

GOVERNANCE AND AUDIT COMMITTEE

Friday, 30th April, 2010

10.30 am

Darent Room, Sessions House, County Hall, Maidstone



AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Friday, 30th April, 2010, at 10.30 am
Darent Room, Sessions House, County
Hall, Maidstone

Ask for: **Andrew Tait**
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. Substitutes
2. Declarations of Interest for items on the agenda for this meeting
3. Minutes (Pages 1 - 12)
 - (a) Committee – 1 December 2009
 - (b) Trading Activities Sub-Group – 1 December 2009 (including Private Company Dividend Policy for approval (see Minute 16)
4. Debt Recovery (Pages 13 - 18)
5. Treasury Management (Pages 19 - 28)
6. Committee Terms of Reference (Pages 29 - 36)
7. Work Programme and Member Development Programme (Pages 37 - 40)
8. Private Finance Initiative (Pages 41 - 48)
9. Impact of the Authority's budget on the Risk Register (Pages 49 - 52)
10. Strategic and Directorate Risk Registers (Pages 53 - 66)
11. Updated Financial Regulations (Pages 67 - 102)
12. Audit Commission Audit Opinion Plan (Pages 103 - 126)
13. Audit Commission Kent Superannuation Fund Audit Opinion Plan (Pages 127 - 148)
14. 2010/11 Internal Audit Strategy and Annual Plan (Pages 149 - 170)
15. Audit Commission Progress Report (Pages 171 - 180)
16. Shared Services work in Kent (Pages 181 - 194)
17. International Financial Reporting Standards (Pages 195 - 200)

18. Audit Commission report on International Financial Reporting Standards (Pages 201 - 212)
19. Audit Commission Certification of Claims and Returns Annual Report (Pages 213 - 230)
20. Internal Audit Progress Report (Pages 231 - 256)
21. 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

Thursday, 22 April 2010

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 Tuesday, 1 December 2009.

PRESENT: Mr R L H Long, TD (Chairman), Mr M V Snelling (Vice-Chairman), Mr A R Chell, Mr K A Ferrin, MBE, Mr C Hibberd, Mr D A Hirst, Mr P W A Lake, Mr T Prater, Mr R Tolputt, Mr C T Wells and Mr S Manion (Substitute) (Substitute for Mr B R Cope)

ALSO PRESENT: Mr J D Simmonds and Miss S J Carey

OFFICERS: Ms L McMullan (Director of Finance), Mr N Vickers (Head of Financial Services), Mr G Ward (Director Resources), Mr D Tonks (Head of Internal Audit), Mrs J Armstrong (Senior Audit Manager), Ms J Hill (Performance Manager), Ms T Gailey (Public Health Policy Manager) and Mr A Tait (Democratic Services Officer)

ALSO IN ATTENDANCE: Mr D Wells, Mr Grahame Brown and Mr Gordon Brown of the Audit Commission.

UNRESTRICTED ITEMS

42. Membership

(Item 1)

The Committee noted that Mr B R Cope had replaced Mr R W Bayford as a Member of the Committee.

43. Minutes - 16 September 2009

(Item 4)

RESOLVED that the Minutes of the meeting held on 16 September 2009 are correctly recorded and that they be signed by the Chairman.

44. Draft Annual Work Plan

(Item 5)

(1) The Committee agreed that the introduction of a work plan was a positive step. Ideas for inclusion on the work plan at this stage were a paper to highlight the impact of the Authority's budget on the risk register and an annual report on governance.

(2) RESOLVED that:-

- (a) the draft workplan set out in Appendix A to the report be agreed subject to (1) above;
- (b) a standing item will appear on every agenda, enabling the Committee to review and agree future agenda items; and

- (c) the Terms of Reference of the Committee be reviewed by the Head of Audit and Risk and reported to the next meeting.

45. Annual Audit and Inspection Letter

(Item 6)

(1) Mr M V Snelling made a declaration of personal interest for this item as he was a Director of a number of KCC Commercial Services Trading Companies. He left the meeting for the duration of this item.

(2) RESOLVED to:-

- (a) note that the External Auditors have met the requirement to issue an annual audit letter to the Authority; and
- (b) endorse the actions proposed in paragraph 7 of the report for publication of the annual audit letter.

46. External Audit review of Health Inequalities

(Item 7)

RESOLVED that the Audit Commission's analysis of the nature and causes of health inequalities in Kent be noted.

47. Corporate Governance Indicators

(Item 8)

(1) A revised version of paragraphs 2.14 and 2.16 of the report had previously been published and was tabled at the meeting.

(2) RESOLVED that the report be noted and the action taken endorsed.

48. KCC Annual Complaints report 2008/09

(Item 9)

(1) RESOLVED that the report be noted.

49. Treasury Management

(Item 10)

RESOLVED that:-

- (a) the format for future reporting to the Committee set out in paragraphs 8 to 10 of the report be agreed;
- (b) the quarterly report be noted; and
- (c) the draft Minutes of the Treasury Advisory Group meeting on 3 September 2009 be noted.

50. Debt Recovery

(Item 11)

This report was withdrawn. An updated version would be published by the Director of Finance and sent to all Members of the Committee.

51. Risks to the County Council arising from the Private Finance Initiative

(Item 12)

RESOLVED that:-

- (a) the report be noted; and
- (b) a further report be brought to the next meeting of the Committee identifying, if possible, the current affordability position resulting from PFI, and an assessment of what would have been spent if PFI had not been utilised.

52. e.Payment Project

(Item 13)

RESOLVED that the approach set out in the report be endorsed.

53. Internal Audit Reporting

(Item 14)

RESOLVED that:-

- (a) the progress to date against the 2009/10 audit programme be noted, together with the changes to the audit programme set out in Appendix D to the report; and
- (b) the implications for governance set out in paragraph 8 of the report, arising from the outcome of the internal audit programme completed to date, be noted.

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KENT COUNTY COUNCIL

GOVERNANCE AND AUDIT COMMITTEE TRADING ACTIVITIES SUB GROUP

MINUTES of a meeting of the Governance and Audit Committee Trading Activities Sub Group held in the Swale 1, Sessions House, County Hall, Maidstone on Tuesday, 1 December 2009.

PRESENT: Mr R L H Long, TD, Mr T Prater and Mr C T Wells

IN ATTENDANCE: Ms L McMullan (Director of Finance), Mr K Harlock (Commercial Services Director), Mr G Wild (Director of Law and Governance), Mr L Coulson (Head Of Strategic Finance), Mr D Shipton (Finance Strategy Manager), Mr G Mills (Democratic Services Manager (Executive)) and Mr A Tait (Democratic Services Officer)

UNRESTRICTED ITEMS

8. Terms of Reference

(Item 2)

The Sub-Group noted that the Governance and Audit Committee had amended its overarching Term of Reference to read:-

“To ensure that the trading activities of the Council are run properly and transparently.”

9. Minutes - 1 September 2009

(Item 3)

RESOLVED that the Minutes of the meeting held on 1 September 2009 are correctly recorded and that they be signed by the Chairman.

10. Review of Commercial Operations

(Item 4)

(1) An appended report considering the legal status of KCC trading activities post the court judgement on the recent London Authorities Mutual Limited (LAML) case had been published prior to the meeting. The Sub-Group agreed to note this report. It also decided to request a further report on this matter, outlining costed options for further review.

(2) RESOLVED that:-

- (a) the amendment to the Council's response to recommendation 3 of the Review of Commercial Operations report be noted;
- (b) the appended report set out in (1) above be noted; and

- (c) a further report, setting out costed options for further review be brought to the next meeting of the Sub-Group.

11. Date of next meeting and future agenda items
(Item)

The Sub-Group agreed that its next meeting would be on Monday, 17 May 2010 at 2.00pm. It requested a report on the trading activities of the East Kent Local Liabilities Partnership (LLP).

EXEMPT ITEMS

(1) The Chairman reported that all Members of the Sub-Group had expressed concern at the quantity of items listed as exempt and had asked the Director of Law and Governance to give an opinion on whether they were indeed properly exempt under the relevant legislation.

(2) The Director of La and Governance advised the Sub-Group that he had reviewed the reports and found that the exemptions were all quite proper. However, the Members of the Sub-Group did have discretion, to be used with care, to waive the exemption. Following this advice, the Sub-Group agreed to consider the question of exemption in relation to each report, but not prior to their consideration in the meeting.

In the light of (2) above, the Sub-Group agreed by 2 votes to 1 (with Mr T Prater voting in opposition) that under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

12. Business Case for limited company private hire operation
(Item 6)

(1) The Director of Commercial Services explained that he had written a retrospective business case in the light of the recommendations in the Audit Commission's report "Review of Commercial Operations." This had recommended that such a case should be produced for the creation of a separate Trading Division, "Kent Top Travel" within "Kent Top Temps Ltd." This document had been written in the present tense.

(2) The Director of Commercial Services explained that the reason Kent Top Travel had been formed as a Trading Division within Kent Top Temps Ltd had been the advice from external auditors regarding the tax position of KCC's wholly-owned companies.

(3) The Sub-Group decided that as commercially sensitive information had been withheld from this report, it would make it available to the public, subject

to the inclusion of an additional paragraph explaining the tax-related reasons for forming Kent Top Travel as a Trading Division within Kent Top Temps Ltd.

(4) RESOLVED that:-

- (a) the retrospective business case for Kent Top Travel be endorsed; and
- (b) the report be published by the Director of Commercial Services, subject to (3) above.

13. Business case for Kent County Supplies Ltd

(Item 7)

(1) The Director of Commercial Services introduced a Business Case for activating Kent County Supplies Ltd and to create a Trading Division specifically to service an identified demand in the Care sector. He added that subject to further work, another division to supply Furniture, Fittings and Equipment to the private sector might be activated. Kent County Supplies Ltd was currently a dormant, wholly-owned incorporated entity which could be activated for this purpose.

(2) The Director of Commercial Services explained that the Local Government Act 2003 enabled Local Authorities to establish and sell goods and services to private companies, who could then sell on to the private sector. Under the terms of the Supply of Goods Act 1970, Local Authorities could not sell directly.

(3) The Sub-Group agreed by 2 votes to 1 (with Mr T Prater recording his opposition) that this item should not be published due to the commercially sensitive nature of the data in the report.

(4) RESOLVED that approval be given to the report in order that it can be passed by the Director of Commercial Services to the Cabinet Member for Corporate Support Services and Performance Management for a Decision.

