Subject:	**SECTION 24 BACKGROUND REPORT**
Meeting and Date:	**Council – 29 January 2025**
Report of:	**Director of Finance and Housing**
Portfolio Holder:	**Cllr Stacey Blair, Portfolio Holder for Finance, Governance, Climate Change and Environment**
Decision Type:	**Non-Key**
Classification:	**Unrestricted**
Purpose of the report:	To provide Members with background to the Section 24 Report from Grant Thornton (GT), elsewhere on the Council agenda and the Council's response.
Recommendation:	It is recommended that Council: 1. Note this report and consider it together with the Section 24 Report from Grant Thornton, also on the Council agenda. 2. Accept Grant Thornton's recommendations and the Council's responses, as set out in Appendix 1. 3. Agree the proposed actions set out at Appendix 2.

1. **Summary**

1.1 This report sets out:

(a) Recommendations made by GT in March 2024

(b) Progress against those March recommendations

(c) The Section 24 (s24) report by GT in January 2025

(d) DDC's response to the s24 notice recommendations

(e) DDC's concerns with the background information used to support GT's s24 report

2. **Recommendations by GT in March 2024**

2.1 In March 2024 the Council's auditors, Grant Thornton (GT) presented their Auditor's Annual Report to Governance recommending, in summary[1] :

(a) A recovery plan to accelerate resolution with on-going deficiencies in Technology One (T1), complete the bank reconciliations and the backlog of VAT returns.

(b) Review and develop more comprehensive financial performance information in the quarterly performance reports.

(c) Produce auditable draft accounts for 2020/21, 2021/22 and 2022/23 and (after the year-end) 2023/24.

(d) Implement the recommendations of internal audit with regards to future ICT projects like T1.

[1] The full text is on the agenda for Governance Committee for 28 March 2024.

2.2 Work on these matters was underway before March 2024 and it continued afterwards, with dedicated staff assigned to specific tasks such as the completion of the historic accounts, VAT returns and bank reconciliation and the use of external resources where useful.

3. **Progress against March 2024 recommendations**

3.1 Since publication of GT's AAR on the Governance agenda in March 2024, the council has resolved almost all the matters raised in the AAR, in particular:

(a) Published 2020/21, 2021/22, 2022/23 and 2023/24 accounts

(b) Disclaimers completed for 2020/21, 2021/22 and 2022/23 accounts and 2023/24 audit underway

(c) Resolved the significant outstanding issues with Technology One (the Council's main financial system) which is now operating as intended, in particular with respect to VAT and income

(d) Implemented a new income module

(e) Completed all outstanding VAT returns and the 2023/24 de minimis calculation[2] with the other de minimis calculations underway

(f) Completed bank reconciliation to February 2024

(g) Reviewed and increased the level of detail in the financial performance information to portfolio holders and management

(h) Implemented revised project management procedures; and

(i) Agreed the required amendments to the AGAS.

3.2 Other than finalising the remaining VAT de minimis calculations and bank reconciliation there is little remaining to complete. The remaining actions the Council will address are set out at Appendix 2.

4. **The Section 24 Report by GT**

4.1 On 10th January 2025 GT submitted a "Section 24[3]" report to the Council[4].

4.2 Despite the progress set out above and the limited work remaining (see Appendix 2) GT state that "*nine months after our issue of four key recommendations in our Annual Audit Report (AAR)……. We have seen insufficient progress on the implementation of our recommendations*".

4.3 Consequently, GT are using their powers under Section 24, schedule 7(2) of the Local Audit and Accountability Act 2014 to make four Statutory Recommendations to Dover District Council.

4.4 The Council is required to consider these recommendations at a meeting before the end of the period of one month beginning on the day the final report is sent, which was

[2] The de minimis calculation is required to ensure that no more than 5% of the input VAT paid by the council is used to produce exempt outputs, otherwise the VAT on those inputs cannot be reclaimed. In practice DDC is well within the limits, which was confirmed by the 2023/24 calculation.

[3] The s24 report was submitted to the Council on 10th January 2024. The Local Audit & Accountability Act 2014 (Sch. 7, Para 5) requires Council to consider the recommendations within one month, decide what recommendations are accepted and what action to take. Please see the Grant Thornton report elsewhere on the agenda for more information.

[4] Section 24 reports are not common but do arise. The Council has identified 9 in the last few years (this may be an incomplete list) of which 7 were issued by GT, with the other audit firms accounting for just 2 between them.

10th January 2024. By considering the report at its meeting on 29th January the Council is meeting its obligation.

