

This Report will be made public on 29 November 2022



Report Number **AuG/22/21**

To: Audit and Governance Committee
Date: 7 December 2022
Director: Susan Priest, Chief Executive & Head of the Paid Service
Charlotte Spendley, Director of Corporate Services and Section 151 Officer
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Cabinet Member: Councilor David Monk, Leader of the Council
Subject: Governance Update

Summary: This report summarises the key elements of the governance issues identified during 2022 within the Council and those actions agreed to improve the control environment. This report focuses on those matters that relate to the remit of the Audit & Governance Committee, whilst there were associated personnel matters these will be considered by the Personnel Committee where relevant.

Reasons for recommendations:

The Committee is asked to agree the recommendations set out below because:

- a) It is responsible for considering governance matters on behalf of the Council.
- b) The members of this committee have a duty to discharge in understanding and evaluating the actions taken regarding the management of risk and internal control.
- c) In order to comply with best practice, those charged with governance should independently contribute to the maintenance of an effective programme of internal control.

Recommendations:

1. To receive and note Report AuG/22/21.
2. To approve the proposed amendments to the Annual Governance Statement 2021/22 as outlined in section 11

1. INTRODUCTION

- 1.1 The Audit and Governance Committee were made aware earlier in the year of a number of governance issues identified which largely relate to non-compliance with the Council's Contract Standing Orders. They have received private briefings as well as updates through internal audit reports and investigations in a mix of public and private sessions of the committee.
- 1.2 The committee has also received on 28 July the draft Annual Governance Statement (AGS) for 2021/22 which outlined in summary form the issues identified. The Statement has been updated and is included elsewhere within this agenda, however this report seeks to explore the issues and actions more fully in hand, for the purposes of transparency and clarity for members.
- 1.3 The draft AGS reported to members that:

“During the very latter stages of the 2021/22 year the senior team was made aware of issues within the Housing service area regarding contract management and potential breaches of the Contract Standing Orders. Both a disciplinary investigation and Internal Audit review were commissioned to identify the extent of the non-compliance and make recommendations for improvement of the control environment. These are now well progressed and anticipated to be concluded by the Autumn. Further to those issues arising further matters relating to financial transactions within the Operations service area were identified and are also subject to ongoing disciplinary and audit reviews. The Section 151 Officer has also commissioned an Internal Audit wider in scope exploring contract management across the Council to gain assurance that the issues identified are not prevalent. All bar one of these irregularities was identified through the Council's own assurance and control procedures undertaken by its staff or EKAP. At the time of preparing this Statement, all of these matters are the subject of thorough investigation by EKAP and the necessary appropriate reports will be made to the Audit and Governance Committee, and appropriate reference will be made in the 2022/23 Annual Governance Statement.”
- 1.4 The committee also received the Annual Review of Internal Control report from the Head of the East Kent Audit Internal Audit Partnership, and an update to that position is noted in section 11 of this paper.

2. LEGISLATIVE REQUIREMENTS

- 2.1 Regulation 3 of the Accounts and Audit (England) Regulations 2015, states:

Responsibility Internal Control
A relevant authority must ensure that it has a sound system of internal control which —

 - (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - (b) ensures that the financial and operational management of the authority is effective; and
 - (c) includes effective arrangements for the management of risk.

- 2.2 Regulation 6 of the Accounts and Audit (England) Regulations 2015 states:
Review of Internal Control System
(1) A relevant authority must, each financial year —
(a) Conduct a review of the effectiveness of the system of internal control required by regulation 3; and
(b) Prepare an annual governance statement;

