



AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Wednesday, 17th September, 2008, at 10.00 am Ask for: **Andrew Tait**

Darent Room, Sessions House, County Hall, Maidstone Telephone

(01622) 694342

Tea/Coffee will be available 15 minutes before the start of the meeting

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

1. Membership: To note the appointment of Mr W A Hayton to the Committee
2. Substitutes
3. Declarations of Interest in items on the agenda for this meeting
4. Minutes - 30 June 2008 (Pages 1 - 4)
5. Dates of Meetings in 2009:
 - Wednesday, 4 March 2009
 - Tuesday, 30 June 2009
 - Wednesday, 16 September 2009
 - Tuesday, 1 December 2009.
6. Statement of Accounts 2007/08 (Pages 5 - 6)
7. Treasury Management Annual Review (Pages 7 - 14)
8. Debt Recovery (Pages 15 - 18)
9. Trading Activities Sub-Group Terms of Reference (Pages 19 - 26)
10. Internal Audit Progress Report (Pages 27 - 50)
11. Internal Audit Reporting - Irregularities (Pages 51 - 54)
12. Other items which the Chairman decides are urgent

EXEMPT ITEMS

(At the time of preparing the agenda there were no exempt items. During any such items which may arise the meeting is likely NOT to be open to the public)

Peter Sass
Head of Democratic Services and Local Leadership
(01622) 694002

Tuesday, 9 September 2008

Please note that any background documents referred to in the accompanying papers maybe inspected by arrangement with the officer responsible for preparing the relevant report.

KENT COUNTY COUNCIL

GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Monday, 30th June, 2008.

PRESENT: Mr C G Findlay (Chairman), Mr R L H Long, TD (Vice-Chairman), Mr D L Brazier, Mr A R Chell, Mrs T Dean, Mr C J Law, Mr J F London, Mrs M Newell, Mr W V Newman, DL, Mr R J Parry, Mr D Smyth, Mr M V Snelling and Mr R Tolputt.

ALSO PRESENT: Mr N J D Chard.

OFFICERS: Ms L McMullan (Director of Finance), Mr G Wild (Director of Law and Governance), Ms J Dawson (Head of Audit and Risk with Mrs J Armstrong and Mr S Rooney), Mr K Harlock (Commercial Services Director), Mrs S Garton (Head of Corporate Performance), Mr N Vickers (Head of Financial Services), Mr A Wood (Head of Financial Management with Mrs C Head), Mrs C Dodge (Corporate Access To Information Coordinator) and Mr A Tait (Democratic Services Officer).

ALSO IN ATTENDANCE: Mr D Wells, Mr G Brown and Mrs S Mead of the Audit Commission.

UNRESTRICTED ITEMS

12. Minutes - 5 March 2008
(Item 3)

RESOLVED that the Minutes of the meeting held on 5 March 2008 are correctly recorded and that they be signed by the Chairman.

13. Annual Audit and Inspection Letter
(Item 4 – Report by Director of Business Solutions and Policy)

RESOLVED that the report be noted.

14. Draft Head of Audit and Risk Annual Report
(Item 5 – Report by Head of Audit and Risk)

RESOLVED that approval be given to the draft Head of Audit and Risk Annual Report.

15. Draft Annual Governance Statement
(Item 6 – Report by Head of Audit and Risk)

RESOLVED that approval be given to the draft Annual Governance Statement.

16. Draft Statement of Accounts
(Item 7 – Report by Director of Finance)

(1) Mr A R Chell made a declaration of Personal Interest as the Governor of a Local Authority School.

(2) The Annual Governance Report had previously been circulated to the Committee as Appendix 2.

(3) RESOLVED that:-

- (a) approval be given to the draft Statement of Accounts for 2007-08 subject to the Chairman, Vice-Chairman, Labour and Liberal Democrat Group Spokesmen being informed of any changes which may be made to the Accounts following completion of the external audit;
- (b) the recommendations made in the Annual Governance Report be noted;
- (c) the proposed changes to the calculations of the Minimum Revenue Provision (MRP) be noted and that this be reviewed in September 2008; and
- (d) the draft Management Representation letter set out in Appendix 1 of the Annual Governance Report be amended by the inclusion of an explanation of the reasons for not amending the accounts in the manner suggested in paragraphs 19 and 20 of the Annual Governance Report.

17. Strategic Risk Register

(Item. 8 – report by Head of Audit and Risk)

RESOLVED that the revised strategic risk register be noted.

18. Ombudsman Complaints

(Item. 9- Report by Chief Executive)

(1) The Local Government Ombudsman's Annual Letter had previously been circulated to the Committee.

(2) RESOLVED that the report be noted.

19. Internal Audit Progress Report

(Item. 10 – Report by Head of Audit and Risk)

RESOLVED that the report be noted.

20. Internal Audit Reporting - Irregularities

(Item 11- Report by Head of Audit and Risk)

RESOLVED that the report be noted.

21. Review of Trading Activities within Commercial Services

(Item 12 – Report by Budget Informal Member Group)

Mr N J D Chard, the Cabinet Portfolio Holder for Finance was present for this item pursuant to Committee Procedure Rule 2.34 and responded to questions from Members of the Committee.

(1) Mr D Smyth, Chairman of the Budget Informal Member Group moved the recommendations set out in Page 12:1 of the report. These were agreed.

(2) RESOLVED that:-

- (a) the positive direction of travel for Commercial Services be formally welcomed and that the Director of Commercial Services, Mr Kevin Harlock be congratulated for the achievement of his service;
- (b) a Sub-Group of the Committee be set up to oversee the governance of the County Council's trading activities;
- (c) Commercial Services be encouraged to post accounts for medium sized companies as a gesture of greater openness about the County Council's trading activities;
- (d) the County Council's ability to support private companies (for example by offering its own preferential procurement arrangements to suppliers) within Kent be promoted; and
- (e) new business cases be considered by the Sub-Group of the Committee prior to being submitted to the relevant Cabinet Member for approval.

22. Audit and Inspection Plan

(Item 13 – Report by Audit Commission)

- (1) The report had been previously circulated to the Committee.
- (2) The Chairman declared this item to be urgent as the comments of the Committee would be key to achieving a successful audit programme and because it would be detrimental to the County Council's ability to gain maximum benefit from effective auditing if consideration were to be delayed until September 2008.
- (3) RESOLVED that approval be given to the Audit and Inspection Plan and Fee for 2008/09.

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By: The Director of Finance
To: Governance and Audit Committee – 17 September 2008
Subject: 2007/08 Final Accounts
Classification: Unrestricted

1. Annual Governance Report/ 2007- 08 Statement of Accounts

- 1.1 The Audit Commission issued their Annual Governance Report on the 2007/08 Statement of Accounts at the June Governance and Audit Committee. I am pleased to report that there were no significant changes after this date and therefore no further report will be issued. The Accounts were signed by the Audit Commission on the 28th July and were published in August.

Cath Head
Chief Accountant
Ext: 1135

Lynda McMullan
Director of Finance
Ext: 4550

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By: Director of Finance
 To: Governance and Audit Committee – 17 September 2008
 Subject: **TREASURY MANAGEMENT ANNUAL REVIEW**
 Classification: Unrestricted

Summary: To report on treasury management activity in 2007-08.

FOR INFORMATION

INTRODUCTION

1. The purpose of this report is to review the main aspects of treasury management activity during the year in accordance with the CIPFA Code of Practice on Treasury Management.
2. The events of the last year linked to the global credit crunch has reinforced the importance of sound treasury management practices which seek to protect the finances of the Council.

LONG TERM BORROWING

3. **Borrowing**

- (1) As at 31 March 2008 long term borrowing was £1,002m of which £53.3m is pre-LGR debt which we are managing on behalf of Medway Council.
- (2) In 2007-08 we undertook the following borrowing against a requirement of £80.4m within the treasury strategy in the medium term plan:

Date	Amount	Interest	Period of	Source	Type
	£m	Rate	Loan Years		
		%			
09/01/08	20	4.40	33.5	PWLB	Maturity
13/02/08	5	4.26	3.5	PWLB	Maturity
13/02/08	5	4.23	3	PWLB	Maturity
26/03/08	20	4.05	4.5	PWLB	Maturity
Total	50				

- (3) The first half of 2007-08 saw a rising trend in UK interest rates with the Official Bank Rate rising to 5.5% in May 2008 and 5.75% in July in response to the deteriorating inflation outlook.