5. **DDC's Response to the s24 Recommendations**

5.1 DDC's response is set out in Appendix 1 to this report.

5.2 Responding simply to GT's recommendations is difficult. They are expressed as if progress has not been made and issues have not now been closed. This therefore seems to require the council to do things it has already done. But in brief the council agrees that:

(a) Production of accounts, completion of VAT returns and bank reconciliation, stabilisation of T1, the review of financial management reports and updated ICT project procedures needed to be done, these were largely complete before GT's 10th January s24 report.

5.3 The council also agrees that the following tasks remain to be completed and need to be progressed promptly where appropriate:

(a) Remaining partial exemption calculations - by 28 February 2025

(b) Bank reconciliations for current financial year – by 31 March 2025

(c) Continue to review the level of financial reporting provided to Members on a quarterly basis.

(d) Review AGAS content and production processes for 2024/25 and thereafter to ensure compliance and inclusion of significant Internal Audit findings.

(e) Ensure the new arrangements for major projects are followed and review and adapt them as required.

5.4 The council does not agree:

(a) That Internal Audit recommendations are not currently monitored by Governance Committee.

(b) That financial proposals (the Tides project was cited) do not have the salient financial information.

6. **DDC's concerns with the background information used to support GT's s24 report**

6.1 GT's s24 report contains a narrative background which is used to support GT's recommendations. The Council believes this background is flawed, does not provide a robust foundation or a complete and proportionate explanation of the relevant circumstances and if left on the public record without clarification, would leave the reader with a misleading picture.

6.2 The remainder of this report addresses these issues and, in order to provide a comprehensive context and explanation it sets out:

(a) The circumstances over the last 4 years and the collapse of local (authority) audit across England

(b) Financial Sustainability

(c) Publication of the accounts

(d) Member Briefings

(e) Operation of Technology One

(f) VAT Returns

(g) Bank Reconciliation

(h) Cabinet reports relating to Tides

(i) Tracking of Internal Audit (East Kent Audit Partnership or EKAP) recommendations.

(j) Publication of the Annual Governance Assurance Statement

(k) Client Engagement and Presentation of GT Reports

7. **The circumstances over the last 4 years**

7.1 Both the Council, and auditors, have had a challenging time. As explained to Governance Committee in March 2024, the causes include:

(a) Impact of the pandemic and lockdowns,

(b) Numerous complex and burdensome government initiated and council administered grant regimes during and after Covid,

(c) Staff turnover and recruitment difficulties,

(d) Implementing a new system,

(e) The weakness of the local government finance / settlement system has been demonstrated by the whole sector showing extreme financial stress, many s114 notices, many more warnings. Some councils have adopted unusual, novel and large scale / disproportionate approaches to dealing with the financial pressures. Some small district councils have borrowing massively (up to £2bn) to finance investments to generate income. A unitary with over £1bn debt has lost significant elements of the debt to a failed solar farm investment, and

(f) The effective collapse of local audit with all auditors having delays with a significant proportion of their clients - DDC is not an extreme outlier.

7.2 Much of the commentary below is taken from the *Redmond Review*[5] into local audit.

7.3 Redmond notes that there is an inadequate market for local audit. The 500+ audit appointments, including 300+ local authority appointments, have been made to just 6 audit firms. Fees have increased significantly – probably in part, as a result of the inadequate market, and because local authority accounts are increasingly complex, technical and difficult to read documents out of all proportion to the scale of many local authorities – particularly district councils.

7.4 The local audit sector was showing signs of distress for some years with "*40% of audits failing to meet the deadline for 2018/19 indicating a serious weakness in the ability of auditors to meet their contractual obligations*" (Redmond) but there is no one body responsible for local audit and insufficient action was taken collectively by all the stakeholders who control local audit. They include:

(a) PSAA (Public Sector Audit Appointments) who have just approved a 9% fee increase.

(b) Institute of Chartered Accountants of England and Wales & the Chartered Institute of Public Finance and Accountancy.

[5] The Redmond Review was undertaken by Sir Tony Redmond. He was commissioned by the government to undertake an independent review into the effectiveness of external audit and financial reporting in local authorities. It reported in 2020, before the backlog of audits reached its peak.

(c) Financial Reporting Council / Audit Reporting and Governance Authority.

(d) Comptroller and Auditor General and National Audit Office.

(e) Ministry of Housing Communities and Local Government.

(f) Audit firms.

7.5 As a result we have seen the complete collapse of local audit. In 2022/23 just 1 % of local authorities published audited accounts on time[6]. The audit backlog had risen to circa 1,000 opinions across the 300+ councils – so on average circa 2 to 3 each (MHCLG have emphasised that they do not expect auditors to try and place or imply blame on the councils[7]) and councils have changed very little over this time, compared to the scale of the collapse. In the circumstances individual audit firms will understandably want to present themselves and their data as one of the better performers in a failing landscape, however all have struggled to a greater or lesser extent.