3. AUDITS AND INVESTIGATIONS UNDERTAKEN

- 3.1 In total six pieces of work were commissioned with EKAP (East Kent Audit Partnership) between the months of March and July. Some pieces were already within the agreed Audit Plan and work programme for 2022/23 and others were specific investigations commissioned by the Statutory Officers.
- 3.2 The purposes of these audits were to:
- Establish facts based on the agreed scope
 - Evaluate the effectiveness of the control environment
 - Make recommendations for improvements to the control environment
- 3.3 The Statement of Accounts for 2021/22 has been drafted and was presented to the Committee on 21 September. In England, the responsible financial officer (Section 151 Officer) in each authority is required to confirm that they are satisfied that the statement of accounts presents a true and fair view of the financial position, performance and cash flows of the authority at the end of the relevant financial year. There is also a requirement to ensure the council has taken reasonable steps for the prevention and detection of fraud and other irregularities. The audits have therefore also formed a picture of assurance to enable the Statement of Accounts to be signed for the 2021/22 financial year.

4 HOUSING PLANNED MAINTENANCE – CONTRACT MANAGEMENT

- 4.1 This Internal Audit had formed part of the original 2022/23 Audit Plan, however the timing of the audit was brought forward and the scope / time allocated was expanded, following an issue being brought to the Statutory Officers attention regarding the use of a contractor significantly beyond the agreed contractual sum. This matter was identified and raised by a more senior officer of the housing team.
- 4.2 The scope of this audit was:
To examine and evaluate the procedures and controls established by management, to include:-
- a) Ensure that contracts are properly let via quotes or tenders.
 - b) Establish if contracts are managed following the processes and procedures set out in CSOs.
 - c) Ascertain if there are regular meetings with the contractors to discuss issues and progress and that these achieve the right outcomes (no gaps) and action points are recorded.
 - d) Ensure that there are inspections of the works completed.

- e) Review a sample of contracts to ensure that the contracts are paid in line with the contract rates.
- f) Ensure that contract claims for payments are properly reviewed, prior to payment.
- g) Establish if variations are required they are properly documented and approved.
- h) Ascertain if there is regular budgetary control over contracts.
- i) Evaluate the management oversight arrangements to determine if the right meetings are prompting the right questions, generating the right outcomes to identify any possible gaps, either in behaviour or culture/ approach to contract management.
- j) With regard to Thinking Ahead, review processes to ensure that new contracts are set up in good time prior to the expiry of current ones.
- k) Establish whether contract files are kept, and what the retention period is.
- l) Identify and evaluate any significant risks to the authority and give advice on any control improvements in a report to management

4.3 And the objective was to provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the organisation derives the maximum possible value and the highest level of performance and customer satisfaction from its various contracts.

4.4 The Audit work found that management could place No Assurance on the system of internal controls in operation around both the procurement and management of contracts in operation in the Housing Planned Maintenance section. The primary findings giving rise to the No Assurance opinion in this area are as follows:

Housing Planned Maintenance - Procurement

- From a sample of 20 suppliers where a contract should be in place, no written risk assessments were found to be in place for any of the contracts around the procurement process as required by CSO's.
- From a sample of 20 suppliers, in only 12 instances were officers found to have complied with CSO's and obtained at least three written quotes/tenders following advertisement by public notice.
- From a sample of 20 suppliers tested with expenditure above £10,000, a contract was in place for only 11 suppliers.
- Around £1,452,646 was spent in 2021/22 on suppliers without a CSO compliant contract, of which £650,000 was spent using expired contracts.
- From 14 suppliers with a current or expired contract, expenditure on only 5 contracts was found to be in line with contract sums, in all other cases expenditure exceeded contract sums.
- The role of procurement is to support spending officers with advice and guidance meaning there is no dedicated role (outside of line management) within the Council responsible for independently monitoring and reporting compliance with CSO's to Senior Management.
- Poor forward planning is resulting in suppliers being used with no contract in place, or expired contracts continuing to be used.