- (4) The problems in the market started in late August as the tightening of credit conditions, triggered initially by the failure of a selection of US mortgage lending institutions, undermined investor confidence. LIBOR rates rose to well over 6.5% as financial organisations' reluctant to lend money to counterparties sparked a severe shortage of funds in the market. In the UK, the crisis came to a head with the failure of the Northern Rock Bank (September) and while the danger of insolvency was defused by the Government's decision to guarantee all deposits with this institution, this failed to prevent a prolonged tightening of credit conditions.
- (5) The credit crisis provoked a significant change in the Bank of England's assessment of UK economic prospects over the medium term. It was clearly concerned that the tightening of liquidity and the consequent rise in borrowing rates across the entire economy could lead to a rapid slowdown in activity. This would help to contain inflation pressures. Bank Rate was cut by 0.25% on two occasions, December and February, to end the year at 5.25%.
- (6) Long-term rates (gilt yields and PWLB rates) charted an erratic course. The upward pressure on rates in evidence in the closing stages of 2006/07 continued into the new year as concerns persisted that international interest would need to rise further to combat mounting inflation pressures.
- (7) Gilt yields peaked in late June and started to slip lower in the summer months. The flight to safe investments triggered by the financial crisis placed strong downward pressure upon gilt-edged yields in August / September notably at the short end of the maturity range and the rally in this part of the market gained momentum as the year drew on. Progress to lower levels was erratic and limited in the early months of 2008, but the general trend in yields was to lower levels.
- (8) In light of these volatile market conditions and the rising trend of interest rates for much of the year, we held off any borrowing until January 2008. In a marked change to our normal practice we took advantage comparatively low short term rates to borrow for 3, 3.5 and 4.5 years.
- (9) This borrowing was very well timed as is shown below:

	Jan 08	Feb 08	Feb 08	March 08
Rate borrowed	4.4%	4.26%	4.23%	4.05%
Rate August 2007	4.8%	5.65%	5.7%	5.7%
Rate August 2008	4.64%	4.93%	4.92%	4.91%

4. **Debt Restructuring**

- (1) It has been our policy in recent years to periodically restructure loans taking advantage of short term variations in PWLB rates. In April and August 2007 major exercises were undertaken (Appendix 1) which rescheduled £175m of loans making an annual saving of £1,029k.
- (2) Unfortunately, and without consultation, in November 2007 the Government Debt Management Office changed its structure of interest rates so that any repayment of PWLB debt will have a more penal rate applied. As such the cost of any PWLB repayments will be higher in the future. In effect this means that we will no longer, apart from exceptional circumstances, be able to reschedule debt. This has been a major source of savings for the council which is now denied to us. The LGA have taken this matter up with CLG but to no effect.

5. **Performance Summary**

Overall the average rate of interest paid in 2007-08 reduced from 5.77% to 5.69%.

INVESTMENTS

6. **Balances**

During 2007-08 the average balance increased to £325m compared with £308m in 2006-07 and £259m in 2005-06. Much of this increase was due to the Superannuation Fund Committee's decision in September 2007 to retain Cash and not allocate additional monies to investment managers given conditions in equity, bond and property markets. £121m of Superannuation Fund cash was held at 31 March 2008 and under the regulations we pay interest on these funds at the prevailing LIBID rate.

7. **Duration**

- (1) At the end of March 2007 we had £124m invested for over 364 days and at 31 March 2008 this had reduced to £112m (Appendix 2).
- (2) Since the DCLG changed the investment regulations we have taken advantage of the higher interest rates payable for longer duration investments and this has been a major factor in our relatively strong performance compared with other Councils in recent years. The impact of the credit crunch was to significantly increase short term rates because of the shortage of liquidity in the market. This meant that overall some of our long term investments were below rates which could have been achieved with short term money. Over the medium term we believe that investing for longer duration has been highly beneficial.

8. **Performance Summary**

The investment return achieved was 6.0681% compared against the 7 day LIBID benchmark return of 5.5862%. The outperformance against LIBID generated an additional £1.6m for the Council.

RISK

9. The Council has complied with all relevant statutory and regulatory requirements which limit the levels of risk associated with treasury management activities. In-particular in our adoption and implementation of the CIPFA Code of Practice and the Prudential Code we have ensured that capital expenditure is prudent, affordable and sustainable; and that treasury practices demonstrate a low risk approach.
10. In recent years much of our emphasis on treasury management has been to add value through decisions such as prudent debt restructuring and investing for longer duration. The failure of Northern Rock in the UK and Bear Stearns and a range of other significant US financial institutions has been a reminder of the need for prudence in our investments and the priority for maintenance of our principal sum over return. This has been a conscious decision of the Director of Finance and Cabinet Member for Finance, and an approach discussed with the Chairman of Governance & Audit Committee and endorsed by him.
11. In practice this meant the withdrawal of funds held with Northern Rock well before a critical stage was reached, and discontinuing use of Alliance & Leicester and Bradford & Bingley, again well before the full extent of the problems they had were widely known. There is no doubt that this has impacted on returns but our view was, and still is, that we will accept lower returns for more security.

CIPFA BENCHMARKING

12. KCC participates in the CIPFA benchmarking group for Treasury Management along with around 90 Councils in total. In recent years our investment returns have been relatively high compared with other Councils. The 2007-08 results are shown below:

	KCC %	Benchmark %	Variance %
Investments < 365 days	5.78	5.90	-0.12
Investments > 365 days	5.80	5.65	+0.15
Call Accounts	5.70	5.68	+0.02
Callable / Structured Products	5.83	5.54	+0.29
Combined In-House Investments	5.78	5.80	-0.02
Externally Managed Funds	-	5.43	-
Combined Investments	5.78	5.79	-0.01

13. The KCC performance slightly underperformed the average, by 0.01%, and this was due to underperformance on Investments under 365 days. This

underperformance has been thoroughly examined with Butlers, our Treasury advisers, and they believe it is due to our priority for security against return. As an example of this we discontinued the use of an Alliance & Leicester reserve account which consistently produced better returns than the funds we used.

RECOMMENDATION

14. Members are asked to note this report

Nick Vickers
Head of Financial Services
☎ 01622 694603

Debt Restructuring

DATE	AMOUNT £	INTEREST RATE %	REMAINING PERIOD OF LOAN YEARS	MATURITY DATE	ANNUAL SAVING	SOURCE	TYPE
Old Loans							
23/04/07	11,736,282.46	9.125	6.80	10/02/2014	350,406.48	PWLB	Maturity
23/04/07	5,000,000	4.875	16.55	10/11/2023	17,202.93	PWLB	Maturity
23/04/07	5,000,000	4.875	17.55	10/11/2024	17,249.79	PWLB	Maturity
23/04/07	3,750,000	4.875	19.05	10/05/2026	13,312.30	PWLM	Maturity
23/04/07	1,250,000	4.875	19.05	10/05/2026	4,437.43	PWLB	Maturity
23/04/07	5,000,000	4.75	20.55	10/11/2027	13,226.83	PWLB	Maturity
23/04/07	10,000,000	4.875	21.05	10/05/2028	25,246.82	PWLB	Maturity
23/04/07	20,000,000	4.85	23.30	10/08/2030	51,628.02	PWLB	Maturity
23/04/07	10,000,000	4.75	24.80	10/02/2032	27,817.68	PWLB	Maturity
23/04/07	14,000,000	4.85	24.80	10/02/2032	36,314.92	PWLB	Maturity
23/04/07	17,000,000	4.7	23.05	10/05/2030	66,824.15	PWLB	Maturity
23/04/07	10,000,000	4.7	24.05	10/05/2031	39,752.95	PWLB	Maturity
23/04/07	4,000,000	4.625	21.55	10/11/2028	15,056.74	PWLB	Maturity
23/04/07	7,000,000	4.625	23.55	10/11/2030	27,232.72	PWLB	Maturity
23/04/07	20,000,000	4.7	22.30	10/08/2029	77,280.31	PWLB	Maturity
10/08/07	20,000,000	4.7	24.75	10/05/2032	82,185	PWLB	Maturity
10/08/07	6,264,500	4.625	19.75	10/05/2027	31,785	PWLB	Maturity
10/08/07	3,020,025.31	9.125	6.51	10/2/2014	84,700	PWLB	Maturity
10/08/07	1,813,489.76	9	7	10/08/2014	47,289	PWLB	Maturity
TOTAL	174,834,297.53						
New Loans							
23/04/07	21,500,000	4.65	30.5	10/05/2037		PWLB	Maturity
23/04/07	31,000,000	4.65	31.5	10/05/2038		PWLB	Maturity
23/04/07	25,500,000	4.65	32.5	10/05/2039		PWLB	Maturity
23/04/07	30,600,000	4.5	56	23/04/2063		Barclays	LOBO
23/04/07	35,500,000	4.5	60	23/04/2067		Barclays	LOBO
10/08/07	31,000,000	4.65	36.5	10/11/2043		PWLB	Maturity
TOTAL	175,100,000						