14. Loan agreement Kent Top Temps Ltd

(Item 8)

(1) The Director of Commercial Services explained that this report had been written in response to a report by the Audit Commission in its report "Review of Commercial Operations." This had recommended that a correction should be made in the text of the Loan Agreement between KCC and Kent Top Temps Ltd in that the parties to this agreement should be KCC and Kent Top Temps Ltd, rather than Commercial Services and Kent Top Temps Ltd.

(2) The Sub-Group noted that the Interest figures in Paragraph 4 of the report should be as follows:-

Para 4.2: The actual borrowed amount will be subject to a daily rate of interest of $\frac{1}{365}$ th of 5% above the Bank of England base rate.

Para 4.3: In the event of default the Company will be liable to pay interest on the total amount outstanding at the time of default at the rate of 6% per annum above Bank of England base rate.

(3) RESOLVED that:-

- (a) the revision to the Loan Agreement between KCC and Kent Top Temps Ltd be noted and endorsed, subject to (2) above; and
- (b) the report be published by the Director of Commercial Services and made publicly available.

15. Limited Company accounts 2008-09

(Item 9)

(1) The Director of Commercial Services introduced the accounts for Kent Top Temps Ltd and Kent County Facilities Ltd.

(2) The Sub-Group agreed unanimously that these accounts could not be published as they were not yet disclosed and it was not in the Sub-Group's remit to do so.

(3) RESOLVED that the draft and final accounts for Kent Top Temps Ltd and Kent County Facilities Ltd respectively be noted.

16. Dividend Policy - private companies

(Item 10)

(1) The Director of Commercial Services reported a response to the Audit Commission's recommendation in its report "Review of Commercial Operations" that a Dividend Policy should be produced for the wholly owned KCC companies. A draft Policy was made available for the Sub-Group's consideration.

(2) RESOLVED that the draft Dividend Policy be recommended for approval to the next meeting of the Governance and Audit Committee.

17. Return on investment - Kent Top Temps Ltd

(Item 11)

- (1) The Director of Commercial Services had prepared this report in response to a request from the previous meeting of the Sub-Group.
- (2) The Sub-Group concluded that the figures set out in the report provided no evidence of commercial advantage. It agreed that it could not publish the report owing to its commercially sensitive nature.
- (3) RESOLVED that the report be noted.

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MINUTES APPENDIX
Minute 16 Refers

DIVIDEND POLICY FOR KCC LIMITED COMPANIES

FOR KENT TOP TEMPS LTD

Kent Top Temps Limited Company (The Company) has been set up as a profitable organization which will trade with the expectation of operating profitably and remitting dividends to the Shareholders (Kent County Council).

The return to KCC on the investment made is threefold:

providing a dividend on profits generated
providing interest on any loans
reducing overall costs to KCC by delivering lower costs of providing Temporary [and permanent] Staff and Bus Services directly to KCC.

The amount and timing of the dividends will be proposed to and approved by the Board of Directors and will take into account the following:

1. The policy should be reviewed each year and any dividend declared and approved at the Annual General Meeting, or any properly convened meeting called through the year to declare an interim dividend.
2. No dividends will be expected for the first few years (re-investment phase) whilst the Company establishes itself as a profitable Company, builds a strong balance sheet to support creditor confidence, and determines the requirements to generate its own working capital demands, after meeting loan interest and repayment demands.
3. How long The Company will be in this re-investment phase will depend upon profitability and cashflow, the amount of working capital and direct investment required, and other factors such as Capital Investment requirements, R & D etc..
4. If any such investment is made by way of loans, the interest rate will be set at such a differential rate over the prevailing KCC bank rate that a return is made on the loan until it is repaid. The differential rate to be reviewed each year.
5. It is expected that any legal restrictions or tax considerations will be taken into account at each annual review of the policy.
6. When dividends are payable, they will be paid relating to the preceding year's profits, at a date which does not cause cashflow difficulties to the

business, and before the end of the following financial year which is 31st March.

7. The dividends proposed will take into account the corporation and other taxes due to be paid by The Company.
8. Dividends may continue to be paid even where this increases the loans required by The Company, if in the opinion of the Directors, the ongoing profitability of The Company and ability to service the loans is adequate.
9. As a guide, the initial expectation is that when The Company is well established and without significant other cash calls, up to 20% of post-tax profits of any year will be paid as a dividend, with the balance after taxes being retained as working capital and to enable loans to be repaid. This will allow for a dividend cover of approx 5x and help stabilize dividends which could be temporarily maintained over periods of difficult trading at a higher percentage of current profits.

By: Cabinet Member for Finance
Director of Finance

To: Governance and Audit Committee - 30 April 2010

Subject: DEBT RECOVERY

Summary: To report on the Council's debt recovery.

FOR DECISION

INTRODUCTION

1. As the economy entered recession there was concern over whether the level of debt owed to the County Council for services provided would increase. As a result six monthly reports to this Committee were started.
2. This report gives an updated position and proposes a change to future reporting.

MANAGEMENT SUMMARY

3. The overall debt position as at 28 February 2010 as shown on Oracle Accounts Receivable is £38,902,507. This represents social care debt from SWIFT of £13,785,699 and sundry debt (which includes some social care Health debt) of £25,116,808.
4. The remainder of this report relates to sundry debt only - KASS debt is reported through KASS reporting routes.
5. For the purposes of this report the debt less than 30 days past the invoice due date (totalling £10,359,971) will be excluded as it is deemed not yet due for payment. This means that the figures and tables within this report are based on the outstanding debt amount of £14,756,837.
6. Please note that throughout this report Chief Executive will include the old Corporate debt, CFE will include the old Education debt, and EHW will include the old Strategic Planning debt. We are unable to retrospectively amend Oracle to reflect the new directorate structure. The debt reporting is calculated from the invoice due date and not the invoice date.

7. The table below is an analysis of the summary position as at 28 February 2010.

Directorate	Outstanding Debt (excluding debts not yet due)	0 – 60 Days	Over 60 Days and Under 6 Months	Over 6 Months
Chief Executive	3,964,668	3,830,825	31,367	102,476
CFE	3,952,949	1,916,043	568,043	1,468,863
EHW	3,010,538	1,886,379	837,153	287,006
Communities	873,009	356,913	403,029	113,067
KASS (Sundry)	2,955,673	1,334,738	1,227,387	393,548
Total	14,756,837	9,324,898	3,066,979	2,364,960

PERFORMANCE

8. There are two performance indicators that the Debt Recovery Team aims to achieve. The percentages are based on the total outstanding unsecured debt.
- Total outstanding sundry debt under 60 days old – greater than 65%
 - Total outstanding sundry debt over 6 months old – less than 20%
9. As at 28 February 2010 78% of the total sundry outstanding debt is under 60 days old and 9% is over 6 months old. So these targets are being exceeded.

DEBT LEVELS OVER SIX MONTHS OF AGE

10. Below is an analysis of the categories of debt over 6 months old.

Directorate	Status of Debt	Amount Over 6 Months Old
Chief Executive	Instalments	2,852
	Referred to legal services	20,824
	Referred for write off	1,066
	Referred to directorate for action	62,814
	Ongoing action	14,920
	Sub total	102,476
CFE	Instalments	20,259
	Referred to legal services	39,335
	Referred for write off	3,374
	Referred to directorate for action	1,071,845
	Ongoing action	71,500
	Internal school charges	262,551
	Sub total	1,468,864

Directorate	Status of Debt	Amount Over 6 Months Old
EHW	Instalments	0
	Referred for write-off	618
	Ongoing action	81,825
	Referred to directorate for action	140,015
	Insurance	63,735
	Referred to legal services	814
	Sub total	287,007
KASS (Sundry debt)	Instalments	19,386
	Referred to legal services	11,915
	Referred for write-off	2,038
	Ongoing action	51,397
	Health debt	267,693
	Referred to directorate for action	31,419
	Small claims court	344
	Estate	8,930
	Automatic Writeback	427
	Sub total	393,548
Communities	Instalments	5,785
	Referred for write-off	1,485
	Referred to directorate for action	2,784
	Ongoing action	90,574
	Referred to legal services	12,439
	Sub total	113,067

TRENDS

11. Below are the trends of debt outstanding at 1 November 2009, 1 January 2010 and 1 March 2010.

Directorate	Debt O/S Excluding Not Yet Due as at 1/11/09	Debt O/S Excluding Not Yet Due as at 1/1/10	Debt O/S Excluding Not Yet Due as at 1/3/10
CED	3,321,839	1,651,194	3,964,668
CFE	4,002,631	4,065,988	3,952,949
EHW	2,558,771	2,067,403	3,010,538
Communities	593,352	591,315	873,009
KASS (Sundry)	2,921,885	6,174,944	2,955,637
Total	13,398,478	14,550,644	14,756,801

Comments on these trends are as follows:

CED

- The Debt O/S excluding Not Yet Due as at 1 March 2010 increased to £3.97 million from £1.65 million as at 1 January 2010
- There were 2 invoices raised in February 2010 to KCS totalling £1.52 million for admin and clerical staff payments and 1 invoice to KCS for £700k for an annual insurance charge.
- Also raised in February was an invoice to Improvement and Efficiency South East Partnership for £610k for Gateway funding for the 2 year period April 09 to March 2011.

CFE – No major variances

EHW – No major variances

Communities

- The Debt O/S excluding Not Yet Due as at 1 March 2010 increased to £873k from £591k as at 1 January 2010.
- During February there were invoices raised to the value of £164k to District Councils to charge for the provision of an emergency planning service and to HMP Prison Maidstone for annual staffing costs of £65k.

KASS

- The Debt O/S excluding Not Yet Due as at 1 January 2010 increased to £6.2 million from £2.9 million as at 1 November 2009.
- The majority of the increase can be explained by an invoice to the value of £3.03 million raised in Oct 2009 to Eastern and Coastal PCT for contributions towards residential/nursing care. This invoice has since been paid.
- In December 2010 there were a number of invoices raised for annual charges, such as: an invoice to Dover District Council for their contribution to EHFA PFI development costs April 2008 to Sept 2009 (£26k) and an invoice to New care Homes Ltd to recover £23k of payments for a client who was health funded for 3 November 2008 to 2 November 2009.
- Eastern and Coastal PCT were charged £82k for OPMHN Respite provision for the period April 2009 to March 2010.
- As well as annual charges there were also quarterly charges to PCT's such as an invoice to West Kent PCT for £275k for registered nursing care July to Sept 2009 and for £70k for a contribution to core equipment Oct 2009 to Dec 2009.