Housing Planned Maintenance - Contract Management

- From a sample of 10 contractors selected for testing, in 4 cases officers confirmed that they either do not have any review meetings with the contractor to review performance under the contract, or any meetings they do have are not documented.
- Suitable post inspection routines were found to be in place for only 1 of 10 contracts tested.
- Officers are placing reliance on external 3rd parties acting as Clerk of Works paid for by the contractor as a substitute for undertaking post inspections themselves.
- Post inspections are not being documented.
- Site visits during the audit identified numerous issues not previously identified by post inspections by officers.
- Payment requests from contractors not being scrutinised resulting in duplicate payments being made to suppliers.
- Multiple instances identified during the audit of work being paid for when not yet completed.
- Testing also identified that work relating to a fire alarm replacement costing £27,000 was incorrectly specified, and still requires additional work.
- Costs on two other fire alarm system replacements could have been reduced significantly by undertaking upgrades rather than full system replacements.
- Testing identified several examples whereby work has been paid for but either the work is not yet fully complete, or the necessary certification documentation is yet to be provided.

Testing was undertaken on a sample of 20 suppliers used by the Planned Maintenance section in 2021/22. Two of the suppliers being used were found to have contracts originally put in place under what was formerly East Kent Housing. Despite those contracts expiring in 2021/22, officers had continued to use those suppliers past the contract expiry date.

In the case of one supplier, work valued at £76,499 in respect of fire alarm upgrades in three buildings was found to have been paid for in March 2022, but none of which was completed by mid May 2022. Work on one of the buildings was found to have not commenced until 3rd May despite being paid for in March 2022. Testing also identified that part of the work was also incorrectly specified, and at least part of the cost was unnecessary. For the same supplier, numerous queries are outstanding in respect of work possibly being charged for twice. The estimate value of that work requiring further investigation amounts to approximately £88,000.

Based on the results of testing undertaken, it was considered that there were currently significant weaknesses evident around management oversight and review of work undertaken by officers in the Planned Maintenance department. This audit has identified significant levels of non-compliance by officers with even basic procedures for the procurement and

management of contracts. Gaps in management review procedures included:

- Failing to identify non-compliance with Contract Standing Orders.
- Failing to identify that expired contracts continue to be used rather than being formally extended or re- tendered.
- Failing to identify that post inspections are not being undertaken, or where they are being undertaken, they are not being documented.
- Failing to identify that work is being paid for before it is complete.
- Failing to confirm that all necessary certification documentation is in place before work is paid for.

Fourteen recommendations were agreed with Management, two of which were classified as critical priority and the remaining 12 were classified as high priority. Further information on the recommendations and resulting actions can be found in section 10.

- 4.5 In addition to the EKAP review undertaken a management review of the HR investigations was undertaken by the Section 151 Officer and the Monitoring Officer and several recommendations made for improvements identified, the key issues have been covered in section 10.

5. CORPORATE DATA LEAKS

- 5.1 The Chief Executive commissioned an audit investigation at the end of May 2022 following the leak of a confidential staffing matter being leaked to an outside source.
- 5.2 The scope of this investigation was “to establish facts as far as possible surrounding a leak of sensitive, confidential data to a Blog author, leading to a matter being published on social media.”
- 5.3 The commission was in response to our ethical responsibilities to all employees and concern surrounding the culture of the organisation.
- 5.4 Audit investigations do not return an assurance outcome, but three management opportunities were identified to improve the handling of confidential staffing data, the key issues have been covered in section 10.

6. DISPOSAL OF WHITE GOODS LEFT IN HOUSING VOIDS

- 6.1 Following an allegation that officers were inappropriately disposing of white goods from vacated council housing an audit report was commissioned.
- 6.2 The objective of this audit was “To establish the facts in response to allegations made, as far as possible, surrounding the correct processes for disposing of white goods left in housing voids.”
- 6.3 The scope of the review was required to establish the facts and was limited to;
- a) Disposing of white goods left in housing voids:

- Establishing how common this actually is,
 - Establishing what records are maintained, if any,
 - Establishing whether any formal process note exists
- b) Recommending whether additional steps should be taken in future.

6.4 The review found that on average 16 properties per month (based on 2021/22 relets) become void, often requiring works to bring them up to standard. Former tenants may leave goods in a property, which may include white goods. A procedure was found to be in place for managing void properties that includes how to deal with possessions left by former tenants.

