programme has changed.

Improvement Recommendation C: review the cost of the housing service against peers to understand if the continuing costs of service provision (rather than establishing costs) are providing value for money.

There is no evidence of repeated commissioning from previous service partners without sufficient regard to the market position. the Council must competitively tender for every contract over £100k and get 3 written responses for everything lower than this but more than £10k. Therefore the possibility for avoiding this safeguard is limited. The contracts are posted online on the Kent Business Portal and are published on the contract register for additional scrutiny. There is no evidence of unexplained extensive use of consultants and interim staff, where this leads to significant increase in costs.

Arrangements in place to monitor the performance of key service providers or sub-contractors. All contracts are monitored in terms of performance and service level agreements. This is usually undertaken by the relevant service area with assistance from Procurement. Regular meetings take place with contractors and any issues are discussed and sought to be resolved and performance reviews are conducted. There were several minor disputes in-year which were resolved largely in the Council's favour.

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No significant weaknesses have been identified in relation to Economy, Efficiency and Effectiveness.

COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Financial sustainability

the Council's arrangements have adapted to respond to the new risks they are facing from 2020-21 onwards in respect of Covid-19. This includes lack of income growth and unavoidable growth in costs. It also recognises there could be a valuation impact on its' investment properties.

the Council has taken the prudent approach of drawing on reserves in order to continue to fund drives aimed at alleviating the pressure of Covid-19 such as supporting the community support hubs.

There are appropriate arrangements in place also to monitor costs and incomes related to Covid-19 such as part of the Government Delta return process.

There are no indications that there are any significant weaknesses in the Council's arrangements to secure VfM as a result of Covid-19 in relation to Financial Sustainability.

Governance

Appropriate actions were taken early in the pandemic to ensure costs were incurred only where benefit would be achieved in relation to alleviating the impact of Covid-19.

The system of internal control and approval remained constant throughout the pandemic as the Council was already set-up to operate electronically. An initial investment in IT infrastructure allowed a transition to home working without losing the rigour of the review process.

During lockdown procedures the Council operated a remote meeting system for its scrutiny meetings. Keeping within statutory and constitutional requires this arrangement has returned to in-person meetings since lockdown measures eased.

There are no indications that there are any significant weaknesses in the Council's arrangements to secure VfM as a result of Covid-19 in relation to Governance.

Improving economy, efficiency and effectiveness

Effective controls around procurement have been maintained during the Covid-19 impacted operating environment. Several projects were fast-tracked through the process in order that they become quickly operational, such as the community support hubs. However reviews into this after the fact have not highlighted any issues in the efficacy of the procurements.

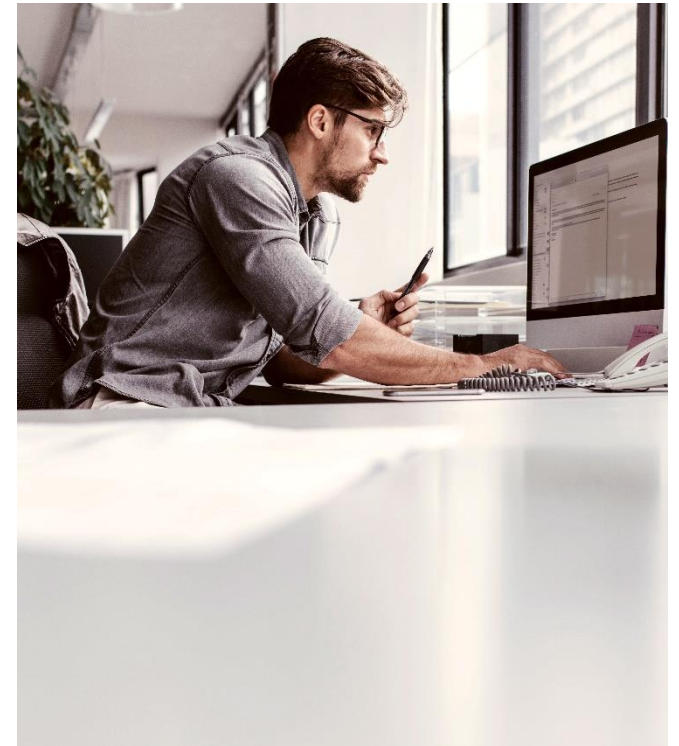
There are no indications that there are any significant weaknesses in the Council's arrangements to secure VfM as a result of Covid-19 in relation to EEE.