12. Liquidations

Over the last year we have noticed that there has been an increase in the numbers of debts written off due to companies going into liquidation. During the Year 2008/9 there was only one write off, totalling £199.75. During the Year 2009/10 there have been 14 invoices written off so far, totalling £23,661.55. Below is a list:

Directorate	Company Name	Amount £	Date
CED	MFI	630.69	May 09
CED	Telabria Ltd	2,070.23	January 10
CFE	Cuddlez Nursery Ltd	2,373.20	June 09
CFE	Swallow Hotel Ltd	170.00	July 09
COMM	Mr Bagel's Ltd	103.40	July 09
COMM	Tree Jumpers Ltd	417.60	November 09

Directorate	Company Name	Amount £	Date
COMM	Silver Springs Mineral Water Co Ltd	123.05	January 10
EHW	Amber Langis Ltd T/A Amber RTM	15,145.71	July 09
EHW	Timberland Homes Ltd	291.59	August 09
EHW	Amber Langis Ltd T/A Amber RTM	274.95	August 09
EHW	Pierse Contracting Southern Ltd	418.05	December 09
EHW	English Village Housing Association	71.13	January 10
EHW	English Village Housing Association	335.12	February 10
KASS	Cerrus International Ltd	1,236.83	February 10
	Total	23,661.55	

This is a modest increase from recent years.

FUTURE REPORTING

13. Regular debt reporting goes to Cabinet and Finance Strategy Board. Taking account this Committee's Terms of Reference it is suggested that it would be more appropriate if this item was reported in future to the Budget Informal Member Group.

RECOMMENDATION

14. Members are asked to:
 - (1) Note the contents of this report.
 - (2) Endorse the recommendation that future reports should go to the Budget IMG.

Marion Goodman
Deputy Exchequer Services Manager
Ext: 7000 4830

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By: Cabinet Member for Finance
Director of Finance

To: Governance and Audit Committee – 30 April 2010

Subject: **TREASURY MANAGEMENT**

Classification: Unrestricted

Summary: To report on Treasury management.

FOR INFORMATION

INTRODUCTION

1. As part of the new control regime for treasury management it is proposed to report quarterly to Governance & Audit Committee. This report specifically addresses requirements from the CIPFA Treasury Management Code of Practice and gives the opportunity to gain assurance that the activities are being appropriately managed.
2. This report is in the format agreed at the last meeting.

TREASURY ADVISORY GROUP

3. There have been two TAG meetings since the last report to this Committee:
 - (1) 11 December the main issues discussed were:
 - Treasury Management Strategy
 - Treasury Adviser Tender Requirement and Terms and Conditions
 - Bank Tender
 - CIPFA Treasury Management Code
 - DCLG Investment Guidelines Consultation
 - PWLB Fixed Rate Consultation
 - Training
 - (2) 26 March the main issues discussed were:
 - Icelandic Update
 - Economic Update and Approach to Borrowing and Investment
 - Treasury Adviser Tender

SUMMMARY OF MAJOR DEVELOPMENTS

4. The major developments in the period have been:
- (1) Treasury Strategy - the Treasury Strategy was agreed at Cabinet in January and by the Budget County Council meeting in February.
 - (2) Counterparties - the Treasury Strategy added Nationwide to the list of approved counterparties with a £20m limit.
 - (3) Duration of deposits - under the Treasury Strategy the maximum duration of deposits is 6 months. At its meeting on 26 March TAG agreed a paper which would extend the maximum duration to 12 months - this will now go forward to Cabinet for decision.
 - (4) Icelandic recoveries - to date recoveries from Heritable are £6.3m - the administrators projected base case recovery is 79-85p in the £. Legal processes have commenced in Iceland to confirm the preferred creditor status of depositors and a report on this will be made to Cabinet.
 - (5) CIPFA Treasury Management in Public Services - CIPFA published this revised document in late 2009. Its requirements are reflected in the Treasury Strategy and the detailed Treasury Management Practices. This states the following:
 - This organisation (i.e. full body / council) will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMP's.
 - This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to Director of Finance, who will act in accordance with the organisation's policy statement and TMPs and, if he / she is a CIPFA member, CIPFA's standard of professional practice on treasury management.
 - This organisation nominates the Treasury Advisory Group and Governance and Audit Committee to be responsible for ensuing effective scrutiny of the treasury management strategy and policies.
 - (6) Treasury adviser - the Treasury advisory service was tendered on 8 April. A decision will be made by the Director of Finance in consultation with TAG in July.

- (7) Internal Audit - in late March 2010 Deloitte undertook a review of the implementation of PWC's recommendations. Their report is awaited. A full Treasury Management audit will be undertaken in 2010.

QUARTERLY PERFORMANCE REPORT

5. A performance report for March 2010 is attached in Appendix 1.

STATEMENT OF DEPOSITS

6. A statement at 16 April is attached in Appendix 2.

RECOMMENDATION

7. Members are asked to note the quarterly report.

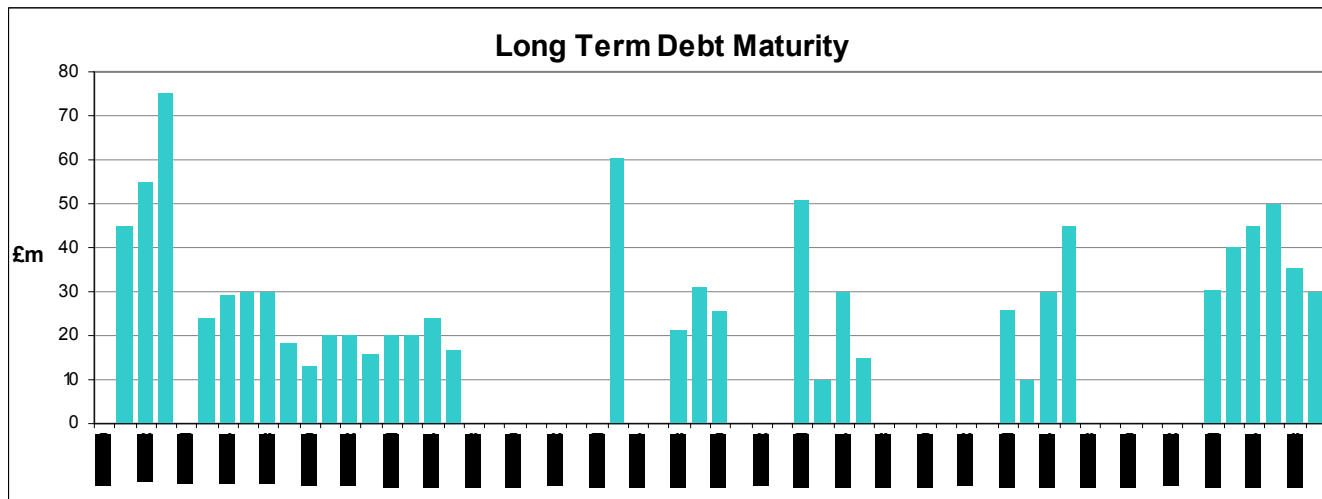
Nick Vickers
Head of Financial Services
Ext: 7000 4603

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Treasury Management Report for the month of March 2010

1. Long Term Borrowing

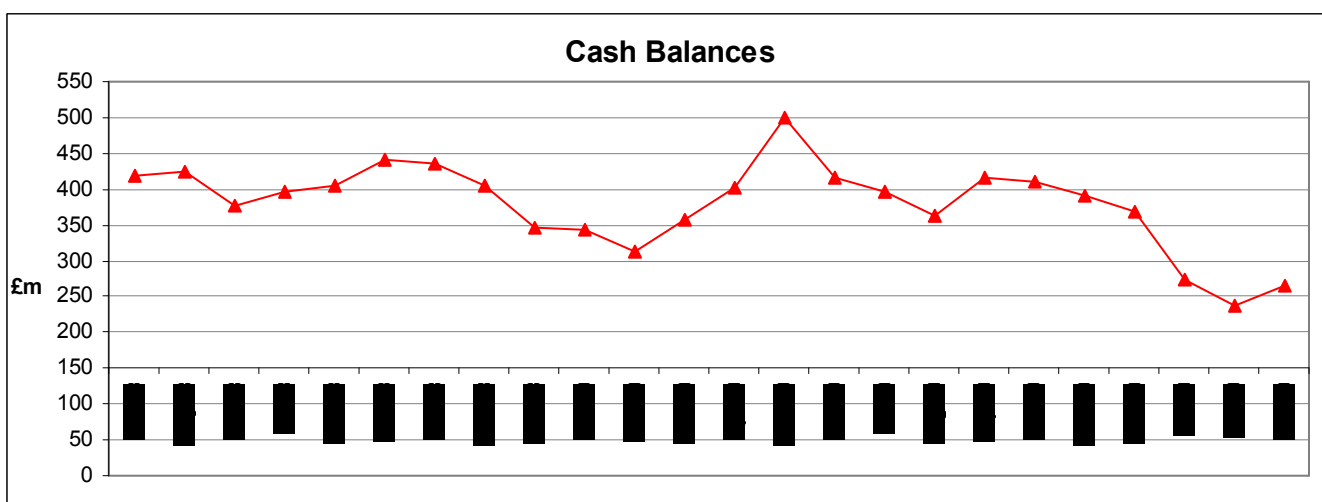
No new borrowings were arranged during March and the total outstanding is £1,042.4million with the maturity profile being as follows. The council continues to fund all new borrowing requirements by using available cash balances (i.e. internalising the debt).



Total external debt managed by KCC includes £49.2m pre-LGR debt managed by KCC on behalf of Medway Council. Also included is pre-1990 debt managed on behalf of Further Education Funding Council (£2.6m), Magistrates Courts (£1.4m) and the Probation Service (£0.24m). These bodies make regular payments of principal and interest to KCC to service this debt. The total debt fall out for 2009-10 was £60.51m, £60.47m being the maturity of a loan from the PWLB and £0.035m relating to small annuity and equal instalments of principal loans.

2. Investments

During March the total value of cash under management increased by £32m to £268m as the result of the receipt of grants which offset the impact of the de - segregation of Fire Monies - £14.9m on 30 March and investments of £13m into Pooled property funds by the Pension Fund. The 3rd dividend of £1.14m was received from Heritable Bank on 30 March. The following graph shows the movement in cash balances over the period April 2008 – March 2010.