6.5 The review highlighted that:

- The Council has a documented voids management policy in place, which links to the Tort Procedure that provides instruction to ensure obligations are met under the Torts (Interference with Goods) Act 1977 as a landlord in respect of goods left in a property by a former tenant or other occupant.
- It was encouraging to see procedures now in place and being complied with by FHDC officers. Those procedures however do not appear to reflect the previous practices when managed by East Kent Housing. An audit review of Garage Management in 2021/22, highlighted the Auditor was advised that approximately sixty garages are being used as storage facilities for evicted tenants' possessions and some have been used for up to ten years. Work has been found to be underway on addressing the historic use of garages by EKH.
- The policy and procedures are accessible to all housing staff, and require full records of goods left by former tenants to be retained.
- The documents provide clear instruction and guidance to staff, with the exception that the 'gifting' of quality white goods to the new incoming tenants is not mentioned.
- Former tenants are invoiced to recover clearance and disposal costs incurred.

6.6 The review did not find any evidence which substantiated the allegations made and two low level management recommendations were made through this review.

7. DISPOSING OF FELLED AND FALLEN TREES

7.1 Alongside the white goods matter, a concern was raised alleging that staff were privately selling logs acquired from the Council's management of trees.

7.2 The scope of this audit was to establish the facts and limited to:

- a) Disposing of felled or fallen trees
- Determining whether a policy or procedure exists for felling trees and disposing of fallen trees,
 - Identifying whether all wood should be chipped to form bark to be used in Council amenity areas, or something else
 - Establishing, if approval is given for staff to remove logs, if this is in fact 'custom and practice' and has been happening long term, and if this is the case:
 1. Identifying who benefits,
 2. Identifying if such approval is for personal use only, or for sale,
 3. If the latter, establishing whether the proceeds are split between all staff, or do one or more individuals benefit most.
- b) Recommending whether additional steps should be taken in future.

7.3 The review highlighted that:

- Documented procedures were not in place but processes for the disposal of felled and fallen trees are well established.
- A number of factors have prevented the Council from commercially selling its timber waste; mainly being the lack of sufficient suitable storage, limited access to Hawkinge Depot and lack of sufficient resources to process timber to a standard that can meet legislative requirements for the sale of logs; and the lack of volume of timber of sufficient quality to make a profit.
- Improvements are required to ensure that compliance with Contract Standing Orders when procuring good/services is sufficiently documented.
- Staff have been allowed to take small quantities of logs home for personal use only; with continued verbal reminders from Ground Maintenance management that the logs must not be sold.

7.4 The review did not find any evidence to substantiate the claims made. Two recommendations were made within this report.

8. OFFICERS INTERESTS

8.1 The general public should expect the highest standards from the Council's officers whilst they are undertaking their duties on behalf of the Council. To ensure that the officers are fully aware of what is required of them in their role as a Council officer there are codes and procedures that the officers are required to follow and comply with. One of the important roles of some Council Officers is to oversee the use of contractors on behalf of the Council to enable works within the district to be undertaken. The codes that are in place to guide the officers involved with contractors include Contract Standing Orders, the Code of Conduct for Officers, Declarations of Interests and Related Party Transactions.

The Senior Management requested that Internal Audit on their behalf to look at the internal controls in place for registering interests, with specific focus

regarding the management of contractors, especially where a relationship between the officer and the contractor may exist.

8.2 The scope of the audit was to examine and evaluate the procedures and controls established by management, to include:-

- a) Ensure that the expected governance is in place and is fit for purpose regarding links contained within the Officer's Code of Conduct, Declarations of Interest, and Related Party Transactions reporting arrangements.
- b) Determine what the oversight and compliance arrangements are, and establish if they are up to date and robust.
- c) For the case recently highlighted, test what was done, how this compared to what needed to be done, and identify the gaps in governance.
- d) Establish if declarations were made (including verbal less formal arrangements) who knew, confirm this had been authorised by a senior manager.
- e) Separately confirm, what it was the Senior Authorising Officer had been told and what it was they were authorising.
- f) Identify and evaluate any significant risks to the authority and give advice on any control improvements in a report to management.