APPENDIX 2

Longer Term Investments

Counterparty	Principal Amount £	Start Date	End date	Interest Rate %	Call Options
HSBC	5,000,000	18/07/05	16/07/10	5.30	6 monthly
HSBC	5,000,000	04/08/05	04/08/10	5.35	6 monthly
Toronto Dominion Bank	4,000,000	05/08/05	05/08/10	5.37	6 monthly
HSBC	5,000,000	05/09/05	07/09/09	4.95	6 monthly
Toronto Dominion Bank	5,000,000	25/10/05	27/10/08	5.05	6 monthly
National Australia Bank	4,000,000	12/12/05	14/12/09	5.25	6 monthly
HSBC	5,000,000	19/01/06	19/01/10	5.13	6 monthly
Citibank NA	5,000,000	04/04/06	06/04/10	5.33	6 monthly
Newcastle Building Society	5,000,000	12/04/06	14/04/09	5.18	None
Coventry Building Society	5,000,000	03/05/06	05/05/09	5.43	None
EBS Building Society	5,000,000	18/05/06	18/05/11	6.02	6 monthly
HSBC	5,000,000	03/07/06	01/07/11	5.52	Annual call, annual interest
HBOS	5,000,000	18/08/06	18/08/11	5.40	Annual – interest rate increases if not exercised.
HSBC	5,000,000	06/10/06	06/10/09	5.62	1 st year fixed then 6 monthly options
HSBC	5,000,000	06/12/06	06/12/09	6.17	Tied to 6 month LIBOR within 0 - 6.25% else 0% interest
National Australia Bank	5,000,000	05/03/07	07/03/11	5.85	Quarterly
National Australia Bank	6,000,000	15/03/07	15/03/11	6.26	Quarterly
HSBC	5,000,000	08/06/07	08/06/12	6.33	6 monthly
Lloyds TSB	5,000,000	19/07/07	19/07/12	7.32	Fixed for 2 years then semi-annual
Chelsea BS	5,000,000	06/08/07	06/08/10	6.25	None
Chelsea BS	5,000,000	06/08/07	06/08/10	6.25	None
National Australia Bank	2,000,000	06/08/07	08/08/11	6.97	First year fixed then semi-annual calls

National Australia Bank	5,000,000	22/10/07	22/10/12	6.73	Fixed for 1st year then 6 monthly call options for borrower
Dunfermline BS	5,000,000	07/11/07	09/11/09	6.526	No calls. Interest at 3m LIBOR + 25bps. Reviewed quarterly and interest matched
Dexia Bank	5,000,000	07/12/07	07/12/12	6.43	Fixed for 2 years then 6 monthly borrower call options for remaining 3 years
JP Morgan Chase	5,000,000	06/02/08	06/02/12	5.6	Fixed first year then quarterly call options. All interest at maturity.
Dexia Bank	5,000,000	15/02/08	15/02/13	6.0	Fixed first 2 years then semi-annual calls. All interest at maturity
Dexia Bank	5,000,000	17/03/08	16/03/12	6.05	First year fixed then semi-annual call options. All interest at maturity.

By: Director of Finance
To: Governance & Audit Committee – 17 September 2008
Subject: **DEBT RECOVERY**
Classification: Unrestricted

Summary: To report on the Council's debt position

FOR INFORMATION

INTRODUCTION

1. The purpose of this report is to provide the Governance and Audit Committee with a summary of the Council's outstanding debt position i.e. amounts owed to the Council.
2. The report will be issued on a six-monthly basis and will provide a comparative of the current outstanding debt levels with that of the previous year.

DEBT MANAGEMENT POLICY

3. A council wide debt management policy was introduced in April 2004 and was agreed by the Chief Officers Group (COG). The policy was revised in November 2006. The objective of the policy is to set best practice with consistent and effective processes for the maximisation of income and the management of the Council's debt.
4. Given the nature of their debt, Kent Adult Social Services (KASS) have implemented their own debt management policy. This has been effective from 1 December 2007.
5. KASS are looking at ways to improve their long term debt position and have recently established a working group chaired by a Director to review their debt strategy. There are attendees from Legal Services, Chief Executive Finance, KASS Finance and Care Management.

MANAGEMENT SUMMARY

6. The overall outstanding debt position as at 31 July 2008 is £31,554,454.
7. For the purposes of this report the sundry debt aged zero days or less and the KASS social care debt aged zero to four weeks (totalling £13,161,501) has been excluded as it is deemed not yet due for payment. This means that the tables below are based on the outstanding debt of £18,392,953.

8. Throughout this report Chief Executive (CED) will include the old Corporate debt, CFE will include the old Education debt, KASS will include the old Social Services debt and E&R will include the old Strategic Planning debt. We are unable to retrospectively amend our financial system to reflect the new directorate structure. Please also note that the debt reporting is calculated from the invoice due date and not the invoice date
9. The following table is an analysis of the summary position for 31 July 2008 in comparison to 31 July 2007. The figures are inclusive of secured debt and are a snap-shot of the debt position at that time.

Directorate	Outstanding Debt 31/07/08	Outstanding Debt 31/07/07	% Change	1-60 Days 31/07/08	1-60 Days 31/07/07	% Change	Over 6 Months 31/07/08	Over 6 Months 31/07/07	% Change
CED	277,805	3,709,668	-92	97,609	3,597,371	-97	36,883	24,437	+50
CFE	2,245,143	1,029,441	+118	985,584	380,213	+159	257,960	386,219	-33
KASS	12,219,189	10,265,702	+19	2,475,963	1,411,676	+75	6,185,330	6,516,777	-5
E&R	3,384,456	1,723,709	+96	3,028,096	599,394	+405	241,727	584,721	-58
Communities	266,360	398,030	-33	210,220	299,571	-29	11,737	7,733	+51
Total	18,392,953	17,126,550	+7	6,797,472	6,288,225	+8	6,733,637	7,519,887	-10

In the last year the outstanding debt has increased by 7% and the debt levels over 6 months of age has reduced by 10%. We are looking into the reasons for the increase in the short term debt and in particular if it is related to the current economic circumstances and may presage problems in recovery.

10. The table below details the number of transactions raised and their value for the year ending 31 July 2008 in comparison to the year ending 31 July 2007.

Type of Debt	No. of Transactions - period ending 31/07/08	Value of Transactions (Invoices raised less Credit Memos raised) – period ending 31/07/08	No. of Transactions - period ending 31/07/07	Value of Transactions (Invoices raised less Credit Memos raised) – period ending 31/07/07
Sundry Debt	34,339	£164,510,187	34,612	£127,451,123
Social Care	166,712	£55,116,087	175,679	£53,918,413

11. The above table demonstrates that whilst the number of transactions has reduced within the last year, the value of invoices raised has increased by £38,256,738, representing 21%.

SECURED DEBT

12. Legislation permits the Council to secure debts by obtaining a legal charge against an individual's property, having a legal charge in place does protect the Council's position, however, in the majority of cases it is some considerable time before the legal charge is redeemed and the outstanding debt is repaid. This usually occurs after a service user is deceased.
13. The table below details our secured debt position as at 31 July 2008 in comparison to 31 July 2007.

Period	Secured Amount	Period	Secured Amount
31/07/08	3,425,571	31/07/07	3,360,422

14. This means that 18% of the Council's outstanding debt at 31 July 2008 is secured.

DEBT RECOVERY PERFORMANCE INDICATORS

15. There are two corporate performance indicators that the Debt Recovery team aims to achieve. The performance indicators are based on a percentage of the total outstanding debt rather than on the value of the outstanding debt. This provides a more meaningful indication of how effective debt recovery action, by the team, is.

- (1) Total outstanding debt less than 60 days old – target 65% or more.
- (2) Total outstanding debt over 6 months old – target 20% or less.

The percentage excludes secured debt.

16. The performance outcomes for 31 July 2008 in comparison to 31 July 2007 are as follows.

Period	Under 60 Days Old	Over 6 Months Old
31/07/07	70%	20%
31/07/08	71%	14%

17. This means that on 31 July 2008 both targets were achieved.

IMPROVEMENTS

18. The Exchequer Services team strives for continuous improvement and seeks best practice. Listed below are two areas of working currently being explored, which we anticipated will deliver a range of benefits.