Total cash balances under internal management by KCC include principal amounts currently at risk in Icelandic bank deposits (£43.9m), Pensions Fund cash (£56.1m), balances of schools in the corporate scheme (£52.2m), other reserves and funds held in trust. The reducing cash balance since September 2009 reflects the Council's policy of deferring borrowing and using available cash balances to fund new capital expenditure.

2.1 Deposit Portfolio

The schedule of deposits as at 16 April 2010 is attached.

2.2 Counterparty List

At the end of March some £165m was invested with financial institutions on the approved list. Also at this date KCC had a long term deposit of £5m with Chelsea Building Society due to mature in August 2010. This deposit was transferred to Yorkshire Building Society on 7 April following the merger of the 2 building societies.

2.3 Average return and comparison

The average return on new deposits in March was 0.7396% vs. 7 day LIBID 0.4080%

3 Interest on Cash Balances / Debt Charges for the year 2009-10

The underspend has increased by £0.200m this month from £8.949m to £9.149m. This reflects:

- lower debt charges as new borrowing has been deferred,
- higher than anticipated cash balances due to higher grant receipts than assumed and re-phasing of the capital programme,
- the write-down in 2009-10 of the discount saving on debt restructuring undertaken at the end of 2008-09 which was transferred to the Economic Downturn reserve,
- full utilisation of the approved banking institutions

4 Risk management

Credit Score matrix. The marginally lower credit rating ie higher credit risk of the deposit portfolio in March 2010 is due to the majority of the deposits being held with financial institutions rated AA- or lower with some £135m (51%) in overnight call accounts.

	October 2008		March 2010	
	Credit Rating	Credit Risk Score	Credit Rating	Credit Risk Score
Value Weighted Average	A+	5.3	A+	5.5
Time Weighted Average	AA-	4.0	A+	4.8

Credit risk scored 1 – 10; 1 = strongest rating lowest risk, i.e. AAA, through to 15 = lowest credit rating, highest risk, i.e. D

Operational Controls - no failures

5 Interest Rate Forecast

The March commentary on the economy and outlook for interest rates provided by Arlingclose was circulated to members at the meeting on 26 March 2010.

Alison Mings
14 March 2010

KCC Portfolio deposits 16 April

Instrument Type	Counterparty	Amount	Start Date	End Date	Interest Rate	Next Call Option/ Rate Review Date	Broker	Territory
Fixed Deposit	Dexia Bank	£10,000,000.00	15/04/09	31/10/11	0.505		Direct	Belgian Bank
	Total Belgian Bank Deposits	£10,000,000.00						
LIBOR Fixed Deposit	Glitnir	£5,000,000.00	21/01/08	21/01/09	0	n/a	Martins	Icelandic Bank
Fixed Deposit	Glitnir	£5,000,000.00	06/02/08	06/02/09	0	n/a	Martins	Icelandic Bank
Fixed Deposit	Glitnir	£5,000,000.00	20/08/08	19/08/09	0	n/a	Martins	Icelandic Bank
Fixed Deposit	Heritable Bank Ltd	£3,250,000.00	01/10/08	30/10/08	0	n/a	Martins	Icelandic Bank
Fixed Deposit	Heritable Bank Ltd	£2,000,000.00	03/09/08	03/11/08	0	n/a	Martins	Icelandic Bank
Fixed Deposit	Heritable Bank Ltd	£2,000,000.00	08/11/07	10/11/08	0	n/a	Garban Intercapital	Icelandic Bank
Fixed Deposit	Heritable Bank Ltd	£4,600,000.00	02/05/08	23/12/08	0	n/a	Garban Intercapital	Icelandic Bank
Fixed Deposit	Heritable Bank Ltd	£5,000,000.00	02/10/08	02/07/09	0	n/a	Martins	Icelandic Bank
Fixed Deposit	Heritable Bank Ltd	£1,500,000.00	18/08/08	17/08/09	0	n/a	Tullet Prebon	Icelandic Bank
1st Tranche Creditor Payment	Heritable Bank Ltd	-£2,959,121.00	30/07/09		0	n/a	Direct	Icelandic Bank
2nd Tranche creditor Payment	Heritable Bank Ltd	-£2,323,110.00	18/12/09		0	n/a	Direct	Icelandic Bank
3rd Tranche Creditor Payment	Heritable Bank Ltd	-£1,136,429.10	30/03/10		0	n/a	Direct	Icelandic Bank
Fixed Deposit	Landsbanki Islands	£5,000,000.00	19/09/08	24/10/08	0	n/a	Martins	Icelandic Bank
Fixed Deposit	Landsbanki Islands	£2,000,000.00	08/11/07	10/11/08	0	n/a	Martins	Icelandic Bank
Fixed Deposit	Landsbanki Islands	£5,000,000.00	22/04/08	22/04/09	0	n/a	Martins	Icelandic Bank
Fixed Deposit	Landsbanki Islands	£5,000,000.00	02/05/08	05/05/09	0	n/a	Martins	Icelandic Bank
	Total Icelandic Bank Deposits	£43,931,339.90						
Fixed Deposit	Barclays Bank	£5,000,000.00	02/06/08	31/05/13	6.8	n/a	Tradition	UK Bank
Same Day Call Account	Barclays Bank	£35,000,000.00	05/11/09		0.7	n/a	Direct	UK Bank
Callable Deposit	Lloyds HBOS	£5,000,000.00	13/06/08	13/06/13	7.53	13/06/2010	Tradition	UK Bank

KCC Portfolio deposits 16 April

Same Day Call Account	Lloyds HBOS	£34,988,284.59	12/10/09		0.85	n/a	Direct	UK Bank
Callable Rate Flipper	Royal Bank of Scotland	£5,000,000.00	19/09/08	19/09/11	1.9	19/09/2010	Tullet Prebon	UK Bank
LIBOR Fixed Deposit	Royal Bank of Scotland	£5,000,000.00	20/10/08	18/10/13	1.21125	19/04/2010	Tradition	UK Bank
Same Day Call Deposit	Royal Bank of Scotland	£30,000,000.00	12/10/09		1.15	n/a	Direct	UK Bank
Same Day Call Account	Santander UK	£40,000,000.00	12/10/09		0.8	n/a	Direct	UK Bank
	Total UK Bank Deposits	£159,988,284.59						
LIBOR Fixed Deposit	Nationwide Building Society	£5,000,000.00	17/04/08	19/04/10	1.11125	n/a	Tradition	UK Building Society
Fixed Deposit	Nationwide Building Society	£5,000,000.00	03/06/08	03/06/10	6.25	n/a	Tradition	UK Building Society
Fixed Deposit	Yorkshire Building Society (formerly Chelsea BS)	£5,000,000.00	06/08/07	06/08/10	6.25	n/a	Tradition	UK Building Society
LIBOR Fixed Deposit	Principality Building Society	£5,000,000.00	21/04/08	21/04/11	1.21688	21/04/2010	Tradition	UK Building Society
	Total UK Building Society Deposits	£20,000,000.00						
Fixed Deposit	Debt Management Office	£10,000,000.00	16/04/10	19/04/10	0.25	n/a	Direct	UK Govt.
Fixed Deposit	Debt Management Office	£5,700,000.00	14/04/10	20/04/10	0.25	n/a	Direct	UK Govt.
Fixed Deposit	Debt Management Office	£15,000,000.00	15/04/10	20/04/10	0.25	n/a	Direct	UK Govt.
Fixed Deposit	Debt Management Office	£20,000,000.00	06/04/10	20/04/10	0.25	n/a	Direct	UK Govt.
Fixed Deposit	Debt Management Office	£5,000,000.00	16/04/10	21/04/10	0.25	n/a	Direct	UK Govt.
Fixed Deposit	Debt Management Office	£5,250,000.00	15/04/10	21/04/10	0.25	n/a	Direct	UK Govt.

KCC Portfolio deposits 16 April

Fixed Deposit	Debt Management Office	£28,000,000.00	16/04/10	23/04/10	0.25	n/a	Direct	UK Govt.
Fixed Deposit	Debt Management Office	£35,000,000.00	15/04/10	23/04/10	0.25	n/a	Direct	UK Govt.
Fixed Deposit	Debt Management Office	£6,000,000.00	16/04/10	27/04/10	0.25	n/a	Direct	UK Govt.
Fixed Deposit	Debt Management Office	£7,000,000.00	16/04/10	28/04/10	0.25	n/a	Direct	UK Govt.
Fixed Deposit	Debt Management Office	£8,700,000.00	16/04/10	29/04/10	0.25	n/a	Direct	UK Govt.
	Total UK Govt. Deposits	£145,650,000.00						
	Grand Total of All Deposits	£379,569,624.49						

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By: Chairman of Governance and Audit Committee
Head of Audit and Risk

To: Governance and Audit Committee – 30 April 2010

Subject: **Committee Terms of Reference**

Classification: Unrestricted

Summary: Following recent discussions of the Committee, a revised Terms of Reference have been developed that describe the committee's role in terms of responsibility rather than process.

FOR DECISION

Introduction and background

1. The original Terms of Reference for the Committee were approved by County Council in May 2005, and last updated in June 2009. In September 2009 a presentation was given by the Head of Audit and Risk and the Director of Law and Governance on the Role of and Terms of Reference for the Governance and Audit Committee. As a result of the presentation it was agreed that the Committee should take a more pro-active view of its role, and that the Chairman would discuss amendments to the agenda-setting process with the Committee's lead officers.
2. In December 2009 a proposed annual work plan that met the core requirements of the Committee's existing Terms of Reference was approved. As part of this work it was recognised that the existing Terms of Reference were in need of review to reflect the development in thinking on the role of Audit Committees published since 2005. The Committee agreed that the new Head of Audit and Risk should complete this review, with the remit to assess any gaps in coverage, and to describe the Committee's role in terms of responsibility rather than process.

Context to the work of the Committee

3. From the presentation in September members of the Committee will recall that the purpose, importance and role of an Audit Committee in relation to good governance and risk management is set out in the:
 - Smith Report, included in the Combined Code, 2003 & 2005.
 - Good Governance Standard for Public Services, 2004.
 - CIPFA SOLACE Governance Framework 2007.