8.3 The assurance for this review was split by EKAP, they stated that management could place Reasonable Assurance regarding the policies and procedures in place and could place Limited Assurance on the system of internal controls in operation around the Officer Interest process.

8.4 The primary findings arising from this review supporting the Reasonable Assurance are as follows:

- The Council has policies and procedures in place to provide guidance to officers who are involved in overseeing contractors.
- There are well defined procedures in place that require the officer to make a declaration in certain circumstances, and in particular if there is any relationship between them and a potential contractor for the Council.

8.5 The primary findings arising from this review supporting the Limited Assurance and where scope for improvement was identified in the following areas:

- The policies and procedures that are relevant to the declarations of interest and related party transactions require review to add clarification over the nature of the related party, i.e. individual's name or company name and actual relationship.
- The policies and procedures should be regularly reviewed and version controlled to show when the policy was updated and by whom.
- Officers should be regularly reminded of the policies and procedures and their responsibilities concerning interests and relationships with contractors.
- Any declarations made, should be checked and authorised by the officer's line management to ensure clarity (and any implications) of the declaration being made, in so doing, agreeing any additional controls if warranted.
- The declarations made should be reviewed at an appropriate interval, perhaps annually, to ensure that the declaration remains valid and if it is still

appropriate or requires updating, and to confirm if any additional agreed internal controls are adequate and effective.

- The purchase orders that are recorded on the Badger system should be reviewed to ensure that the details of the purchase order are recorded within the Transparency Data on the Council's website.
- The contractor should not bid for work managed by the same team as the related officer.
- The related officer should not authorise any purchase orders or invoices for the related contractor.
- Officers should be made aware of the pecuniary register of interests (Section 117) as any breach of these rules may be a criminal offence.

8.6 This audit identified fourteen recommendations, seven of which were classified as high priority. Further details on the key recommendations and actions can be found in section 10.

8.7 There was an associated HR disciplinary investigation related to this audit. This investigation is close to its conclusion at the time of writing this report. The Council has been unable to establish any evidence of fraud or otherwise due to the officer concerned being unable to co-operate with further questioning due to ill health. The employee has now left the employment of the Council.

9. CONTRACT MANAGEMENT – CONTROLS AND GOVERNANCE

9.1 Following the review commissioned on Housing Planned Maintenance, EKAP were asked by Senior Management to look at the broader contract management within the council and make related recommendations. This audit is covered in the EKAP update report also contained within this agenda pack.

9.2 The scope of this audit was:

- a) Check that the contracts /works have sufficient budget allocation prior to advertising / letting of the contract.
- b) Ensure that contracts are properly let via quotes or tenders, including advertising and award.
- c) Check that the contract if over £5,000 is recorded on the Council's contract register.
- d) Ensure that a purchase order is raised for the works to be completed and that this information is included in the publication of the Council's purchase order data on their website.
- e) Establish if contracts are managed following the processes and procedures set out in CSOs.
- f) Ascertain if there are regular meetings with the contractors to discuss issues and progress and that these recorded.
- g) Ensure that there are inspections of the works completed.
- h) Review a sample of contracts to ensure that the contracts are paid in line with the contract rates and that these payments are recorded in the payments to suppliers data on the Council's website.

- i) Ensure that contract claims for payments are properly reviewed and authorised, prior to payment.
- j) Establish if variations are properly documented and approved.
- k) Ascertain if there is regular budgetary control over contracts.
- l) Ensure that no further work is allocated after the expiry of the contract period.
- m) Review whether diary notes or similar are recorded to ensure that new contracts are set up and advertised in good time prior to the expiry of current ones, where this is required.
- n) Establish whether contract files are kept to hold all the contract documentation.
- o) Ascertain what information and training has been provided to officers with regard to contract management.
- p) Establish whether contract files are kept to hold all the contract documentation.
- q) Identify and evaluate any significant risks to the authority and give advice on any control improvements in a report to management.