19. ***Enterprise Interface***

- (1) Income relating to the rental of property, owned by KCC, is currently charged through the Oracle Accounts Receivable system. The process involves the manual completion of paperwork, involving a number of individuals within various directorate units, to enable the Debt Recovery team to set-up regular charges through the Oracle system. A potential solution to improve the efficiency of charging has been identified. The source data for KCC properties is held on the Property Group's database (called Enterprise) and with some work has the possibility to streamline the process by creating an electronic interface directly into Oracle that will generate the charges.
- (2) The benefits of the interface will reduce the labour intensity currently involved and generate more accurate and timely charges of rental income.

20. **AR Invoice Wizard/AR Receipts Wizard**

- (1) AR Invoice Wizard and AR Receipts Wizard are products that allow an upload of invoice transactions and income receipts, directly from an Excel spreadsheet, to Oracle Receivables. Some potential benefits are;
- transaction data can be entered into an Excel spreadsheet without having to login to the live Oracle system.
 - potential for increased home-working.
 - as the product uses Excel format, the data input does not require the specialist skills needed for input directly to Oracle.
 - potential for devolved input without increasing existing staff workloads. It will take no longer than the current process whereby staff complete invoice requests and send them to Debt Recovery for input.
 - there is an option for staff to email their completed spreadsheet to Exchequer Services for upload directly into Oracle, thus maintaining control.
 - ideal for regular charges and repeated customer transactions.
 - migration of the general bank account reconciliation, of income received, recorded directly onto Oracle Accounts Receivable as opposed to manual data entry into Oracle General Ledger.
- (2) Exchequer Services along with ISG Oracle Business Services are in the process of obtaining a temporary licence so that the products can be tested and evaluated in the development environment.

RECOMMENDATION

21. Members are asked to note this report

Terri-anne McPherson
Principal Debt Recovery Officer
Ext: 7000 4151

By: Director of Finance
To: Governance and Audit Committee - 17 September 2008
Subject: **TRADING ACTIVITIES SUB-GROUP TERMS OF REFERENCE**
Classification: Unrestricted

Summary: To propose terms of reference for the Trading Activities Sub-Group

FOR DECISION

INTRODUCTION

1. At its meeting on 30 June the Committee received a comprehensive report in trading activities within Commercial Services. One of the decisions taken was that a sub-group of Governance & Audit Committee should be created with a remit around trading activities across the Council.
2. This report proposes the terms of reference for the group, its composition and frequency of meeting. These have been considered by the Chairman, Vice Chairman, Labour Spokesman and a representative of the Liberal Democrat Spokesman at a meeting on 28 August.

TERMS OF REFERENCE

3. Draft terms of reference are attached in Appendix 1.
4. At the 28 August meeting the view was that the group should formally consist only of the three County Councillors. Officers from across the Council, the District Auditor and representatives of the local business community would be invited to attend as appropriate.
5. Also attached in Appendix 2 is a summary of all trading income across the Council which has been prepared with the service directorates and the Chief Executive's Department.
6. To support these new arrangements the Finance Strategy Board will have operational responsibility for:
 - (1) Ensure that services which need to be are set up as trading accounts or companies.
 - (2) Establish charging policies to comply with legislation and guidance e.g. BVACOP.
 - (3) Ensure the consistent use of that charging methodologies.

- (4) Report on trading activities as appropriate e.g. Governance & Audit Sub-group, Policy Overview Committees.
- (5) Ensure that directorates have clear charging policies which are subject to regular review.
- (6) Ensure that processes are in place to identify opportunities for maximizing income.

RECOMMENDATION

- 6. Members are asked to agree the terms of reference.

Lynda McMullan
Director of Finance
☎ 01622 694550

Governance & Audit Committee

Trading Activities Sub-Group

Terms of Reference

Objectives

1. Monitor the financial performance and reporting of all trading accounts and all limited companies owned in whole or in part or controlled by KCC.
2. Receive the annual business plans and annual financial accounts of any KCC limited companies.
3. Oversee the establishment of new limited companies through examination of the business case before the company commences trading and make recommendations to the appropriate Cabinet Member.
4. Monitor trading and commercial activities being undertaken by the Council to ensure that they have the right structure.
5. Monitor adherence to the appropriate legal, regulatory and accounting frameworks governing local authority trading activities.

Membership

- 1 Conservative, 1 Labour, 1 Liberal Democrat member of Governance & Audit Committee.

Frequency

Twice each year

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Service	Activity	Trading Income 2007-08				Comments
		External	Internal	Ext & Int mix	Total	
		£'000	£'000	£'000	£'000	
Children, Families, Health & Education						
Finance	Finance support provided to KCC schools.		734		734	
Finance	Finance support provided to Medway & independent schools	81			81	
Advisory Service Kent	Selling training courses to schools		300		300	
Management Information	Selling training courses to schools		50		50	
School Advisory Services	Governor training & improving together network		333		333	
School Organisation	Clerking agency - KCC schools		61		61	Also available to non-KCC schools (Medway & independent). £50 income from these schools in 2007/08.
		81	1,477	0	1,558	
Kent Adult Social Services						
Kent Home Care Service	Provision of care services to people in their own homes - includes Older People and Physical Disability clients.		6,335		6,335	KHCS currently in state of transition - the two Adult Services areas moving towards both commissioning & provision of services - rather than provision being managed through HQ. New internal trading arrangements will be reviewed by SMT due to commissioner & provider responsibilities falling under responsibility of each Area Director.
		0	6,335	0	6,335	
Environment & Regeneration						
Country Parks	Income from country parks: café, shops, visitor centres & education centres.			641	641	£32,171 comes from KCC school park visits and £11,750 comes from Medway & Independent school park visits.
Heritage	Archaeological work carried out - income from Districts & Medway	109			109	
	Archaeological work carried out - income from Education		10		10	
	Archaeological work carried out - income from KHS		3		3	
	Farm Env Plans (£75 charged per plan)	2			2	
	Officer time for providing information (£65 per job)	10			10	
		121	13	641	774	

Service	Activity	Trading Income 2007-08				Comments
		External	Internal	Ext & Int mix	Total	
		£'000	£'000	£'000	£'000	
Communities						
Adult Education	Fees paid to attend courses. The fee covers tuition costs and exam fees where applicable. Most courses are subsidised by LSC grants. Some courses are 100% funded so are free, but for premium courses students pay the full cost with no subsidy.	2,700			2,700	
Adult Education	Sales and premises lettings	100			100	
Library and Archives	Loans for AV materials in libraries	574			574	
Library and Archives	Merchandising of stamps, greeting cards, books, etc. through libraries and archive centres	128			128	
Youth Service	Outdoor education centres. The youth service operates 4 outdoor education centres which fully recover costs through charges to individual young people and groups			1,225	1,225	
Registration Service	Registration. A range of fees are charged for different services. Some are statutory fees set by the General Register Office (so not trading). Others are discretionary fees for additional ceremonial and other services.	2,450			2,450	Currently fees are not split, but work to be done with the service in 2008/9 to split out costs and income, moving towards full cost recovery (and possibly profit) from the discretionary ceremonial activities. Not all this income relates to trading activities.
Kent Scientific Services	Provision of calibration and analytical services for other local authorities	670	950		1,620	Internal element with Trading Standards, the rest external.
Trading Standards	Business advice and testing, fees to register into Buy with Confidence scheme	157			157	
KEY Training	Fees charged to individual learners towards exam fees			558	558	Internal element for apprentice scheme, the rest external.
		6,779	950	1,783	9,512	

Service	Activity	Trading Income 2007-08				Comments
		External	Internal	Ext & Int mix	Total	
		£'000	£'000	£'000	£'000	
Chief Executive's Department						
Property	Oakwood House- external income	1,071			1,071	
Property	Oakwood House- internal income		835		835	
Property	Classcare (insurance) for schools.		1,253		1,253	
ISG	EIS provides ICT support to schools and community projects by offering a full range of services to meet the need of customers to use ICT effectively in the classroom for the curriculum, or in the office for management and school administration.		18		18	
Personnel & Development - Schools Personnel Service	Personnel advice and support delivered through a range of "packages" designed to respond most effectively to the needs of the customer. Customers purchase services on an annual basis at a rate dependant on the number of staff they employ.		1,882		1,882	
	Customers might also choose to purchase additional personnel support over and above what is offered in their packages on an ad-hoc basis.		102		102	
	SPS undertakes CRB checks for schools on both a retrospective and new staff basis and this is on-going through out the year.		15		15	
	Delivery of specialist training and workshops to schools and other educational establishments around a varied range of relevant and timely topics.		52		52	
Legal Services	External income from: KCC & non-KCC Schools, other LAs, Police & Fire authorities, the Probation Service, and the Super Fund third party.	911			911	
Legal Services	Income from legal services provision internal to KCC.		4,228		4,228	
		1,981	8,385	0	10,367	
TOTAL EXCLUDING COMMERCIAL SERVICES		8,962	17,160	2,424	28,546	