4. These publications have been further supplemented by guides on the role of audit committees in the public sector, in particular:
 - The CIPFA Audit Committee Guide (2005)
 - The IPF Toolkit for Local Authority Audit Committees (2006)
 - The HM Treasury Audit Committee Handbook (2007)
 - The National Audit Office Audit Committee Self Assessment Checklist (2009)
 - Treasury Management in the Public Sector (CIPFA, 2009)

Process of developing the revised Terms of Reference

5. This guidance provides a wealth of information on realising the benefits of an effective audit committee, and has therefore formed the basis of the new Terms of Reference. Although each source of guidance provides a slightly different emphasis as to the role of an audit committee, there is a general consensus that an Audit Committee should seek assurance on the systems and processes relating to:
 - Risk Management and internal control
 - Corporate Governance
 - Internal Audit
 - External Audit
 - Financial statements and other public reporting of performance
 - Counter fraud and corruption
6. The outcomes and responsibilities of the revised Terms of Reference are therefore grouped within these themes.
7. In drafting the revised Terms of Reference it was considered useful to review the roles of audit committee in both FTSE 100 companies and in other County and Unitary Councils.
8. As expected the review of twenty five of the FTSE100 companies showed that the guidance set out in the Smith Report and the Financial Reporting Council's Combined Code is very closely adhered to. The review of eighty-two County and Unitary authorities identified a range of models and roles for audit committees, although the core theme was usually consistent with the CIPFA / IPF guides. Only two of the councils reviewed did not have a recognised audit committee, one using a Business Efficiency Board and one using an existing Overview and Scrutiny Committee.
9. Both reviews provided valuable insight into the potential responsibilities for governance and audit committees. Where good practice was identified it has been incorporated into the revised terms of reference.

Proposed terms of reference

10. The revised Terms of Reference for the committee, based on the work set out above, are attached at annex 1. Although they are longer and more detailed, they do not significantly change the role of the Committee. They do better document the outcomes to be achieved by the Committee, and the responsibilities that the Committee has in order to deliver these outcomes. It is intended that they will provide the Committee with the basis from which it can become more pro-active, and focus less on process. The existing Terms of Reference are included at annex 2.
11. To aid clarity, the document has been structured in terms of overarching purpose, desired outcomes, responsibilities in relation to these outcomes, and administrative arrangements.
12. There are three responsibilities that are not carried forward into the revised terms of reference. These relate to advising the Council on the Annual Plan, overseeing the operation of the Council's complaints procedures and approving the writing-off of debts.
13. The write off of council debt is an executive function, and therefore should not be included in the responsibilities of a committee seeking to provide assurance on processes. The statutory requirement to produce an Annual Plan that is audited by the audit Commission has been removed, and therefore this responsibility has been deleted. The remaining responsibility in relation to complaints will be covered by the general responsibility of the Committee to review regular and ad-hoc assurance reports from officers in order to assess the effectiveness of control activity.

Conclusion

14. The revised Terms of Reference will provide the basis through which the Committee can effectively deliver its overall purpose. However, the Terms of Reference must also be supported by a forward work programme that ensures that all of the new responsibilities are being achieved and by a training programme tailored to the needs of the members.

Recommendations

15. Members of the committee are asked to:
 - Recommend to full Council that, together with consequential changes to the Constitution, the revised Terms of Reference at annex 1 be approved.

David Tonks
Head of Audit and Risk
Ext: 4614

Governance and Audit Committee

Terms of Reference

Overarching Purpose

The purpose of the Governance and Audit Committee is to:

1. ensure the Council's financial affairs are properly and efficiently conducted, and
2. review assurance as to the adequacy of the risk management and governance framework and the associated control environment.

Objectives of the Committee

On behalf of the Council the Governance & Audit Committee will ensure the following outcomes:

- Risk Management and Internal Control systems are in place that are adequate for purpose and effectively and efficiently operated.
- The Council's Corporate Governance framework meets recommended practice (currently set out in the CiPFA / SOLACE good governance framework), is embedded across the whole Council and is operating throughout the year with no significant lapses.
- The Council's Internal Audit function is independent of the activities it audits, is effective, has sufficient experience and expertise and the scope of the work to be carried out is appropriate.
- The appointment and remuneration of the External Auditors is approved in accordance with relevant legislation and guidance, and the function is independent and objective.
- The external audit process is effective, taking into account relevant professional and regulatory requirements, and is undertaken in liaison with Internal Audit.
- The Council's financial statements (including the Pension Fund Accounts) comply with relevant legislation and guidance and the associated financial reporting processes are effective.
- Any public statements in relation to the Council's financial performance are accurate and the financial judgements contained within those statements are sound.
- Accounting policies are appropriately applied across the Council.
- The Council has a robust counter fraud culture backed by well designed and implemented controls and procedures which define the roles of management and Internal Audit.

Responsibilities

Risk Management and Internal Control

- Review annually the Council's Risk Management Strategy and Policy to ensure it remains up to date and relevant.
- Review the Council's Strategic Risk Register to assess the effectiveness of the systems established by senior officers to identify, assess, control and monitor financial and non-financial risks.

- Review regular and ad-hoc assurance reports from officers in order to assess the effectiveness of the control activity in relation to significant risks identified.
- Commission investigations into any matter of concern within the Terms of Reference of the Committee, consider the findings thereof and make appropriate recommendations to the Council.
- Ensure appropriate action is taken in response to recommendations arising from any external audit, internal audit, operational compliance or business risk report and to monitor such action, making appropriate recommendations to the Council.
- Ensure that any partnership that the Council enters into has proportionate Governance and Risk Management arrangements, and that any risk to the Council from the Partnership is minimised.
- Consider the Annual Risk Management Report and assess the impact of the findings on the Annual Governance Statement.
- Review regular monitoring reports on treasury management activity and significant risks.

Corporate Governance

- Ensure that the Annual Governance Statement (including the list of significant issues for action in the ensuing year) is prepared in accordance with the statutory requirements and guidance, properly reflects the risk environment, and monitor progress on the significant issues and actions identified in the Statement.
- Review the Council's key financial governance procedures, i.e. Financial Regulations, Schemes of Delegation, the Procurement Policy and the Treasury Management Policies, and recommend any necessary amendments.
- Review the Council's Code of Corporate Governance and make recommendations to Council to ensure that it remains relevant to the Council's work and remains in compliance with best practice and legislation.
- Consider issues referred by the Group Managing Director, Director of Finance, Monitoring Officer, any Council body or appropriate external party within the remit of these terms of reference.
- Monitor the Council's compliance with its own published standards and controls.
- Make recommendations to the Council on amendments to the Constitution to ensure compliance with standards of financial probity and stewardship.
- Review arrangements made by the Superannuation Fund Committee for effective governance of the Kent Pension Fund.

Internal Audit

- Review annually the Internal Audit Strategy ensuring that its Annual Plan addresses the key risks of the Council, recommending changes and additions as necessary.
- Review at each meeting of the Committee progress against, and changes to, the Annual Plan.
- Review at each meeting of the Committee the findings of Internal Audit work and the adequacy of management response to their findings.

- Review at each meeting of the Committee the implementation by officers of agreed “Critical” and “High” Internal Audit recommendations, seeking explanations from those responsible where implementation has not been achieved.
- Consider the results of the annual benchmarking and Key Performance Indicator results for Internal Audit.
- Assess the implications of the Internal Audit Annual Report on the Council’s risk management, control and governance processes.
- Annually assess the co-operation between External and Internal Audit and other inspection agencies or relevant bodies.
- Approve the Terms of Reference and Charter of Internal Audit.

External Audit

- Approve on behalf of the Council the appointment of the External Auditor selected by the Audit Commission.
- Approve the annual External Audit plan and fee, ensuring that non-mandated work is proportionate, relates to recognised risks of the Council and is takes account of the work of Internal Audit or other assurance activities.
- Review at each meeting of the Committee progress against, and changes to, the External Audit plan and fee.
- As “those charged with governance” receive the Annual Governance Report and the Annual Audit Letter and monitor the Council’s response to the External Auditor’s findings and the implementation of external audit recommendations.

Financial Reporting

- Approve the Statement of Accounts on behalf of the Council, specifically considering the suitability of accounting policies and treatments and any changes to these; areas of major judgement; and any significant issues or amendments resulting from the audit.
- Ensure that the Kent Pension Fund Accounts, and summary extracts in the Council’s Accounts, have been prepared in accordance with recommended practice.

Fraud

- Regularly review the Council’s Anti-Fraud and Anti-Corruption strategies.
- Regularly review the Council’s procedures for handling allegations from whistleblowers.
- Receive details of the findings of investigations resulting from either detected fraud or allegations made under the whistleblowing arrangements.

Membership

The membership of the Committee shall be 13 non-executive Members (Conservative 12; Liberal Democrat 1).

Reporting

The Minutes of the Governance and Audit Committee will be reported to Council after each meeting.

The Committee will produce an Annual Report immediately after the financial year end, timed to support the Annual Governance Statement, summarising the conclusions drawn from the work it has done in the year.

Rights and Access

The Committee may procure specialist ad-hoc advice from officers or from suitably qualified external sources.

The Head of Audit and Risk and the representative of External Audit will have unrestricted and confidential access to the Chairman of the Committee.

Meetings

The Committee will meet at least four times a year. The Chairman may convene additional meetings if required.

The quorum for Committee meetings is one third of its total voting membership.

The Committee may still validly exercise its functions even if Members have not been appointed to all the places on it.

Attendees

The Committee will normally be attended by the Director of Finance, the Director of Law and Governance, the Head of Audit and Risk and a representative of External Audit.

The Committee may request that any other Member or Officer attend to assist it with its discussions on any particular issues.

Work of other Committees

In all of the above, the Committee will strive to develop effective liaison with the following:

- the Standards Committee with regard to matters of ethical governance;
- the Policy Overview and Scrutiny Committees - to complement but not to duplicate the exercise of their role in checking compliance with Council processes and policies and in reviewing decisions and actions;
- Cabinet Members, in particular the Leader and the Cabinet Members for Finance Corporate Support Services & Performance Management, whose portfolios include executive functions related to the matters covered by these terms of reference
- the Council, especially when developing the Council's Code of Corporate Governance

Training and development

The work of the Members of the Council will be supported by a training and development programme consistent with the responsibilities to be discharged.