9.3 A sample of contracts from across all directorates (with the exception of Housing Planned Maintenance) was tested.

9.4 Contract Standing Orders (CSOs) set out the minimum requirements to be followed by officers to procure works, supplies (goods) and services. Testing found a number of instances whereby officers are failing to comply with CSOs and therefore by definition are failing to achieve the standards required by the Council in terms of procurement. It should be noted that none of the CSOs tested have an impact on the transactions in the Financial Statements.

9.5 Effective control was identified in the following areas:

- For all of the contracts tested, sufficient budget was confirmed to be in place prior to the advertising of the procurement opportunity.
- The Council publishes details of purchase orders raised above £5,000 on its website.
- CSO 14.2 – On the whole, all contract variations and extensions are being properly documented and approved.
- All payments to suppliers were properly reviewed and authorised.

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

- CSO 7.4 (a) - From a sample of 15 suppliers tested, 4 were found to have not been advertised.
- CSO 7.4 - From a sample of 15 contracts, five (33%) contracts had an approved waiver in place which resulted in 3 (30%) of the remaining 10 having not obtained the required number of quotes or tenders as required by CSOs. Therefore 7 (70%) contracts had obtained the required number of quotes/tenders.
- CSO 3.4 – For a sample 15 contracts with a value of £10,000 a contract was in place for 9 (60%) suppliers.
- CSO 5.4(f) - For a sample of 15 suppliers with expenditure in excess of £5,000. 9 (60%) were found to have been listed on the Contracts Register.
- Meetings to formally review performance against the contract are taking place in 8 (53%) of the 15 contracts.

- 9.7 Separately to this audit, the procurement team in undertaking their regular checks identified a further issue with compliance on the CSO related to payments made to utility companies.
- 9.8 The resulting HR disciplinary investigation identified that the CSO's had been breached and two members of staff were subject to disciplinary action as a result. The investigation found that the works commissioned had been sub-contracts of a contract which had been subject to a full and compliant procurement process. However due to other factors, the related main contract had not been entered into, and therefore an alternative approach had been required for these time critical works.
- 9.9 The investigation found that the advice of the Section 151 Officer and Monitoring Officer had been sought, which advised that a waiver would be required, but this advice had not been followed.

10. ACTIONS TO ADDRESS THE ISSUES

- 10.1 Significant resource and the highest priority has been given to the matters covered in this report by all the statutory officers and the Corporate Leadership Team. The Chief Executive has agreed to utilise resources made available to her as Head of the Paid service to facilitate the additional compliancy work identified below. Each Audit report has its own recommendations and specific management actions which are being addressed as a matter of urgency. In addition the management reviews have identified a range of improvements that are being acted upon by the wider management team.
- 10.2 The key actions include:
- Detailed training for officers on the Council's Financial Procedure Rules and Contract Standing Orders (CSO)
 - Review of the CSO's to ensure the requirements contained within them are necessary and appropriate
 - Instructions to be issued to staff reminding them on:
 - the requirement to keep the Contracts Register up to date
 - the presumption on CSOs in favor of competition through the advertising of contracts and that waivers are utilized in exceptional circumstances
 - the requirement to properly plan with sufficient time for procurement processes to be undertaken fully
 - the requirement to undertake an accurate pre-estimate of work prior to tender
 - the need to involve the Procurement team at the commencement of the procurement planning process
 - the requirement to ensure contracts for work with suppliers in excess of £10,000 is covered by an approved and signed contract
 - the requirement to undertake regular contract monitoring and review meetings, with appropriate documentation retained for future record and to ensure actions can be followed through.