7.6 Debatable comparisons have also been made with audit and production of accounts within other sectors like the NHS. However, the differences in the type of political control, political oversight, fiduciary duties, public examination and continuity of resourcing mean that such simple comparisons are open to firm challenge.

7.7 GT have advised that the Financial Reporting Council (FRC) has placed such pressure on them (and the other firms) that they have, in the past, spent as much time proving the quality of their audit to the FRC as undertaking the audit.

7.8 Similarly, local authority accountants now spend more time servicing the audit and the findings, than they do preparing the accounts. When quality control is greater than the activity itself, it is disproportionate.

7.9 Amongst the most common causes of backlog issues across the sector delaying audit, were:

(a) Impact of the pandemic and lockdowns.

(b) The intense and wholly disproportionate focus on valuation of fixed assets and pension fund liabilities.

(c) Audit and local authority staff retention, insufficient staff resources, staff turnover and levels of experience.

7.10 Historically, there has been barely enough audit capacity in the system to cope each year. Once a delay occurs then the overall workload is increased by the inefficiencies of work that is started and stopped across more than one year, and so the situation spirals.

7.11 In 2020 (well before the peak of the issues) Sir Tony Redmond published his review of local audit. He noted 4 key problems:

(a) Weakness in the functioning and value of local audit.

(b) Market fragility.

(c) Absence of system leadership.

(d) Accounts that are impenetrable to the public (and most other users).

7.12 Redmond recommended that

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[6] A significant factor here is that delays in audit of prior year accounts mean that the subsequent year does not have confirmed opening balances, which are integral to the production of the subsequent accounts.

[7] See MHCLG report - [Addressing the local audit backlog: modified or disclaimed audit opinions - GOV.UK]

(a) "*All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority*."

(b) *A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax/precept/levy and presented alongside the statutory accounts. The standardised statement should be subject to external audit.* (Effectively Redmond is repeating DDC officer advice to Members to focus on the outturn report for easier and more understandable information).

(c) *CIPFA/LASAAC be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.* (Redmond is repeating the sector wide view that the accounts are too complex and focus on the wrong things, and this greatly diminishes their usefulness while increasing time and cost. Such is the level of concern that there is now an active consultation by Government on local audit and whether responsibility for the standard setting for the accounts should be removed from CIPFA and passed to the proposed new Local Audit Office.)

7.13 As a result of the audit collapse, Government have legislated, inter alia, to set backstop dates by which audits must be completed or curtailed and an opinion, or a disclaimed opinion, issued.

7.14 Dover's disclaimed accounts for 2020/21, 2021/22 and 2022/23, and the draft accounts for 2023/24, have been presented to Governance Committee. The accounts for 2023/24 will be audited, but in auditing the 2023/24 accounts the auditors may want / choose / need to drive into the opening balances and, in effect, start auditing elements of 2021/22 and 2022/23, thus extending the audit, or making audit sample sizes untenable at the risk of re-creating the backlog. This is a real and recognised issue.

7.15 Richard Harbord strategic director of finance and s151 at the London Borough of Barking and Dagenham has also stressed the importance of a "long-term solution" for local authority audit.

(a) "*There are less firms now willing to do local authority audit. The fees have gone up astronomically in some cases..."*

(b) *"If you haven't had an audit report since 2020 or 2021, you have no way of knowing what the auditor would have said at that point in time. So, when you get an audit report for 2023/24 it may be a bit of a wake-up call because so much has happened in that time.*

(c) "*The whole thing is in a terrible position."*

8. **Financial Sustainability**

8.1 GT have noted that their Auditor's Annual Report (AAR) to Governance in March 2023 highlighted that "there was an underlying lack of assurance on (the) Council's financial sustainability in the figures reported to Cabinet since October 2020 due to the fact that there had been no external assurance obtained".

8.2 The AAR said:

(a) "The reported outturn for both 2021/22 and 2022/23 provides some assurance that the underlying financial performance is positive. It is important to note, however, that all financial information produced since

February 2021 is not supported by audited financial statements and as such could be subject to further change."

8.3 In practice, since the demise of the Audit Commission and the appointment of GT, no GT recommendations to date have had a material effect of the Council's financial sustainability.

8.4 Financial stability is a continual challenge in the local authority sector and cannot be taken for granted, but if the absence of external assurance leads to genuine uncertainty as to financial sustainability, then given the very widespread delays in audit in the recent past the sustainability of the entire local authority sector must have been open to some doubt on this basis and the large number of disclaimed opinions suggests that this remains the case and will do so for some time.