This Committee has responsibility for:

- (a). monitoring the Council's compliance with its own published standards and controls and with other standards, and considering any proposals for changes to Financial Regulations and the Code of Practice on Tenders and Contracts;
- (b). liaising with the Audit Commission over the appointment of the Council's external auditor;
- (c). discussing with the external auditor and Cabinet the basis of the annual audit, including the overall level and composition of the fee and the content of performance work;
- (d). receiving all reports by the external auditor including all performance reports and the Annual Management Letter;
- (e). overseeing the Internal Audit activity of the Council;
- (f). advising the Council on the Annual Plan proposed by the Leader in relation to statutory requirements and guidance; and considering and responding to reports from the external auditor and Best Value Inspectorate;
- (g). monitoring the response of the Cabinet and Council Committees to audit reviews and investigations and the implementation of agreed recommendations;
- (h). overseeing the operation of the Council's complaints procedures, including the response of the Cabinet or a Council Committee to any report by the local Government Ombudsman;
- (i). approving the annual accounts on behalf of the Council;
- (j). approving the writing-off of debts from the Council's accounts (except those agreed by the Strategic Director (Resources) as provided for in Financial Regulations);
- (k). monitoring the operation of borrowing and investment policies and Treasury Management activity;
- (l). agreeing the risk management policy with the Cabinet and reviewing the effectiveness of risk management and monitoring insurance arrangements;
- (m). keeping under review the Council's arrangements for corporate governance and agreeing from time to time necessary actions to ensure compliance with best practice.

By: Chairman of Governance and Audit Committee
Head of Audit and Risk

To: Governance and Audit Committee – 30 April 2010

Subject: **Work Programme and Member Development Programme**

Classification: Unrestricted

Summary: A forward work programme, supported by appropriate member training, ensures that the responsibilities of the committee are met and means sufficient time is allocated for members of the Committee to cover areas they collectively wished to examine in more detail.

FOR DECISION

Introduction

1. A comprehensive work programme ensures that the committee is able to discharge its responsibilities in its terms of reference, ensures that sufficient time is devoted to each area, provides balance to the agendas throughout the year and helps the committee become pro-active in its work.
2. At the December 2009 meeting of the Committee it was agreed that there would be a standing item on each agenda to allow members to review the plan for the year ahead, and provide members with the opportunity to identify any additional items that they would wish to include.
3. The future work programme should be complimented by a training programme that ensures members of the Committee have the appropriate knowledge required to allow them to engage effectively with the work of the Committee.

Current work programme

4. Annex 1 shows the latest programme of work for the Committee up to November 2010; meetings past this date have not yet been arranged by Democratic Services. The content of the programme have been matched to the revised terms of reference of the Committee and provide the minimum coverage necessary to meet the responsibilities set out. The programme currently does not include all of the ad-hoc assurance reports that the committee may require, nor can it include items requested by the Committee or work resulting from issues referred to the Committee unless known. These items will be added to (and removed from) the programme throughout the year.

Member's development programme

5. It is recognised in guidance relating to the function of audit committees (such as the Smith Report) that provision should be made for the continued training of Committee members. The CiPFA guidance suggests that, in addition to induction training covering the role of the committee, ToR, time commitments, and an overview of the council, training should also be provided in the following areas:

- Financial reporting and understanding financial statements
 - Governance
 - The regulatory framework
 - The role of internal and external audit
 - Risk Management
6. To date training for the *current* membership of the Governance and Audit committee has been provided on:
- the Role and Terms of Reference of the Committee (Sept 2009)
 - Treasury Management (April 2010)
7. Whilst there are existing mechanisms to address some training needs (e.g. the Financial Management Development Programme) these are not always accessible to all members, and there is currently no dedicated programme for members of the Governance and Audit Committee. A possible approach to ensuring members develop the skills required for the committee would be to tailor a programme based on the flow of work indicated in the annual programme. For example, the June meeting will be dominated by Financial Reporting issues, so training in this area prior to the meeting would be desirable.
8. If members agree that there is a need for a training programme then one can be developed, starting with key aspects of financial reporting in June. The remaining programme will be subject to discussion on:
- the topics to be covered;
 - the most effective method of delivery, and;
 - timing.

Recommendations

9. Members of the committee are asked to:
- Consider the forward work programme for 2010 and suggest any changes deemed necessary.
 - Identify any additional items that members would wish to include
 - Agree the need for a member training linked to the content of the forward work programme.
 - If agreed, ask that the Head of Audit and Risk develop a suitable training programme for agreement at the June 2010 meeting of the Committee.

David Tonks
Head of Audit and Risk
Ext: 4614

Annex 1
Future Work Programme

Item	Category	30-Apr-10	30-Jun-10	15-Sep-10	30-Nov-10
Standing Items					
Minutes of last meeting		✓	✓	✓	✓
Work Programme & training programme		✓	✓	✓	✓
Trading activities Sub Group			✓		✓
Routine Items					
Internal Audit Progress Report	IA	✓	✓	✓	✓
Strategic Risk Register	RM	✓			✓
Treasury Management	RM	✓	✓	✓	✓
Debt Management	Acc	✓			
Ombudsman Complaints	RM		✓		✓
Audit Commission Update	EA	✓	✓	✓	✓
Tracking of External Audit and other regulators recommendations	EA		✓		✓
Member Commissioned Work					
PFI	RM	✓			
Risks arising from MTP / Budget	RM	✓			
Non-routine items					
Approval of revised Financial Regulations	Gov	✓			
Revised ToR	Gov	✓			
International Financial Reporting Standards	Acc	✓			
International Financial Reporting Standards	EA	✓			
Partnerships Audit	EA	✓			
Annual Reporting and Review					
Annual Governance Statement	Gov		✓		
Pension Fund Governance assurance statement	EA		✓		
Statement of Accounts	Acc		✓	✓	
Internal Audit Annual Report	IA		✓		
External Audit Governance Report	EA		✓	✓	
Annual Management of Risk report	RM			✓	
Data Quality	Gov			✓	
Annual Complaints Report	Gov				✓
Corporate Governance Indicators	Gov				✓
External Audit Annual Audit Letter	EA				✓
Treasury Management Annual Report	RM		✓		
Certification Work Report	EA	✓			
Internal Audit Benchmarking Results	IA			✓	
Effectiveness of External Audit Liaison	EA				✓
Review of the Risk Management Strategy	RM			✓	
Review of the Anti-fraud and anti-corruption Strategy	Gov			✓	
G&A Annual Report	All				
Annual Planning					
Internal Audit Strategy and Annual Plan	IA	✓			
External Audit Fee and work programme	EA		✓		
External Audit Opinion work programme	EA	✓			
Committee Work programme	Gov	✓			
Member Development Programme	Gov	✓			
Annual Risk Management Policy and Programme	RM			✓	

Key: IA = Internal Audit Gov = Governance related RM = Risk Management
EA = External Audit Acc = Financial Reporting

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By: John Simmonds, Cabinet Member for Finance
Lynda McMullan, Director of Finance

To: Governance & Audit Committee
30 April 2010

Subject: Private Finance Initiative

Summary: This paper quantifies the Authority's existing exposure to PFI, and discusses how a number of the risks are being managed. It also compares the cost of two of the Authority's existing PFI contracts against what the cost might have been under a traditional procurement route.

FOR INFORMATION

BACKGROUND

1. This report is on the agenda at the request of Members as a follow up to the report *The risks to KCC resulting from the Private Finance Initiative* that was brought to the Governance & Audit Committee meeting on 1 December 2009, and addresses some specific issues that were raised as a result of the first report.

KCC's EXPOSURE TO PFI

2. The PFI contracts that KCC are currently engaged in are:
 - Swan Valley and Craylands Schools (Swanscombe) (CFE)
 - Six Schools (CFE)
 - BSF Wave 3 (CFE)
 - Westbrook and Westview Recuperative Care Facilities (Westview) (KASS)
 - Gravesham Place Integrated Care Centre – lead by West Kent PCT (KASS)
 - Better Homes Active Lives Extra Care Accommodation (BHAL) (KASS)
3. Appendix A plots the total unitary charge commitments for the remaining terms of these PFI contracts against the PFI credits we expect to receive from Government over the same period.
4. The total 2010/11 "affordability gap" is £10.7m, of which £7.1m relates to the CFE PFI contracts listed in paragraph 2 and £3.6m relates to the KASS PFI contracts. This will be met through:
 - A £6m contribution in respect of the three CFE PFI contracts will be made by top slicing from the Dedicated Schools Grant (DSG) in 2010/11. A further £2.3m contribution will be made by individual PFI school budgets towards maintenance and facilities management costs. This £8.3m contribution is greater than the affordability gap in respect of the CFE PFI contracts in 2010/11. The difference will be taken to the PFI equalisation reserves to help manage future risks.
 - The KASS affordability gap will be met by KASS base budget, and includes a £2.3m payment in respect of the Gravesham Place PFI contract, which is lead by West Kent PCT.
5. Equalisation reserves are held in respect of each PFI scheme lead by KCC in order to even out the annual affordability gap over the lifetime of the contract. With many PFI contracts, the PFI credits tend to remain constant each year over the life of the contract, whereas the Unitary Charges generally increase each year in line with inflation. Therefore, in the early years of PFI contracts, there tends to be a contribution towards the equalisation reserve. This reserve is then drawn down in the later years, when the Unitary Charge is greater.

6. The largest projected affordability gap on the existing PFI contracts outlined in paragraph 2 is £20.3m and is expected to occur in 2032/33. DSG and school contributions are expected to occur in the same proportions as in 2010/11, the only difference being an uplift for inflation.
7. Wave 4 of the BSF Programme was approved by Cabinet in July 2009. This Wave includes four PFI schemes. Financial close is scheduled for early 2011, at which point in time the size of any affordability gap will be finalised after Cabinet approval.