- The need to manage contracts within their terms and that all extensions and variations should be documented and approved, which must occur before the contract expiration
- The need to review the policies and explanatory notes which have a bearing on officer interests and ensure appropriate declarations are made
- A temporary compliance function to provide independent oversight to monitor and report to management on contract management within Housing, and to consider the expansion of procurement resource within the organisation
- The development and communication to all officers within the Housing Planned Maintenance team a procedure detailing the expectations for post inspections
- The development of robust procedures for management oversight of the work undertaken within the Housing Planned Maintenance team
- The review of the three policies which have a bearing on officer interests to ensure they are clear and expressly detail what is required by officers, the role & responsibility of those receiving & authorising the document, and the frequency for review, this review will include a review of the related forms, their requirements, the triggers for an update to forms to be clarified
- Clarification on the voluntary register of interests should be provided to staff
- Management will through the review of policies determine the frequency of future reviews, the delegation of responsibilities for future forms, the retention period for forms and a process established to prevent work being placed by a department or authorised by an individual where an associated declaration is made
- Undertake further work & associated training on the culture of the organisation, promoting behaviours and conduct, include appropriate steps for recruiting managers to take in setting expectations from the outset of appointment of staff.

11. CONCLUSION

11.1 It is proposed we update the Annual Governance Statement section 3.26 and the associated summary paragraph 7.1 to reflect that the audit work has now concluded. None of the work undertaken through EKAP, management review or HR investigations found evidence of transactions contained within the financial statements which were incorrect. There are therefore no transactions which require amendment in the 2020/21 or 2021/22 Statement of Accounts as a result of the issues identified. Through the work undertaken on contract management, disposal of white goods & felled trees and data leaks, no instances of fraud, corruption or suspected fraud were identified. With regards to the review of officer interests, the EKAP review did not identify any evidence of fraud.

11.2 It is proposed that the Annual Governance Statement is amended to:

“During the very latter stages of the 2021/22 year the senior team was made aware of issues within the Housing service area regarding contract management and potential breaches of the Contract Standing Orders. Both a disciplinary investigation and Internal Audit review were commissioned to identify the extent of the non-compliance and make recommendations for improvement of the control environment. [These reviews are now concluded and the recommendations and actions identified.](#) Further to those issues arising further matters relating to financial transactions within the Operations service area were identified and are [were](#) also subject to disciplinary and audit reviews. The Section 151 Officer has also commissioned an Internal Audit wider in scope exploring contract management across the Council. All bar one of these irregularities was identified through the Council’s own assurance and control procedures undertaken by its staff or EKAP. [In total six EKAP reviews were undertaken. Broadly they found that whilst some processes and procedures would benefit from reviewing and updating that the required framework was in place and effective. However, they also found that some teams were failing to follow due process when procuring goods and services. Compliance was varied across the Council, however it is recommended that all staff responsible for procuring are retrained and reminded of a number of key matters related to these activities. The reviews did not identify transactions within the financial statements that were not appropriate but they did identify poor contract management and related parties practice which needs to be addressed. A full report on all matters was tabled to the Audit & Governance committee in December 2022, drawing a conclusion the investigations and summarising the actions to improve the control environment and compliance with CSOs.”](#)

11.3 The Head of EKAP have also proposed to update their section in the 2021/22 Annual Governance Statement as outlined below in blue:

Internal Audit

The internal audit function for the Council is performed by the East Kent Audit Partnership (EKAP), which provides internal audit services to the councils of Canterbury, Dover, Folkestone and Thanet. As a result of this collaborative approach the partnership is able to provide a mechanism for promulgating best practice to the East Kent authorities that use its services. The East Kent Audit Partnership Internal Audit Team reports to the s.151 Officer, the Director – Corporate Services. They operate under a Charter, which defines their relationship with officers, and the Audit and Governance Committee. Through their audit assurance work, internal audit provides an opinion on the effectiveness of the systems of internal control. As part of the annual review of governance arrangements and in particular the system of internal control, the Council undertakes an annual review of the effectiveness of the system of internal audit.