9. **Publication of the accounts**

9.1 The DDC backlog started with the 2019/20 accounts. Without apportioning it, DDC and GT both bear some responsibility for the delays, added to which, DDC are towards the end of the audit programme in Kent after which GT decamp to audit the NHS whether the local authority audits are complete or not, so slippage has a more significant impact on DDC than it would for those councils earlier in the programme.

9.2 In July 2021 GT presented a progress report stating that "….. *we do not anticipate completing the (2020/21) audit until 31 January 2022."* The audit was actually signed off by GT in December 2022, so some 11 months later than anticipated and 18 months after the prediction made in July. This significantly extended the period for which we had uncertain opening balances for 2020/21 and the future years.

9.3 The DDC audit wasn't the last 2019/20 district council audit to be completed in Kent. At DDC we had issues raised by GT, mainly with asset valuation and pension deficit valuation.

9.4 Providing the required valuations and responses to GT was a challenge which we didn't always achieve on time or in the way GT wanted and the Council's valuations have been challenged. There were also issues with GT staff turnover, DDC responses mislaid, GT using a mix of e-mail and Inflo (their in-house system) rather than one approach to gather data etc. Cumulatively this resulted, at its peak, in DDC staff working on 3 sets of accounts simultaneously which was untenable.

9.5 It is important for the accounts to be as accurate in valuations as is reasonably possible and we must aim to achieve this. However, the challenges and recommended changes mainly relate to the valuation of major assets such as Dover District Leisure Centre and the Dover Town Hall (Maison Dieu) which serve little, if any, real purpose.

9.6 Valuation of assets has been a national issue, and it is worth noting that none of the changes requested by GT in their findings have led to any significant change in the Council's underlying financial position[8] and have not served the public in any obvious way.

9.7 The Council does strive to get these values right for the reader / user of the accounts, as we should, but no real and practical decisions regarding use or disposal of assets would be based on their valuation on the balance sheet – so if any benefits do arise from this exercise they are, at best, slight.

9.8 All these changes impact the opening balances for the future accounts and so a lack of certainty on the 2019/20 closing position created difficulties for producing future sets

[8] Local auditors have, informally, stated that this focus on asset valuations is largely pointless in a local authority environment, but it has been one of the main obstacles that has prevented / delayed publication of accounts.

of accounts. This also greatly increased the total workload involved in starting and stopping on different sets of accounts.

10. **Member Briefings**

10.1 In their Background GT state that “there were no updates given to Cabinet” on the challenges with bank reconciliation and VAT returns.

10.2 In fact, all Portfolio Holders have been briefed throughout the process with regular updates throughout the lockdown periods and beyond.

10.3 The Chair of Governance was briefed and was also briefed in her previous role as Portfolio Holder for Finance. This is also supported by the current Portfolio Holder (who succeeded the current Chair of Governance) who has stated to GT:

(a) *I can confidently state that we have been thoroughly briefed on the situation regarding VAT and reconciliation. At every leadership forum meeting, this topic has been consistently brought up and discussed. Furthermore, during our briefings with the labour group, we provide detailed explanations about the current situation and its severity too. As a result, all our councillors are well aware of the challenges we face, which has necessitated the allocation of significant resources to address and resolve this issue.*

11. **Operation of Technology One (T1)**

11.1 GT state that DDC did not give sufficient priority and urgency to the completion of VAT returns and Bank reconciliation. With finite resources and limited options to buy in effective and competent resources, correcting T1 had to be the first priority. Left uncorrected, the backlog in the completion of VAT and bank reconciliation would continue to grow and we would have been forever chasing it.

11.2 Therefore, publication of the accounts and T1 were the first priorities, and both have been achieved. However, as a result, progress on VAT and Bank Rec, although now largely resolved, was initially slower than anticipated.

11.3 The s24 report includes, at Appendix 1, a copy of Internal Audit recommendations relating to the follow-up audit of the post-implementation review of the T1 system. Although undated in the GT report, this follow up report was produced in October 2023 and so does not reflect the significant progress made since that time.

11.4 The critical and high recommendations have all been implemented with the approval of a new project management process and the digital team overview of system implementations. GT have been made aware of this progress, but it is not adequately reflected in their background information.

12. **VAT Returns**

12.1 The Council accepts that this was an important issue. Two members of the accountancy team were prioritising the VAT work plus significant external resources were also allocated to this task.

12.2 All VAT returns are now complete, including for the current year, and have been submitted, processed and the majority of refunds already received. With the correct operation of T1 and a full review of the process and input information, future returns can now be kept up to date.

12.3 The VAT de minimis calculation for 2023/24 is not “underway” as reported in the background. It has been completed and the Council meets the 5% requirement. Prior years are underway and are also expected to meet the 5% requirement.

12.4 In their background section GT state that “The Council invested internal resources in the latter part of 2024”. This implies that internal resources were not used significantly before that time and the issue had not been given sufficient weight. This is incorrect. Both internal and (substantial) external resources have been used since the T1 implementation to address the matter.