ISSUES RAISED AT/SINCE LAST G&A MEETING

Contract Reviews

8. Within each of the CFE PFI contracts, the main review points (normally every 5 years) are to benchmark or market test some of the facilities management services. These services include: cleaning, catering, grounds maintenance, waste management and pest control.
9. These review points are an opportunity for the Authority and Contractor to review the services to ensure they still offer value for money and are relevant to the schools needs. The exercise also ensures the costs adequately reflect the existing market conditions.
10. Of the two operational PFI contracts in CFE (Swanscombe and Six Schools), only Swanscombe has reached and been through benchmarking. The end result of this exercise was an increase in the annual unitary charge of approximately £100k, which reflected increased labour costs, increased food and preparation costs, and changes in legislation.
11. Each PFI contract has review periods where consumption baselines are reviewed. The utility review period for the Swanscombe contract is annual, and is every three years for the Six Schools contract. Depending on whether the baselines are exceeded or energy savings have been achieved, the Authority and Contractor will share the benefit or downside. These contract schedules are complex and can be influenced by increases in market tariff rates. This has been demonstrated recently within the Swanscombe contract where energy consumption savings have been made but high tariff rates have required the Authority to pay to the Contractor additional monies.
12. There are market testing provisions in the two Kent Adult Social Services PFI contracts for which KCC is the lead Authority (Westview and BHAL). For BHAL the unitary charge is fixed for the duration of the contract. Any increase in costs as a result of market testing is likely to fall on the rents and service charges to tenants, both of which are controlled and regulated by the Homes and Communities Agency.

Refinancing

13. Both Swanscombe and the Six Schools PFI contracts contain schedules which allow refinancing if the market conditions are deemed favourable. Both parties would equally share the benefit of refinancing once reasonable professional costs are taken into consideration. The same schedules also exist in respect of refinancing in the Westview and BHAL PFI contracts.
14. To date no refinancing has been undertaken in respect of any of the Authority's PFI contracts.

PFI credits

15. One or more Central Government departments will sponsor a PFI project. The sponsoring department(s) pay a stream of quarterly payments to the authority - PFI credits. These are calculated to cover the notional capital element of the project, including both the initial capital expenditure and planned life cycle expenditures. Issuing a PFI credit letter is a promise that PFI grant can be claimed once the project is operational, and the level of PFI credits determines the amount of grant¹.
16. PFI credits are payable by the Government department from service commencement (not from when building work commences), although the amount of PFI credit is set at the date the contract is signed. Whether or not the building usage is the same as that projected at the time the contract is signed, the value of the PFI credits will not differ from what is set out in the contract. Therefore, if fewer school children than projected actually attend a PFI school, or demand for social accommodation built under PFI reduces, the value of PFI credit will not reduce.
17. The risk of these PFI credits being withdrawn is deemed negligible. The opinion sought by our Legal Services team is that no Government could renege on this without seriously risking a judicial review.

PFI Contract termination/break points

18. With respect to both the operational PFI contracts in CFE (Swanscombe and Six Schools), termination can occur for breach of contract by either party. Whichever party (the Authority or the Contractor) causes a breach of contract which leads to termination, that party is responsible for the other party's costs.
19. Kent County Council can also terminate the contracts by giving due notice. If KCC was to terminate the contract, we would be subject to financial penalties based on the remaining length of the concession period and TUPE redundancy costs.
20. No break point exists in either the Swanscombe or Six Schools PFI contract.
21. This also applies to both of the KASS PFI contracts for which Kent County Council is the lead Authority (Westview and BHAL).

Schools Funding Forum

22. The Schools Funding Forum (SFF) has agreed to use the DSG to close the affordability gap for the Swanscombe, Six Schools and BSF Wave 3 PFI contracts.
23. The affordability gaps that the SFF have agreed to fund in 2010/11 are:

Swanscombe	£1.4 m
Six Schools	£3.7 m
BSF Wave 3	<u>£0.9 m</u>
	£6.0 m
24. To date the Schools Funding Forum has been extremely supportive of the Private Finance Initiative. The Forum is fully aware that through entering into PFI deals, the Authority is entering into a contractual arrangement that would be extremely difficult and costly to get out of.

Continued support for PFI

25. No matter what the result is after the General Election on 6th May, we know that there are some deep cuts to come in public finances. However, Schools' funding has already been announced as a protected area.

¹ <http://www.local.odpm.gov.uk/pfi/index.htm>

26. Budget cuts will impact on all authorities in a similar way, through the formula grant and specific grant allocation. These cuts are likely to reduce our scope to be flexible with how we use the grant allocation. Could PFI credits be affected? There are a number of other much bigger areas of expenditure without the same degree of commitment to funding into the future as PFI; these areas are more likely to be cut given the relative impact of that compared to stopping the PFI credits.

Risks

27. The above paragraphs identify that there is a small risk that PFI funding streams may dry up, which has been managed as far as possible.
28. Members should consider whether or not the remaining risks are sufficient to warrant inclusion in the Directorate and/or Strategic Risk Register.

COST COMPARISON: PFI vs. TRADITIONAL PROCUREMENT ROUTE

29. Tables 1 and 2 below provide a speculative comparison between the current cost of two PFI contracts to the Authority and what the cost might have been if we had gone down the traditional route for the procurement of the capital assets. In both cases, we have assumed that the capital cost under the traditional procurement route would have been the same as the capital cost of the assets built under the PFI contracts.
30. It is important to emphasise, when considering the comparisons in Tables 1 and 2, that at the time these contracts were entered into the Private Finance Initiative was 'the only show in town' and no alternative funding options were available. The Private Finance Initiative contracts that Kent County Council is currently engaged in have brought a significant amount of investment into the County. However, for the purposes of this comparison we have assumed in both cases that Supported Borrowing could have been available from Central Government at the same level as PFI credits, if they had chosen to be more flexible in how they support local investment.
31. The Audit Commission have identified an annual spend of between 1.5 and 2.0% of an asset's value as indicative of what might be required for long term maintenance of the asset. In Tables 1 and 2 below, annual maintenance expenditure has been estimated at 1.5% of the capital cost of the asset, for the traditional procurement route comparison.

Better Homes Active Lives PFI

Estimated cost under traditional procurement route		Cost under PFI contract	
Capital cost	£64.3 m	<u>Average over 30 year contract</u>	
Annual interest & repayment	£5.8 m	Payments to PFI contractor (Unitary Charge)	£5.3 m
Annual maintenance cost	£1.0 m	Contract Management	£0.2 m
<u>less</u> Supported Borrowing (*)	(£5.4 m)	<u>less</u> PFI credit	(£5.4 m)
		<u>less</u> Interest on balances	(£0.1 m)
Annual cost for 25 years	£1.4 m	Cost to KCC	£0.0 m

(*) Assumed at the same amount per annum as received through PFI credit from Central Government

32. Over the lifetime of the Better Homes Active Lives PFI contract, the component charges and credits net off such that the cost to the authority is £nil. Table 1 shows that had we undertaken the build under the traditional procurement route, and received supported borrowing at the same level per annum as we receive PFI credits, the net annual cost to the Authority would equate to approximately £1.4m per year for 25 years. However, it is important to again highlight the fact that no supported borrowing was available, which means the real comparison is between the two options that were available: PFI or prudential borrowing. The annual net cost of PFI to KCC is £nil, compared to the annual net cost of the prudential borrowing route of £6.8m.

Six Schools PFI

Table 2			
Estimated cost under traditional procurement route		Cost under PFI contract	
Capital cost	£96.6 m		<u>2010/11</u>
Annual interest & repayment	£8.7 m	Payments to PFI contractor (Unitary Charge)	£11.6 m
Annual maintenance cost	£1.4 m		
<u>less</u> Supported Borrowing(*)	(£6.1 m)	<u>less</u> PFI credits	(£6.1 m)
<u>less</u> DSG - Schools contributions	(£1.6 m)	<u>less</u> DSG - Schools contributions	(£1.6 m)
		<u>less</u> Interest on balances	(£0.2 m)
Contribution required from DSG – KCC/SFF	£2.4 m	Contribution required from DSG – KCC/SFF	£3.7 m

(*) Assumed at the same amount per annum as received through PFI credit from Central Government

33. Table 2 considers the cost under the Six Schools PFI contract in 2010/11. The difference in cost each year until the end of the PFI contract would be an inflationary increase in the Unitary Charge payment, as well as the required contributions from the Dedicated Schools Grant (both directly from schools and through top slicing from DSG).
34. The total capital expenditure for the Six Schools PFI contract was £96.6m. Procurement through the traditional route would have resulted in a net annual cost of approximately £2.4m over 25 years. This assumes that we would receive school contributions at the same level as under the PFI contract (£1.6m) and that supported borrowing would have been available (which wasn't), so this again is a theoretical comparison, not a choice available to us at the time. The remaining gap of £2.4m would either need to be considered by the SFF for top-slicing from the DSG, in the same way that they have considered and agreed to contribute £3.7m in 2010/11 towards the costs of the Six Schools PFI contract, or would have been a cost to KCC's base budget.

CONCLUSIONS

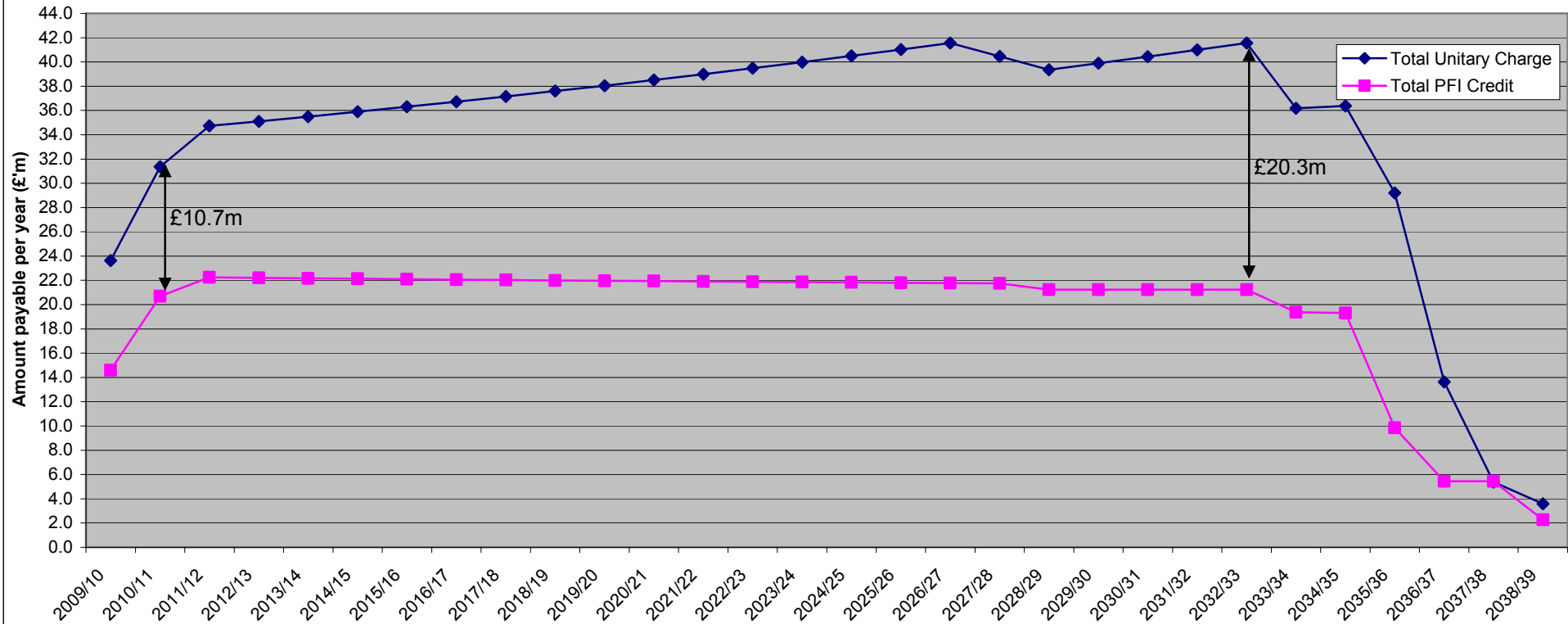
35. In this paper we have quantified Kent County Council's existing exposure to PFI, and discussed how a number of the associated risks are being managed. These risks are considered when the relevant risk registers are being compiled.
36. Ideally, we would be able to take the available funding from Government to enable us to secure the procurement option that would offer the best value for money. However, with many of our PFI contracts the only funding available was in the form of PFI credits, making PFI 'the only affordable show in town'. In these cases, the benefits to the County that have resulted, including excellent facilities and economic investment being brought into Kent, were considered to be better than the alternative of doing nothing.