		Trading Income 2007-08				
Service	Activity	External	Internal	Ext & Int mix	Total	Comments
		£'000	£'000	£'000	£'000	
Commercial Services - Existing Trading Operations						
Kent County Supplies	Provision of educational and office supplies and furniture assembly				38,130	
Technical Services	Maintenance of audio-visual, computer, portable, fire fighting, gymnastic and general electric equipment.				1,202	
Community Equipment Services	Procurement and distribution of living aids equipment				2,624	
County Print	Graphic design and general printing				2,670	
Transport Services	Provision of lease cars, minibuses, ambulances and lorries, plus vehicle maintenance and repairs				16,078	
Passenger Services	Provider of bus services, including school transport				3,548	
Transport Integration	Specifying and control of transport for Education and Social Services				7,957	
LASER	Energy purchasing consortium				195,344	
Landscape Services	Grounds maintenance including constructing work				10,178	
Commercial Services - Existing Limited Companies						
Kent Top Temps Ltd	Includes Kent Top Temps and Kent Top Travel				7,229	
Kent County Facilities Ltd	Part year only as established in the trading year.				136	
					285,095	
TOTAL INCOME/TURNOVER					313,642	

By: The Head of Audit & Risk
To: Governance and Audit Committee – 17 September 2008
Subject: INTERNAL AUDIT PROGRESS REPORT
Classification: Unrestricted

Summary: This report summarises the outcomes of Internal Audit activity.

FOR INFORMATION AND DECISION

INTRODUCTION

1. This report contains the outcome of Internal Audit's work completed during May, June and July 2008. Assurances are provided in accordance with the definitions of Internal Audit assurance levels shown in Annexe H.

Nine audits were completed in this period, which are listed in the table below together with a brief description of the audit.

IRREGULARITIES

2. Since the end of May three cases of suspected irregularity have been reported, each involving either KCC finances or business processes. Irregularity investigations that have concluded are shown at annex x.

PROGRESS REPORT

5. The format is as follows:
 - The Internal Audit Plan showing the planned start, actual start, progress for each audit and audit assurance. This will enable Members to review Internal Audit's progress against the plan. Annex A
 - Other work carried out, for example pro active fraud work, National Fraud Initiative, fraud awareness training provided, advisory work. Annex B
 - Internal Audit consultancy work to drive continuous improvement – None to report
 - Summaries of reports for all completed audits. Annex C
 - Summaries of audits where control has been assessed as minimal, None to report.

- The directorates' progress against the implementation of recommendations made and agreed - Annex D
- Internal Audit's performance against its Performance Indicators - Annex E
- Information about how and where Internal Audit's time has been spent - Annex F
- Definitions of Internal Audit's Assurance Levels – Annex G

Other Matters – Annex H

- Governance and Audit Committee Self Assessment Questionnaire
- Change in Internal Audit Team

Recommendation

6. Members are asked to note this report.

Janet Dawson
Head of Audit & Risk
Ext: 4614
Xx September 2008

Progress Against 2008-09 Audit Plan quarters 1 and 2

Annex A

Ref	Audit	Description	Planned Start	Audit in progress	Draft Report issued	Final Report Issued	Audit Assurance	Comments
07/08	Overtime Payments	To provide assurance that overtime payments are appropriately authorised and paid accurately and promptly	Q1	24 April 2008	23 May 2008			Brought forward form 07/08 plan
07/08	WAMS financial management	An audit of financial controls within the KHS procurement and ordering system (WAMS)	Q1	1 April 2008	15 May 2008			Brought forward form 07/08 plan
AW05	Access to Information	A review of controls in place to ensure council wide compliance with access to information legislation, including freedom of information and environmental regulation requests.	Q1	6 May 2008	19 Aug 08			
AW03	Governance of individual partnerships	Work to build on audit undertaken in 2007/08. Focus to include, follow up on progress made against previously agreed management actions. Assess level of compliance with policies and procedures in a sample of major/significant partnerships.	Q2	7 July 2008				
AW04	Contract monitoring and tendering process	Review of tendering procedures and contract monitoring. Scope to include, processes for tender evaluation and selection of suppliers, review of processes to manage key contracts, quality assurance	Q2/3					Terms of Reference issued, start date to be agreed

Progress Against 2008-09 Audit Plan quarters 1 and 2

Annex A

Ref	Audit	Description	Planned Start	Audit in progress	Draft Report issued	Final Report Issued	Audit Assurance	Comments
		of suppliers processes. The individual contracts that are reviewed will include Building Schools for the Future (BSF) and Highways contracts.						
AW09	Business Continuity Planning	A review of Business Continuity Planning and Disaster Recovery arrangements.	Q2/3					This review will take the place of (CED06) the Property Management System Security audit. Terms of Reference agreed.
AW10	ICT Risk Assessment	To map risks and controls in the ICT environment	Q2/3					Terms of Reference agreed meetings being arranged with the Directorates to identify appropriate contacts for each IT system.
S01	Year End Accounting	Assurance that income and payments are accounted for in the correct financial year.	Q1	7 April 2008	9 May 2008	22 July 08	Substantial	
S03	Local Area Agreement Certification	Annual review to validate the completeness and accuracy of LAA spend.	Q1	21 May 2008		June 08	n/a	Review to validate the completeness and accuracy of LAA spend
S09	Insurance Fund	A review to provide assurance on the adequacy, efficiency and effectiveness of controls operating to mitigate the risks within the operation of the Insurance Fund.	Q1	16 June 2008	20 Aug 08			
S05	Accounts Payable	A review to provide assurance that accurate timely payments are made which are only to bone fide	Q2	28 July 08				

Progress Against 2008-09 Audit Plan quarters 1 and 2

Annex A

Ref	Audit	Description	Planned Start	Audit in progress	Draft Report issued	Final Report Issued	Audit Assurance	Comments
		creditors for goods and services received by the Council.						
S10	Revenue Budget Monitoring	Directorate revenue budget monitoring in KASS. To provide assurance that revenue budgets are well controlled.	Q2	28 August 08				<i>This audit to start in Q2 rather than Q3 as originally planned</i>
CED04	Kent Public Service Network (KPSN) Project Part 2	A review to assess the project management processes and procedures in place to manage system development activities to ensure the successful delivery of the new KPSN.	Q2	30 July 08				
CED08	Members Code of Conduct – Locally Managed Framework	A review against the Standards Board checklist for the implementation of the locally managed framework of compliance with the Members Code of Conduct. Timing of this audit will depend on receipt of government regulations and SBE guidance.	Q1	Not yet started				<i>Audit delayed as timing depends on receipt and implementation of government regulations and SBE guidance. Likely to take place in Q4</i>
CED09	Rebate Income	A review of the process to ensure that all rebate income due has been correctly identified, collected and accounted for.	Q1	23 June 2008	11 Aug 08			
CFE01	Allocation of Cluster Funding	An audit of the processes in a sample of Clusters to provide assurance that the funding allocated to the Clusters is spent by them following an appropriate	Q1	1 May 2008	9 July 08			

Progress Against 2008-09 Audit Plan quarters 1 and 2

Annex A

Ref	Audit	Description	Planned Start	Audit in progress	Draft Report issued	Final Report Issued	Audit Assurance	Comments
		bidding and evaluation process linked to objectives and that records are maintained to enable management to monitor the expenditure and evaluate the results.						
CFE02	Family Group Conferencing	Assurance that controls achieve compliance with referral policy and that funding is adequate to provide accreditation training.	Q1	21 April 2008	17 July 08	7 Aug 08	Substantial	
CFE03	School Funding	A review of how funding for schools is determined and how it is distributed to meet the objective. Support the raising of educational achievement by ensuring that funding is allocated to support national and local initiatives allowing schools to focus on their responsibilities in the knowledge that all strategic support functions are similarly focused.	Q2	18 June 08				
CFE04	School Meals	<i>Review of the support to schools to assist with the falling meal uptake rates which is presenting a risk to the meals subsidy.</i>	Q2					<i>Audit has been substituted for work carried out to assist directorate with various issues in relation to schools.</i>
CFE05	Student Awards	In preparation for the transfer of the student awards to the Student Loan Company a	Q2					Terms of Reference agreed, audit to commence in September.