Improvement recommendations

Governance

2 Recommendation A Risks and their related mitigations

Why/impact	the Council runs a 'tolerate, treat, transfer or terminate' system to dictate the type of mitigating actions it should take. However within this there is not a clear link to the assurances or key controls applied. We judge this to not be a risk of significant weakness as there are mitigations and action plans, they are just not the best practise as we have viewed at comparative councils. This is not an indication that the Council is not acting on risks or mitigations, but is a manifestation that the Council have several very high level risks which are mitigated against in very high level ways.
Auditor judgement	the Council should consider how to present it's mitigating actions or assurances of change against risk areas in a more linear and direct fashion. This will provide scrutineers with assurance that management are mitigating risks and will provide a basis for challenge of the effectiveness of those mitigations.
Summary findings	the Council can improve its' presentation and organisation of risk mitigations.
Management comment	The Section 151 Officer is currently reviewing the Councils Risk Strategy and Process. In doing so she will incorporate a review of comparative Councils and identify appropriate amendments to the existing process to consider this recommendation.



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

Improvement recommendations

Governance

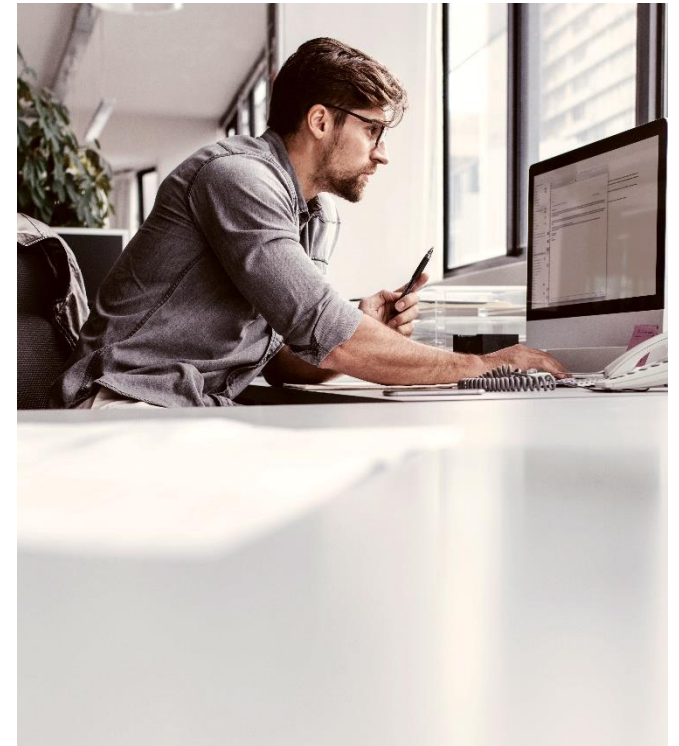
2 Recommendation B Usefulness, transparency and accessibility of the gift and interests register

Why/impact Online there is a register of gifts and hospitality for councillors but this is only viewable against each councillor and for 1 year time frames. This means that it is not very transparent. For example if you wished to check whether any councillors had received gifts from ABC Construction Ltd you would have to click on each councillor and change the time frame for each year you were interested in. There is also no description as what constitutes a gift or hospitality. Finally this only covers the Councillors, not very senior leadership as would be expected. It does not constitute a significant weakness as the information is largely present, just in a difficult format. There is also no indication of how up-to-date this information is because the policy and the compliance are not accompanying the data.

Auditor judgement Improve the accessibility and completeness of the information of the gift and hospitality register.

Summary findings the Council can improve its' presentation of gifts and interests in the aim of transparency.

Management comment The Council will review the current presentation of its gifts and interest register, and explore practical options to improve its accessibility and completeness with the aim of improving our transparency.



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

Improvement recommendations



Improving economy, efficiency and effectiveness

3 Recommendation C Understand the cost of the housing service

Why/impact

We have not found any instances of the Council failing to consider the risk and rewards when undertaking significant commercial ventures, outsourcing, shared service arrangements or partnerships. However we draw attention again to East Kent Housing and the re-establishing this as an in-house service.