Internal Audit has responsibility to:

- Report on the level of assurance in respect of the Council's internal control systems,
- Provide an overall independent annual Opinion from the Head of the Audit Partnership highlighting areas of concern. This is compiled from the Internal Audit work programme and a review of the Council's risk management and Corporate Governance arrangements.

The overall opinion of the System of Internal Controls in operation throughout 2021-22 based on the work of the East Kent Audit Partnership to 31st March 2022 is presented in their annual report to the Governance and Audit Committee in July.

- The internal auditors are independent to the management of the Council and have direct access to the Chair of the Audit and Governance Committee if required. They provide a regular update to the Committee at each of the quarterly meetings and may attend any special meetings that may be convened during the year.
- As at 31 March 2022 the Internal Auditors completed 342.42 days of review equating to 97.83% of planned completion.
- The EKAP undertakes a regular schedule of follow up audits to ensure that management have implemented the action plans arising from each audit. Members can see full details within the Internal Audit Annual Report 2021-22.
- The EKAP met as a team in March 2020 and considered the Public Sector Internal Audit Standards (PSIAS) Checklist for compliance. The results of this self-assessment showed that internal audit is currently working towards full compliance and has agreed an action plan to achieve this. The lack of an External Quality Assessment (EQA) against the PSIAS is hereby disclosed as non-conformance in this Annual Governance Statement. The four s.151 Officers acting as the EKAP Client Officer Group continue to be content to rely on the self-assessment process for the PSIAS and not commission an EQA.
- As part of EKAP's quality monitoring arrangements Members should be aware that following the completion of each audit, a satisfaction questionnaire is completed by the managers of the service that has been audited enabling the officers involved to comment on the conduct and outcome of the audit. This information is used, in part, to inform the self-assessment and continuous improvement.
- In the period April to September 2022 the EKAP has undertaken responsive work in a number of areas arising from different requests made by the s.151 Officer. All of these matters, briefed to determine the risks and identify any control improvements, have been concluded by the EKAP and the results of the work have been reported to the Audit & Governance Committee. The impact on the Audit Plan has been minimised due to the fact that the agreed risk based Audit Plan for 22-23 had provision for three ten day reviews regarding COS's, Contract Management and Planned Maintenance, the work on CSO Compliance and Contracts has been resourced from this provision, totalling 36.2 days. The balance (6.2 days) and the other three responsive reports regarding Corporate Leaks (3.05 days) Officer Interests (10.88 days) and Disposal of Logs and White Goods (6.86 Days) have been funded by deferring two 10 day reviews, in response to a management request as they were unable to accommodate the audit (for different reasons) and reducing one review to 5 days. The EKAP Quarterly Update Report provides full details on resource allocation and any amendments to the Audit Plan are agreed with members of the Audit & Governance Committee. The agreed management actions resulting from all planned and responsive work are followed up. If there are any Critical or High priority issues outstanding at the time of the progress report, they are reported and escalated to the Audit & Governance Committee via the Quarterly Update Report. Anything outstanding at the year-end is escalated in the EKAP Annual Report.

11.4 CLT have deployed a significant amount of work in understanding the scale of the issues during 2022, and in commencing the work to address the findings. CLT will continue to monitor the progress against actions

undertaken. Additional funding available to the Chief Executive is to be deployed to provide additional assurance and management oversight. In addition, the Organisational Development team will be supporting specialists in providing training to staff in addition to continuing work on the cultural piece related to compliance and behaviours. Management will continue to work on the actions identified and the outcome of progress against them will be reported to the committee through the future Progress Updates by EKAP.

12. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

12.1 Legal Officer's Comments (AK)

There are no legal issues arising from this report.

12.2 Finance Officer's Comments (CS)

There are no direct financial implications arising from the recommendations of this report.

12.3 Diversity and Equalities Implications (CS)

There are none arising directly from this report.

CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

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

None