Progress Against 2008-09 Audit Plan quarters 1 and 2

Annex A

Ref	Audit	Description	Planned Start	Audit in progress	Draft Report issued	Final Report Issued	Audit Assurance	Comments
		review of the adequacy of the transition plan.						
CFE09	Children Resource Centre Network	Assess whether are adequate project management arrangements in place for the delivery of the new Children Resource Centre Network.	Q2	22 Aug 08				
CMY01	Adult Education Budget Management	<i>To provide assurance that budgets are set effectively with a clear link with spending and income sources. Variations are managed effectively (in particular when courses are running at a surplus or deficit). This will be a joint piece of work by Internal Audit and Communities Directorate staff, timed to inform the directorate budget planning process.</i>	Q1	Not yet started				<i>Audit Owner has requested that this audit is substituted by CMY06 Use of Coroners' imprest accounts.</i>
CMY02	CRB checks for volunteers	A follow up on the findings of a 2007/08 audit, which gave minimal assurance that volunteers working with clients are appropriately checked.	Q2					Terms of Reference agreed, work to take place during September and October
CMY05	Tribal EBS System	Review of operational, support and maintenance procedures system security and data integrity controls	Q2					<i>Directorate have requested delaying start to later in the year.</i>

Progress Against 2008-09 Audit Plan quarters 1 and 2

Annex A

Ref	Audit	Description	Planned Start	Audit in progress	Draft Report issued	Final Report Issued	Audit Assurance	Comments
CMY06	Use of Coroners' imprest accounts	To ensure payments made through the imprest account are properly authorised and appropriate.	Q2					This audit replaces (CMY01) Adult Education Budget Management
KASS01	Capital Projects	To examine the planning of capital projects, contracts/estimates and how these are drawn up and the corresponding governance arrangements (i.e. is the authority clearly set out and understood by all parties).	Q1	Not yet started				Revised ToR issued, audit to take place in Q3.
KASS02	Public Involvement	Focus on the process to continually seek improvement in the methods used to engage the public and service users.	Q2	1 July 08	5 Sept 08			
KASS03	Financial Assessments	Evaluation for the system for undertaking financial assessments of clients and the role of the specialist finance teams.	Q2					Terms of Reference agreed work due to commence in September/October
KASS05	Care Management Process	A follow up to the interim review that took place in 2007/08. A comprehensive audit to include eligibility assessment through to the delivery of care. Work to include progress against recommendations raised in interim report.	Q3	11 Aug 08				Audit commenced in Q2 at request of Directorate

Progress Against 2008-09 Audit Plan quarters 1 and 2

Annex A

Ref	Audit	Description	Planned Start	Audit in progress	Draft Report issued	Final Report Issued	Audit Assurance	Comments
ER01	Health and Safety	Review of the Councils mechanism for ensuring compliance with Health and Safety Legislation for Public Rights of Ways and Country Parks.	Q1	5 June 2008	12 Aug 08			
ER02	Kent Thameside	Review of how the engagement strategy is being applied in practice for the Kent Thameside project. Review also to assess the adequacy and effectiveness of the reporting and governance arrangements for the projects.	Q2	27 Aug 08				Directorate have requested that this audit is deferred until Q3
ER03	KHS Restructure	Review to focus on the adequacy of the governance arrangements in place following the restructure.	Q2					Terms of Reference issued audit due to commence in September.
ER05	Household Waste Recycling Contracts	Evaluation of the control environment of the recently re-let contracts. Scope to include contract management and monitoring. Adequacy of the KPIs of quality of service. Ensuring that the Council is getting VFM from the service.	Q2					Terms of Reference agreed audit due to commence September/October.
ER10	Kent Downs AONB	Audit of financial controls	Q2/3					Audit to take place September/October at request of directorate in advance of inspection

Audits highlighted in bold indicate completed audits

Audits in italics indicates changes to the original plan

National Fraud Initiative

- Preparation of letters to pensioners advising of data matching exercise as part of the National Fraud Initiative and responding to queries.

Advisory Work

- Joint working with CFE with regards a school with a potential deficit budget. Attendance at various working groups/forums, including, Procurement Forum; ICT Operations Board, Client Billing Group, Self Directed Support
- Audit of Classcare Accounts
- Management review to assist with the closedown of the 2007/08 accounts.

Irregularities

- Working on a number of investigations. (See also the Irregularity report on concluded investigations).

Pro Active Fraud Work

- As part of Internal Audit's programme of pro active fraud work, fraud awareness training delivered to KASS and Communities teams during this period.

KASS - Health Debts

Scope

The objective of this audit was to ensure that debts raised for Health (ie Primary Care Trusts - PCTs) are managed appropriately. In particular to ensure that invoices are only raised with evidence to support the debt, that debts are identified and that there are processes in place to 'chase' and collect debts.

Overall Assurance - Substantial

The audit confirmed that the majority of invoices raised are appropriately authorised by the correct manager, and with supporting detail. Outstanding debts are chased on a regular basis with good success rates. There are still occasions when invoices are raised without supporting evidence, however, these relate to care arrangements that have been in place over a long period of time.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

KASS - Interim Review of Compliance with Care Management Processes

Scope

The objective of this interim review was to examine the 'care management' process from the eligibility criteria through to financial assessments to ensure that relevant information and documentation is recorded and held appropriately.

Overall Assurance – Not Applicable

The audit found that there was not always evidence that the expected processes had been properly recorded either in the individual client file or within SWIFT, the care management system. We acknowledge that SWIFT is still in its early stages and that teething problems have meant that not all staff have fully embraced its use. We have arranged to carry out a follow up audit in 2008/09.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

CF&E - Schools' Payroll

Scope

The objective of the audit was to review a sample of schools to gain assurance that expected systems and processes were in place and operating effectively.

Overall Assurance – Substantial

The sample of 30 schools visited included those managing their own payroll service and those using external providers. The audit confirmed that payroll services are generally well monitored and that payments are only made to bona fide employees. Payments are also made on time, and any overpayments made are chased up and recovered. The audit found that some of the payroll reports provided to schools do not always contain sufficient information to allow schools to check, overtime, expenses etc.

Each school was provided with a list of recommendations and in our overall report, two recommendations were made which management have accepted and agreed to implement.

CF&E – Family Group Conferencing Service (FGCS)

Scope

The objective of the audit was to assess the system in place for the FGCS to achieve its aim of assisting in the prevention of children becoming 'looked after' and/or missing their education.

Overall Assurance – Substantial

The audit found many strengths in the system to ensure achievement of the Family Group Conferencing Service, for example clear policies, a good training programme, well documented operational and administrative policies. The only significant area for improvement was that of performance monitoring.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

CF&E Children's Centre Financial System Follow up audit

Scope

The objective of the audit was to follow up on recommendations made in the original audit which was given a minimal assurance to ensure that agreed management action plans were in place and operating effectively.

Overall Assurance – Substantial

Considerable progress has been made to ensure Round 1 Children's Centres have sound financial controls, robust service level agreements and accurate monitoring arrangements. These processes have evolved throughout 2007 following the appointment of a dedicated Children's Centre Project Officer. Detailed project plans and monitoring arrangements have been put in place for the Children's Centres Round 2, which will be ongoing. Two recommendations remain outstanding which relate to the signing of the SLA with Health and the absence of some supporting documentation for salary expenditure

Two further recommendations have been made which have been agreed by management.

CMY Health and Safety – direction of Travel

Scope

The objective of the audit was to provide assurance on the 'direction of travel' of the development of the Health and Safety function within the Communities Directorate.

Overall Assurance – Substantial

Due to the diverse nature of the units and divisions that make up the Communities Directorate, the H&S team had initially identified inconsistencies in H&S systems applied across the Directorate. Processes have now been put in place to address this, including carrying out risk assessments in the form of annual 'audits' in order to identify low risks and high risk areas that need to be monitored and addressed.

The Directorate's H&S business plan includes clear goals, is reviewed quarterly to show progress to date further action to be completed with the expected timescale and name of the member of staff with responsibility for implementing the action

Management have agreed the finding and developed an appropriate action plan to address the issues identified.

CED – Property Contract Monitoring

Scope

The objective of the audit was to assess the adequacy of the framework agreement that it is place to deliver estates management services for KCC.