13. **Bank Reconciliation**

13.1 Again, this was an important issue. - bank reconciliation is a key control. The process now works as intended, so work has since focused on clearing the historic reconciliation backlog.

13.2 Significant resources have been allocated to this task. Major progress has been made completing the reconciliations, the team are currently working on March 2024, and it is anticipated that they will complete the 2023/24 reconciliation by the end of January, so it can be reviewed as part of the 2023/24 audit process.

13.3 In considering bank reconciliation, it is important to provide context. At no point did the Council lose control of its cash or become unaware how much cash it has, it is about how the financial system recognises and records the transactions, not the bank account balances themselves. The issue was largely an upside risk because some cash receipts were not being recognised and allocated by the system correctly.

13.4 There are also possible negative risks, but the probability is considered low and other controls on payments and budget monitoring would identify significant input fraud. Expenditure fraud would not be primarily detected by bank reconciliation, since the false invoices would have already been accepted into the system. Without being in any way dismissive, it is important to take a realistic view of the downside risks and their likelihood (which are considered low), rather than to overstate them.

14. **Cabinet Reports Relating to Tides**

14.1 GT have raised concerns regarding what they consider to be inadequacies with the financial information provided in the Cabinet reports on Tides.

14.2 In their Background GT state that "In July 2024, the project had a £3m funding gap and it was not clear how that could be cleared, "*other than "cutting the design again"*, or borrowing." Major projects such as Tides tend to develop though a process of iterative reports. We consider that the statement by GT is not a reasonable or accurate reflection of the information provided to Members in this, and other, Tides reports.

14.3 GT also state that "*the project is highly dependent on the Council borrowing a significant amount from the Public Works Loan Board, the maximum that the revenue position can fund*". This is not the full position.

14.4 The total borrowing requirement is not yet finalised, but in the report the Council anticipates it may borrow circa £14-15m (£10.9m+ £3.8m, as shown in the Tides report) against a total project cost of £19m, for an income generating asset, providing a priority service. This can hardly be considered unreasonable.

14.5 The proposed borrowing is not "*the maximum that the revenue position can fund*". This suggests it is the maximum the General Fund could support. The report explains that the project borrowing will be largely funded by the specific revenue improvement that the project generates, with a balance of borrowing, the cost of which will fall on the General Fund, if the project cannot be further revised to generate more income.

14.6 Following the additional feasibility work which this report recommended, the current project has additional facilities (rather than less) to be financed by the greater income they are projected to generate and has therefore become more affordable rather than less. This is not the "*cutting the design again*" to which GT refer.

14.7 GT have also commented that:

(a) the report does not set out the impact on the Council's capital financing requirement (CFR),

(b) and that the report contained "*limited sensitivity analysis".*

14.8 The Council considers these points to be mistaken for the following reasons.

14.9 The crux of GT's criticisms seems to be that after considering the Tides report in the July 2024 Cabinet, the Tides project was approved to proceed to completion without sufficient financial information. In reality, the project was not approved to proceed to completion. This is a major project which has been extensively modelled, analysed and correctly reported and is also discussed at a cross-party Project Advisory Group.

14.10 The report to Cabinet on 29 July 2024 was one of a number of reports on the project. It did not seek approval of the full project, only to take the project to RIBA stage 2, which was sufficient to undertake more feasibility work. The financial information provided was sufficient and correct. It is not clear why this warrants reference in a s24 report as a source of apparent concern.

14.11 GT have also suggested that the report should show the impact of the project on the Council's Capital Financing Requirement (CFR). This is a technical financing figure. It is not pertinent to the consideration of the Tides report by Cabinet and its inclusion in project reports is not general practice at Dover or other Kent authorities consulted on this point.

14.12 All DDC major projects are considered for viability based on the borrowing that they <u>may</u> require – and the revenue budget would be charged with such costs accordingly. However, the CFR and the decision to borrow are considered separately in consultation with our advisors, Arlingclose, based on the costs of internal borrowing against the carrying costs of actual debt.

14.13 The report's sensitivity analysis shows the financial impact of the latest facility proposal, changes in interest rates, and covers the forecast revenue impact and the options for external funding. Although variants can be tweaked ad infinitum, it is unclear what significant sensitivity analysis has been omitted.

14.14 The report clearly shows:

(a) the projected revenue savings from the new project,

(b) the full cost of the capital borrowing that such savings would support,

(c) the balance of capital funding required,

(d) the additional revenue costs if that balance was borrowed rather than met from reserves, and

(e) substantial analysis by the Council's consultants in the appendices to the report.