Now that the service has had chance to settle and establish itself the Council should consider whether they have constructed a cost efficient programme. We see from our comparison data that in 19-20 the Council had the highest housing costs per head. We recommend, given that the new service is within FHDC, that the cost per head of population of the housing service is now reviewed against its' peers. This includes a consideration as to how many households have support needs which contribute to higher unit costs and how many families are in temporary accommodation.

Auditor judgement

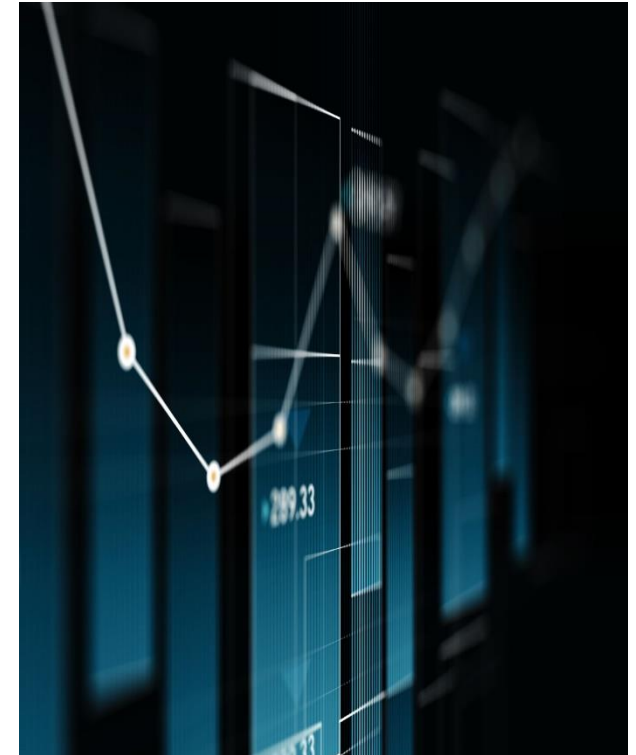
Review the cost of the housing service against peers to understand if the continuing costs of service provision (rather than establishing costs) are providing value for money.

Summary findings

The costs of the housing service on initial review are higher than expectation based on peers. This should be reviewed to ensure these are still costs of establishing the service in house rather than inflated costs which will be a year-on-year burden.

Management comment

The Council has been through an exceptional period with the return of the Housing Service and successfully transitioning out of regulation, but it welcomes the opportunity to review the cost base. The Council has recently undertaken its own benchmarking exercise for this service area and will utilise the results to review the cost of the service against suitable peers.



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

Opinion on the financial statements



Audit opinion on the financial statements

The audit opinion is yet to be finalized.

Audit Findings Report

The audit findings report is yet to be finalized.

Preparation of the accounts

the Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

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

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



Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

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

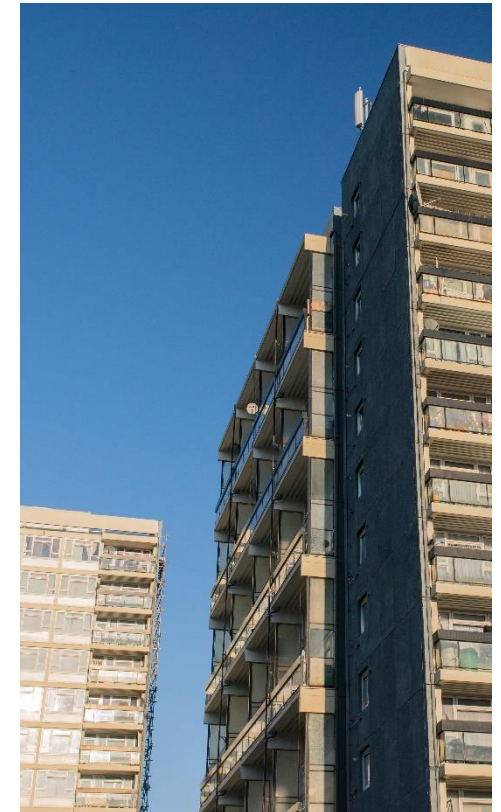
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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



Appendix B - An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	No	15-17

Appendix C - Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

No formal use of powers

Public interest report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

No formal use of powers

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

No formal use of powers

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

No formal use of powers

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

No formal use of powers



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