Overall Assurance - Substantial

In 2007/08 work to the value of £850,000 was placed through the framework agreement. The audit found that service delivery is achieved in line with clear contract specification, that there is good monitoring of the contracts through regular progress meetings. This ensures that the directorate clients receive information on the progress of the jobs and the budget. There were a few instances where the accuracy and completeness of information held could be improved

Management have agreed the findings and developed an appropriate action plan to address the issues identified.

CED – Follow up to Payroll Audit

Scope

The objective of the audit was to follow up on recommendations made in the original audit which was given a minimal assurance with regards recruitment and CRB checks, to ensure that agreed management action plans were in place and operating effectively

Overall Assurance – Substantial

The audit found that a number of initiatives designed to strengthen the processes for dealing with CRB disclosures have been put in place by the Employee Services Manager. Information is now collated in the HR and Payroll (Oracle) system and each position/post requiring a CRB check has been identified and marked accordingly. A retrospective review by Employee Services has been completed on all employees to identify cases where required CRB checks had not been obtained. A new policy on CRB disclosures is presently in draft and is expected to be approved shortly

Improved administrative procedures have been introduced to ensure that the necessary recruitment documents needed for all new appointments managed through Employee Services are quality checked.

Two further recommendations were made which have been agreed by management who have developed an appropriate action plan to address the issues identified.

CED – Fixed Assets

Scope

The objective of the audit was to ensure compliance with the relevant protocols for the acquisition and disposal of assets.

Overall Assurance – Substantial

The audit confirmed that generally property and vehicle, plant and equipment (VPE) purchases and disposals during the financial year 2006/07 were properly authorised. Areas requiring improvement relate to the improvement of documentation for acquisitions and disposals of property to demonstrate that all the requirements of protocol are being met. For acquisitions Directorates need to ensure that they prepare a proper business case for the Property Group defining the requirement as well as carrying out a financial evaluation of the proposals to acquire a property.

For disposals of property, the Property Group need to ensure that that there is a supporting 'Declaration of Surplus Property' form from directorates' as well as ensuring member consultation process is carried out properly in every case.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

CED – Year End Accounting

Scope

The objective of the audit was to ensure that expenditure and income was properly accounted for in the correct financial year.

Overall Assurance – Substantial

The audit confirmed that in general the procedures for processing year end payments and income were operating effectively. All batches had been processed in the correct financial year, however, the report produced in previous years by the Payments Team Leader to check this during the closedown period had not been undertaken. Without this report there is a risk that batches may be input to the incorrect year and not identified.

Other areas requiring improvement are around the invoices processed via the i-procurement system. These invoices are automatically accounted for in the period in which staff receipt the goods in the system, which should ensure they are accounted for in the correct financial year. However, there were instances where goods had been receipted in the 'new year' even though they were received or related to the 'old year'. Further analysis also found that approximately £120,000 of expenditure had been accounted for in the incorrect year.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

CED – Kent Public Service Network Review

Scope

The objective of the audit was to assess the adequacy of the processes and controls in place for the selection of the KPSN solution.

Overall Assurance - Substantial

Network services are supplied to the public sector bodies across Kent by a number of service providers and the scale of coverage provided by these networks is significant. KCC for example, has implemented a number of networking solutions to support its operational activities delivering services to the community and people of Kent. It is anticipated that as the contracts for these services lapse, network renewals will be achieved via the establishment of the 'Kent Public Services Network' (KPSN) procured by KCC in co-operation with the other public service bodies such as the Kent Connects Partnership, Kent Community Network (schools), Higher and Further Education and Health.

It was evident that the risks surrounding confidentiality, availability and integrity have been actively considered throughout the project, along with the requirements to be met by the successful supplier. Three recommendations were made as a result of the review for consideration, once the KPSN contract had been signed with the chosen supplier, which related to the set up of the incident management process, implementation of IT service continuity plans and the ongoing monitoring of the information security and access management process.

CED – Accounts Receivable

Scope

The objective of the audit was to ensure that monies owed to the Council is billed for accurately and promptly and that outstanding debts are properly identified and chased.

Overall Assurance – Substantial

The audit confirmed that there are processes in place to ensure that monies due to the Council is identified, billed for promptly and that there are procedures to ensure outstanding debts are identified, chased and collected.

Some areas for improvement relate to :-

Invoice requests are not always submitted promptly by directorates to Exchequer Services to be processed;
Requests are not always submitted with the necessary information to Exchequer Services.

There is no clear policy between directorates and Exchequer Services defining who is authorised to write off debts.

CED - Wireless Networks Review

Scope

The objective of the audit was to assess the effectiveness and adequacy of the controls in place to ensure the security of the wireless networks used by the Authority.

Overall Assurance – Limited

Wireless access to the KCC network was implemented at the beginning of February 2008 at a number of locations, including County Hall, Kroner House, Oakwood House, Kings Hill and Clover House. KCC was also investigating the roll-out of public wireless internet access for the whole of the council; this would typically be accessible from within the council libraries and all Council office buildings (including reception, canteens, etc). The review resulted in three recommendations being made.

Risk assessments are undertaken for each IT project during their implementation and a strategic risk register is in place for ISG. However, there are currently no IT risk registers in place that outline how specific risks are being addressed, such as those created by the use of wireless networks, and these need to be implemented. Furthermore, a set of information security policies has been established by ISG; however, the current wireless access policy still needs to be finalised and issued to users. Finally, the process of documenting the configuration of the wireless access points needs to be completed to enable it to be monitored and reviewed on an ongoing basis.

CED – Network Security Review

Scope

Overall Assurance - Substantial

The objective of the audit was to assess the effectiveness and adequacy of the controls in place to ensure the security of the underlying network infrastructure used by the Authority.

Network security consists of the provisions made in the underlying network infrastructure and the policies adopted to protect the network from unauthorised access, and the effectiveness of these measures combined together. KCC's network is made up of 8 clusters, each with their own local area networks (LAN), and network security at KCC is the combined responsibility of three teams within ISG. An over-arching information security policy is in place for the Authority; however, this was last updated in 2001 and now needs to be reviewed to ensure it addresses any new threats that have emerged. Guidance needs to be included within the policy that outlines how or when security assessments should be performed to ensure the control framework in place remain effective. Information has been circulated to staff and Directorates have issued guidance to staff following the recent HMRC data loss providing advice on the handling of sensitive data, but there is no formally co-ordinated security awareness programme in place to maintain staff awareness of the information security/sharing policies that are in place. KCC also needs to assess the viability of implementing an intrusion detection system that would enable ISG to identify unusual patterns of user activity that may indicate that a sustained attack has been launched or malicious software has been installed. Five recommendations have been made to address the issues raised.

**Directorates Progress with Implementation of Audit Recommendations
(Covers period May, June, July and August 2008)**

Directorate	Actions due to be in place in period	Actions in place	Outstanding actions	Progress with outstanding actions	
				Audit	Comments
Authority wide	3	2	1	Data Protection	The Data Protection Management Manual and Control Guidelines for each relevant business unit that has responsibilities for personal data is now in place. The business unit manual and guidelines are also being introduced to all units that do not currently have responsibilities for personal data during September. Data Protection information will now be available in Commercial Services Induction packs from September 08.
Page 44	3	2	1	Purchase Cards	During July 08 analysis of purchase card expenditure was completed by the Exchequer Services Manager. Directorate Head of Finances were contacted about recommended changes in limits, based on the individual cards actual expenditure for the year. These recommended limits will be introduced and card holders notified during September, if no response has been received from the Heads of Finance. A further review is scheduled for November/December 08.
	4	3	1	Schemes of Delegation	In the Children, Families, Health & Education Directorate the planned update of the Schemes of Delegation has been purposely delayed until the local children's services partnerships are introduced in September 08.
	7	1	6	Property Rent Income	The outstanding actions relate to <ul style="list-style-type: none"> ▪ Issuing guidance and procedures, ▪ Reviewing processes ▪ Carrying out reviews to ensure information is current and up to date, These are expected to be in place by 30 September 2008.