14.15 Finally, in their e-mails regarding the s24 report GT have also suggested that it would have been helpful if we had stated that "*there is no impact on the Council's minimum revenue provision*". It is not practical to include in reports to Members a range of things that are <u>not</u> affected by the proposals therein. Members were clearly shown the financial impact of the project and that is the key point.

14.16 The Council's approach for this type of project has already been proven for the development of the £26m Dover District Leisure Centre which was delivered to budget and is overtrading against the conservative estimates of the revenue turn around that had been projected in the project report.

14.17 On the basis of the explanations above, the Council do not accept GT's points in relation to the Tides project. Using them to imply weaknesses in the financial advice provided to Members on this and other projects is not justified.

15. **Tracking of Internal Audit (East Kent Audit Partnership (EKAP)) recommendations.**

15.1 GT recommend that the Council should put in place monitoring by the Governance Committee of implementation of Internal Audit (IA) recommendations. It is assumed that this is intended to apply to those significant EKAP recommendations that have been agreed by management.

15.2 In the Annual Report the Head of Audit (HOA) lists all recommendations raised in the course of their work for the year split over the 4 criticality ratings. The report also summarises the follow up process and the results of the follow up for the year, highlighting any areas that have low levels of assurance after follow up. Additionally, as part of the opinion, the HOA lists the recommendations from the 4 x quarterly update reports during the year that have been previously escalated to the committee, along with any reviews that are awaiting follow up that were allocated a low level of assurance.

15.3 The IA Opinion is decided by the results of the work concluded during the preceding year. The IA Team has recently been assessed against the professional standards and found to be in compliance. The way in which the Opinion is produced was assessed as part of the External Quality Assessment (EQA).

15.4 GT Auditors (during their Canterbury City Council (CCC) Value for Money (VFM) work) have separately complimented the HOA on the EKAP Annual Report and the way that the Opinion is formed, in particular the split over Corporate Governance, Risk Management and Systems of Internal Control.

15.5 It is not clear why the same approach by the same audit team and HOA gives rise to concerns worth mentioning in a s24 report at DDC.

15.6 Recent developments within the IA profession include a move towards a 'report on a page' style summary for members, and even to not make recommendations, but to agree the risks with management. To suggest that IA reports in full (or at least the full agreed action plan) should be presented to Members is out of kilter with these broader developments.

15.7 It should be noted that EKAP do report any recommendations in full (including the management update) at the point where they are escalated to the Committee if they are Critical or High Priority and "Outstanding with intent to action, at the time of Follow Up". These are listed as an Appendix to the Quarterly Update Report, and are the ones referred to as being summarised in the backward look for the year in the Annual Report.

16. **Publication of the Annual Governance Assurance Statement (AGAS)**

16.1 GT make two material points with regard to the AGAS. The first is that the AGAS should have included mention of the VAT returns and bank reconciliation issues. This point is accepted. As explained elsewhere in this report, Members were briefed on these matters and VAT issues were reported to Governance, but they should have been recorded in the AGAS and these (or any other comparably significant matters) will be included in the future if they arise.

16.2 The second point is that the background to GT's Section 24 Statutory Recommendations states that "*The 2023-24 draft statement of accounts was published on 1 August 2024. There is no corresponding Annual Governance Assurance Statement (AGAS) published for that financial year …*".

16.3 The Council does not accept this point. Throughout the period of the pandemic and the subsequent delays in respect of local audit, we have continued to comply with the legislative dates for production, approval and publication of the AGAS, as required by the Accounts & Audit Regulations 2015).

16.4 The AGAS for 2023/24 was published on the Cabinet agenda for 2 September 2024 (publication of which took place on 22 August 2024) and then again, for the Governance Committee to approve, on 26 September 2024 alongside the 2023/24 accounts (agenda published on 18 September 2024), which allowed the electorate ample time to consider the AGAS alongside the draft accounts.

16.5 There have been several amendments to the requirements in respect of production and publication of the AGAS, most recently to introduce a new concept of "accountability statements", presumably to deal with those situations where accounts are subject to a disclaimed opinion and this now refers to the AGAS being included as one of those such statements.

16.6 This change was made on 30 September 2024 and requires the Council to publish its "accountability statements" for the year beginning with 2023, by 28 February 2025. It is not clear whether GT are recommending that the draft accounts are not published until the AGAS is ready.

16.7 Should the Government have wished to require the publication of the AGAS alongside the draft unaudited accounts, then this would have been their opportunity to legislate for it. For GT to suggest what appears to be an arbitrary deadline during this process (of which we were unaware at the time and so could not possibly comply) is not accepted.

17. Client Engagement and GT Reports

17.1 Effective audit does not focus solely on the technical work of the auditee. It is also important to understand the culture and relationships within the organisation. GT staff do not often visit the DDC offices or engage in person with DDC staff or Members. Historically, GT did not regularly attend Governance Committee. We would be pleased to have a more interactive relationship with GT staff.

17.2 The January 2025 s24 report refers to the audit of the 2023/24 accounts being "*due to begin*" in October 2024. The audit started (later), in November 2024.

17.3 The presentation of GT's s24 report can be confusing. Some of it is in the present tense and some in the past. Problems that have been addressed are described as if they are still current, and progress made by DDC is not clear to the reader. The report is not consistent between the background and the recommendations, making it more difficult for the reader to understand the current position.

17.4 For example, the s24 background says that bank reconciliations have been completed to June 2022. This was recognised to be work in progress and as advised to GT in December they were, at that time, complete to June 2023, and are now complete to February 2024.

17.5 GT's reports appear to be PowerPoint reports converted to "pdf format". Therefore, the client cannot annotate or copy and paste from them to assist in responding or in reporting to Members, forwarding extracts to colleagues, etc.

17.6 They are also produced in landscape format with newspaper columns. They use long block paragraphs in a relatively small font. This can be difficult to read on modern ICT such as iPads. A more modern, user friendly and accessible style, format and software would be very helpful.

17.7 Appendix 1 to this report provides management responses to GT's recommendations, proposed actions and timescales.

17.8 GT's S24 report was sent to the PSAA and the Secretary of State. Officers will consider sharing this response with the PSAA and Secretary of State to ensure they are fully informed.

18. **Corporate Implications**

18.1 Comment from the Director of Finance (linked to the MTFP): The Director of Finance and Housing has been involved in the production of this report and has no additional comments (MD).

18.2 Comment from the Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make.

19. **Appendices**

Appendix 1 – Grant Thornton recommendations and the management responses.

Appendix 2 - Summary of Outstanding Actions

20. **Background Papers**

20.1 Section 24 Statutory Recommendations Report from GT.

20.2 July Cabinet report on Tides.

Contact Officer: Mike Davis, Strategic Director, Finance and Housing.

Area	Recommendation	Management response
Financial management	The Council should put in place robust arrangements to address the recommendations previously made in our joint year Auditor's Annual Report for 2021-22 and 2022-23. This includes: • Completion of all bank reconciliations to the current date and maintaining their regular completion thereafter; • Completion and submission to HMRC of all VAT returns to the current date and maintaining their regular completion thereafter, negating penalty payments for late submission and increasing cash flow; • Full update of accounting records to take account of the VAT transactions; • Completion of the Partial Exemption VAT calculations for the 2021-22, 2022-23 and 2023-24 financial years; and • Clearance of the suspense account.	Robust arrangements have already been put in place. The bulk of the requested outcomes have already been achieved. More information is provided below. • All VAT returns have been completed and submitted to HMRC and the up-to-date position is being maintained. • Accounting records reflect the VAT transactions. • The Partial Exemption VAT calculation for 2023/24 is complete. Earlier partial exemption calculations are underway and are not expected to generate any issues. • The suspense account was reviewed in detail as part of the 2023/24 year-end process and the level of transactions & total value reduced significantly as part of the review. This continues to be reviewed and cleared as part of the bank reconciliation and other standard in-year processes. • The bank reconciliation issue is mainly an "upside" risk as it is difficulties with the income systems integrations and processes that are being resolved, with additional receipts being transferred to suspense codes. There is little risk of cash being lost – simply income not yet credited in the accounting system. The system is now operating largely as intended so we are dealing with a backlog, not a flawed system. The negative risks are recognised but the probability is considered low and other controls on payments and budget monitoring would identify significant input fraud. Expenditure fraud would not be primarily detected by bank rec, since the false invoices had already been accepted. • Bank reconciliation is recognised as a key control and the Council has always known how much cash it has. Without minimising this, it is also essential to take a realistic view of the risks and their likelihood, rather than overstate them. • Bank reconciliations have been completed for financial years to 2022-23 and up to

		January 2024. It is anticipated that the 2023-24 financial year will be completed by the end of January 2025. • The remaining work, which will continue, will be to complete the VAT partial exemption calculations and to finalise the bank reconciliations. **Responsible officer:** Mike Davis, Strategic Director (Finance and Housing) **Due date:** VAT returns – complete Partial exemption calculations 2023/24 - complete. Remaining partial exemption calculations - 28 February 2025 Bank reconciliations for 2023/24 financial year - 31 January 2025 Bank reconciliations for current financial year - 31 March 2025