**Directorates Progress with Implementation of Audit Recommendations
(Covers period May, June, July and August 2008)**

Directorate	Actions due to be in place in period	Actions in place	Outstanding actions	Progress with outstanding actions	
Chief Executive's Department	3	2	1	HR Payroll – Car Expenses Interrogation	Work is currently being done to establish whether any new configuration is needed before the switch off of the Data Flexible Field in Oracle, which is currently used to process mileage rates. The expected implementation date has therefore been slightly delayed until the end of September, with work currently being undertaken on the scope of any over and under payments of mileage claims and legal implications. The Calculation Formula used for mileage rates has been rigorously tested; all fuel, engine size and user types already configured have now been validated as accurate.
Kent Adult Social Services	1	0	1	Health Debts	The formal Section 256 agreements relating to joint funded clients are still being developed with Health Authorities. It is expected these will be completed in the coming months. In the meantime the Directorate continues the practice of invoices only being raised with Health Authorities when the appropriate Finance Manager is satisfied that there is evidence of an agreement to pay.
Environment & Regeneration	2	1	1	Landfill Allowance Trading Scheme (LATS)	All future landfill allowance trades were agreed to be initiated by Waste Management as the 'primary user' of the electronic trade site for LATS, with the final approval for acceptance of these trades completed by a member of staff from Corporate Finance, known as the 'senior user'. A senior user within the Financial Strategy Unit has been nominated and is presently being set up with appropriate authorisation, however no trades have yet been made in this period.
Communities	1	1	0		All actions for the Directorate due for completion in this period have been implemented.
Children, Families, Health & Education	3	3	0		All actions for the Directorate due for completion in this period have been implemented.
TOTAL	27	15	12		

Internal Audit performance

The following table is designed to provide Members with Internal Audit's performance against Key Performance Indicators.

Performance Indicator	Target	Actual (Apr – July)
<u>Effectiveness</u> <ul style="list-style-type: none"> • % of recommendations accepted • % of recommendations implemented • CPA/CAA Score for Internal Control 	98% 90% Level 4	100% *n/a *n/a
<u>Efficiency</u> <ul style="list-style-type: none"> • % of plan delivered – • % of available time spent on direct audit work • % of draft reports completed within 10 days of finishing fieldwork • Preparation of annual audit plan • Periodic reports on progress • Preparation of annual report and Annual Governance Statement 	95% 80% 80% By March G&AC meetings By May	28%** 81% 75% March G&AC meetings May
<u>Quality of Service</u> <ul style="list-style-type: none"> • Average Client Satisfaction Score – 	70%	97%

* Implementation date note yet due for 2008/09 audits finalised

** Percentage of plan delivered as at 31 August 2008

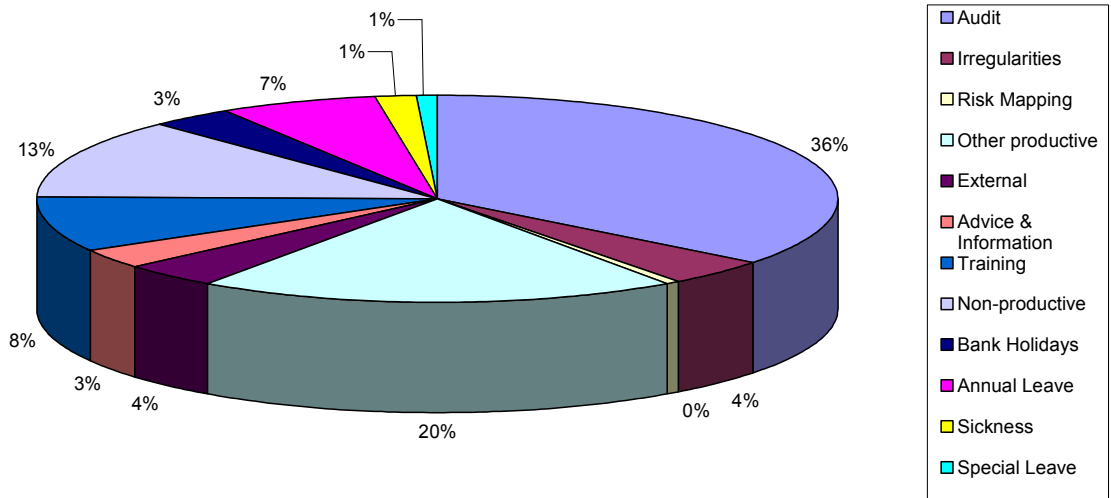
Team Structure

Number of staff 14 FTE

Qualified 8

Number of staff training 3

**Breakdown of all time in Internal Audit
April 2008 to July 2008**



Assurance Level	Summary description	Detailed definition
High	Strong controls in place and complied with.	The system/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.
Substantial	Controls in place but improvements beneficial.	There is some limited exposure to risk of error, loss, fraud, impropriety or damage to reputation, which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application.
Limited	Improvements in controls or the application of controls required.	<p>The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review e.g., error, loss, fraud/impropriety or damage to reputation.</p> <p>This is because, key controls exist but they are not applied, or there is significant evidence that they are not applied consistently and effectively.</p>
Minimal	Urgent improvements in controls or the application of controls required.	<p>The authority and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation.</p> <p>This is because key controls do not exist with the absence of at least one critical control, or there is evidence that there is significant non-compliance with key controls.</p>

Governance and Audit Committee - Self Assessment Questionnaire

Through a new requirement for local authorities, the review and assessment of Audit Committees' effectiveness is widely considered best practice. Internal Audit submitted to the Audit Committee a self assessment questionnaire at the March meeting and have revised the questionnaire based on the comments at that meeting and now seek gain members views on the revised version. We will hand out the questionnaire at the meeting and would appreciate if member could complete at the end of the committee and return to Andy Tait. Alternatively, please complete and return to Andy Tait no later than 26 September.

Internal Audit will then develop a proposed action plan to address the feedback which will be presented at the December committee meeting.

Change in Internal Audit Team:

Finally, there is a change to the team that will deliver your internal audit services. Sean Rooney, the current Head of Audit and Risk, (with Janet Dawson) is returning to PwC Australia and will be replaced by Simon Davis following this Governance and Audit Committee. We have discussed the change with both management and the Chair of the Governance and Audit Committee to obtain approval.

Simon is a Senior Manager with the firm's Government and Public Sector practice, based in London. He specialises in assurance and has more than 20 years experience in providing audit services in local government and the NHS. His internal audit experience includes strategic partnership working as well as directly outsourced internal audits.

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By: The Head of Audit & Risk
To: Governance & Audit Committee – 17 September 2008
Subject: INTERNAL AUDIT REPORTING – IRREGULARITIES
Classification: Unrestricted

Summary: This report provides brief details of all irregularity cases completed during the period May, June, July and August 2008.

FOR INFORMATION

Introduction

1. In line with best practice and as agreed by Members of the Audit Committee at their meeting on the 1 March 2005, this report summarises the outcome of irregularity investigations that have been concluded within the period from May 2008 to August 2008.
2. During the period, four new cases of potential irregularity were reported, for which investigations are continuing. Where significant, details of these irregularities are reported separately to the Chairman of the Governance and Audit Committee during informal meetings, to ensure that he is made aware of possible problems as they arise.
3. Appendix 1 summarises the outcomes of completed investigations within the period.

Recommendation

4. Members are asked to note this report.

Janet Dawson
Head of Audit & Risk
Ext: 4614
Xx September 2008

Ref	Directorate	Nature of Irregularity	Value	Outcome
xx754	CF&E	Loss/missing cash	£5,000	<ul style="list-style-type: none"> ▪ A school discovered a discrepancy in the amount of income collected for school meals to the amount banked. ▪ The police were informed and carried out an investigation but the findings were inconclusive. Internal Audit has made recommendations to improve controls to minimise the risk of future losses occurring.
xx757	CED	Missing Laptop	£1,500	<ul style="list-style-type: none"> ▪ A number of laptops and other equipment was delivered for the TRP rollout. When a stock check was carried out staff realised that a laptop was missing. ▪ An investigation was carried out and Internal Audit have made recommendations to improve the recording and movement of equipment.
xx765	KASS	Loss of client's cash	£160.00	<ul style="list-style-type: none"> ▪ £955 was deposited in an office safe as part of the Protection of Property procedures when a client needed care. The money should have been banked in accordance with the procedures but was not. Consequently when it came to checking the cash several months later, £160.00 was missing from the safe. ▪ Internal Audit carried out an investigation and has made recommendations to improve processes to minimise the risk of similar losses occurring.

Ref	Directorate	Nature of Irregularity	Value	Outcome
xx766	CF&E	Missing cash/receipts	£2,500	<ul style="list-style-type: none"> ▪ A total of £6,500 was provided to a member of staff over a short period of time, to enable emergency purchases to be made on behalf of clients. ▪ The member of staff claimed that he posted receipts to support £2,500 of expenditure made to the local office. However, staff at the local office have stated that they did not receive the receipts. ▪ CF&E staff have introduced processes to reduce the risk of similar losses occurring.

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