Area	Recommendation	Management response
Financial performance information	The Council should review the level of detail of and develop more comprehensive financial performance information within the quarterly performance report to Cabinet. This should also include financial proposals that are presented to Cabinet, ensuring that Members have all salient information required to make effective and efficient decisions.	During 2023/24 the financial year budget monitoring returned to a detailed level of monitoring by budget managers, working with the Accountancy team. Budget managers have full access to their budgets and in-year forecasting is undertaken by managers, working with their accountant as appropriate. Quarterly budget updates were included in the regular performance reports presented to Cabinet as well as additional updates being presented to Corporate Management Team and Leadership Forum for awareness and action as appropriate. The level of information included in the performance report was recently reviewed with the current portfolio holder and the existing format was agreed to be a suitable level of reporting. A review of the Quarterly Performance report to Cabinet is underway and the level of financial reporting will be considered and agreed again as part of this review. The Council is always happy to improve its reporting, and the Head of Finance & Investment will continue to liaise with her Kent colleagues to review and compare the level of reporting provided across the county to see if there are any alternatives that should be adopted. **Responsible officer:** Helen Lamb, Head of Finance and Investment **Due date:** 31 March 2025

Area	Recommendation	Management response
Governance and oversight	The Council should put in place robust arrangements to ensure that there is adequate oversight of the internal control and governance frameworks. This includes: • Regular monitoring by the Governance Committee of implementation of Internal Audit recommendations; and • Detailed review of the Annual Governance and Assurance Statement to ensure that it not only meets Code requirements but also reflects the reality of the Council's situation.	With regards to regular monitoring by the Governance Committee, the Council considers the arrangements to be in place. The Internal Audit (IA) Opinion is decided by the results of the work concluded during the preceding year. The IA Team has recently been assessed against the professional standards and found to be in compliance. The way in which the Opinion is produced was assessed as part of the External Quality Assessment. GT Auditors (during their Canterbury VFM work) have separately complimented the Head of Audit on the EKAP Annual Report and the way that the Opinion is formed, in particular the split over Corporate Governance, Risk Management and Systems of Internal Control. It is not clear why the same approach gives rise to concerns worthy of mentioning in a s24 report at DDC. Recent developments within the IA profession include a move towards a 'report on a page' style summary for members, and even to not make recommendations, but to agree the risks with management. To suggest that IA reports in full (or at least the full agreed action plan) should be presented to Members is out of kilter with these broader developments. It should be noted that EKAP do report any recommendations in full (including the management update) at the point where they are escalated to the Committee if they are Critical or High Priority and "Outstanding with intent to action, at the time of Follow Up".

		These are listed as an Appendix to the Quarterly Update Report, and are the ones referred to as being summarised in the backward look for the year in the Annual Report. With regards to the contents of the AGAS and the omission of the VAT and Bank reconciliation, these points are accepted. The Council will review its AGAS content and processes to ensure it complies with requirements and good practice and that it includes references to all significant Internal Audit findings so that Governance Committee will have sight of them within the AGAS in addition to the normal quarterly audit reports. **Responsible officer:** Louise May, Strategic Director (Corporate and Regulatory) / Christine Parker (Head of Audit) **Due date:** 30 June 2025

Area	Recommendation	Management response
Governance and oversight	The Council has put in place arrangements to address the recommendations made in the Internal Audit review regarding system implementation projects before further system implementations are undertaken. The governance and oversight of such projects is imperative, to ensure that implementation is done on an appropriate timeframe, not necessarily a short timeframe, to give confidence that system implementation is successful. The Council should ensure that the new arrangements are followed, reviewed and monitored so they can be adapted if they are not working in practice, or embedded if they prove to be effective.	As detailed above the Council has new project management arrangements in place for ICT and digital projects. The revised arrangements have been successfully used for more recent implementations including: • The separation and re-implementation of Northgate (the EKH single system) • The disaggregation of EKS ICT Service • The income receipting module in Tech One The Council has also approved a new project management process to be rolled out imminently. As detailed above updated project management information is being presented to CMT and members for other major projects including: • Maison Dieu restoration (£15m) • Town centre Beacon regeneration project (£23m) • Dover Fasttrack Bus Rapid Transit system (£26m) • Tides Leisure Centre (£20m) • Affordable Housing Developments The Council will ensure the new arrangements are followed for major projects and will review and adapt them as required. **Responsible officer:** Christopher Townend (Head of Investment, Growth & Tourism) **Due date:** March 2025 and on-going.

Appendix 2

Summary of Outstanding Actions

- Remaining partial exemption calculations - 28 February 2025
- Bank reconciliations for 2023/24 financial year - 31 January 2025
- Bank reconciliations for current financial year – 31 March 2025
- Review the level of financial reporting provided to Members on a quarterly basis.
- Review AGAS content and processes to ensure it complies with requirements and good practice and that it includes references to all significant Internal Audit findings.
- Ensure the new arrangements for major projects are followed and review and adapt them as required.