RECOMMENDATION

37. Members are asked to:

- a) Note this report, which will help achieve their responsibilities under risk management and control, as set out in the Committee's Terms of Reference.
- b) Consider whether or not the risks outlined in this paper are sufficient to warrant inclusion in the Directorate and/or Strategic Risk Register.

Projected Unitary Charges and related PFI credits over remaining term of existing PFI contracts (2009/10 onwards)



This graph shows the gap simply between the anticipated Unitary Charges for the remainder of the contract periods and the PFI credits paid to the Authority for the following PFI contracts: Westbrook and Westview Recuperative Care Facilities, Gravesham Place Integrated Care Centre, Swan Valley and Craylands Schools, Six New Schools, Better Homes Active Lives Extra Care Accommodation, and schools under Wave 3 of the Building Schools for the Future programme.

When considering the liability of the Authority the following points should also be taken into account.

- Indexation - increases or decreases which are different from those anticipated in the financial modelling
- The contract management costs incurred by the Authority
- Interest on balances during the life of the contract
- Market testing of Facilities Management services (every five years)
- Significant fluctuations in cost such as insurance due to changes in the market

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To: Governance & Audit Committee
Date: 30 April 2010
Subject: **Impact of the Authority's Budget on the Risk Registers**
By: Director of Finance, Lynda McMullan
Cabinet Member for Finance, John Simmonds

Summary: In response to a request at the last meeting of this Committee, this paper demonstrates the links and the processes between setting the Authority's annual budgets and the consideration of the risks associated with the proposed budgets, and the consequential impact on the Risk Registers.

FOR INFORMATION AND DECISION

Introduction

- 1 At the December meeting of this Committee, Members requested the inclusion into the Annual Work Plan of a paper on the Impact of the Authority's budget on the Risk Register. The draft Annual Work Plan has been amended to reflect this, and this paper is the result of that request.

The link between the budget and Risk Registers

- 2 The numerous Risk Registers that exist within the Council are 'live' documents. They are updated as and when there is an 'event' or as the need for changes become evident. One 'event' that has the potential to significantly impact on the Risk Registers is the setting of the annual budget and the Medium term Plan.
- 3 Appendix G of the 2010-13 Medium Term Plan (MTP) shows the Strategic Risk Register as at February 2010. That already reflects the impact on that Register of the budget proposals in the 2010/11 budget, as would be the case every year. The Risk Register is also 'informed' by the other strategies set-out in the MTP, such as the revenue, capital and treasury strategies.
- 4 There is of course a continuous circle of cause and affect between the budget and the Risk Registers. Some items will initially present as a risk which we would then respond to and reflect in the budget. These are generally where the issues are outside of our direct control, such as the current state of the economy and the impact on the future finance streams from Central Government. Other issues, which are in our direct control, are more likely to start-out as a budget proposal, which we would then consider the impact on the Risk Register. This thought process is constantly happening as we go through the budget process. Much of that work is below the radar in terms of reporting, but it is an important part of the budget process and is part of the reason why we include the Strategic Risk register in the MTP.

- 5 To illustrate the process, we have taken some specific issues from the 2010-11 budget, the 2010-13 MTP, and the Strategic Risk Register. The cause of each is shown in **bold** font, the effect in normal font.
- 6 Most of our budget proposals for 2010-11 had no negative impact on the level of risks. The impact of the budget proposals on the Risk Register will vary every year, depending in part on the pressures we face and the level of funding we have available. It is highly likely that there will be an increasing risk attached to the budget proposals in the medium term, as Government funding becomes less in real terms, demand for our services increases, and the scope for efficiency savings reduces.

Table 1; Link between budget proposals and the Strategic Risk Register

<i>2010-11 Budget and 2010-13 MTP</i>	<i>Strategic Risk Register</i>
Target reduction in net spend of £73m in years 2 and 3 of the MTP	Reduction in Govt. Funding (Risk No.16)
Additional funding for Children's services; maintaining full funding of Children's Social Worker posts	Failure to retain / recruit sufficient numbers of social workers (Risk No.23)
Procurement savings	Adherence to EU procurement legislation (Risk No.21)
Increased funding for KASS	Demographic Changes (Risk No.4a)
Major investment in ICT provision	Reliance on ICT (Risk No.3)
Moderate increase in Commercial Services net income target, mainly through improved efficiency	Commercial Income Generation (Risk No.11)
Additional funding for CRB re-checks	Reduces the risk of employing 'an inappropriate person' and therefore keeps this issue off of the Risk register
One-off funding for CFE for 'Change Management'	Reduces the risk resulting from the major review of the CFE staffing structure
Reduce the number of admin posts	No impact
Increased highways maintenance	Reduces risk of corporate manslaughter and of claims for damage to vehicles/owners
Better spending of property maintenance budget	No impact
Review of reserves	No increased risk as a result of strategy on level of reserves

- 7 As previously stated, and virtually universally accepted, the medium term financial outlook is extremely gloomy. The funding squeeze we're likely to see on both revenue and capital does mean that future budgets set by the Council may increase the risks we as a Council face. However, those risks have to be acceptable to the Council. Our expectation is that there will be a spending review in the autumn and that once we have that, it would be appropriate for this Committee to assess the risk appetite we should be prepared to accept. In addition, budget papers presented to Cabinet and Council will continue to include the latest Strategic Risk Register, which will be updated to reflect the budget proposals. Mitigating controls would have to be put in place to reduce those risks to ones of an acceptable level, and the annual audit plan will need to ensure that the controls in place to mitigate any increasing risks are in place and effective.

Conclusion

- 8 The 2010-11 budget proposals had little or no negative impact on our Strategic Risk Register. In fact, it had a positive impact in that protecting and investing in front-line services, and funding the increases in demand, prevented any new risks emerging. However, future years' budget proposals are likely to have more risks attached to them due to the inevitable reduction in Government funding.

Recommendations

- 9 Members are asked to:
- a) Note the contents of this report, as part of the Committee's assurance that Risk Registers are owned and up-to-date
 - b) Agree to have a future agenda item on this subject post the next Spending Review

Officer Contact: Lynda McMullan, Ext. 4550
Andy Wood, Ext 4622
David Tonks, Ext 4614

*Background Documents: 2010-11 Budget Book
2010-13 Medium Term Plan
Strategic and Directorate Risk Registers*

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By: Cabinet Member For Finance
 Director of Finance

To: Governance and Audit Committee – 30 April 2010

Subject: **STRATEGIC & DIRECTORATE RISK REGISTERS**

Classification: Unrestricted

Summary: The Strategic and Directorate Risk Registers record the key risks facing KCC and represent the primary output of the Council's Risk Management Framework.

FOR INFORMATION

Introduction

1. The paper provides assurance to the Committee that the key risks faced by the Council have been identified, assessed and are being managed and monitored in line with the Risk Management Strategy and Risk Management Toolkit.

Development of Risk Registers

2. The Council maintains three levels of Risk Registers in line with recommended practice; Strategic, Directorate and Business Unit. The Directorate and Business Unit registers are linked in a hierarchy that mirrors the organisational structure.
3. The Strategic Risk Register is compiled from key cross cutting themes identified at directorate level and major individual risks that could impact upon the Council as a whole.
4. The Strategic Risk Register is compiled and maintained by the Chief Officers Group (COG) with the assistance of the Directorate Resource Directors. The Register is reviewed and approved quarterly by COG and then submitted to Cabinet to ensure that all of the key risks facing the Council have been identified, and that control measures in place are appropriate.
5. Directorate Registers are compiled from a combination of items directly escalated from Business Unit registers and additional risk assessments at Directorate level. Directorate Risk registers are reviewed at least quarterly by senior officers within the directorates, and are also subject to review by relevant Policy Overview and Scrutiny Committees (POSCs).

Review of the Risk Registers

6. The five Directorate Risk Registers and the Strategic Risk Register have all been updated and reviewed in accordance with the process set out above. Table 1 below sets out the review dates of the POSCs for each of the Directorate Risk Registers, and the outcomes for each meeting.

Table 1: Summary of DRR submission to POSCs

Directorate	Date of POSC	Outcome
Communities	12 th Jan 2010	The Directorate Risk Register 2010/11 was endorsed and recommended to the Governance and Audit Committee for approval.
Chief Executives	8 th Apr 2010	The Directorate Risk Register was noted.
Environment, Highways and Waste	22 nd Jan 2010	The Directorate Risk Register, updated in September 2009, was noted and supported.
Kent Adult Social Services	13 th Jan 2010	The information set out in the report and given in response to Members' questions was noted
Children, Families & Education	18 th Sept 2009	Members suggested that safeguarding children should be a single item in the register, and resolved that the report be noted.

7. The outcomes of the POSCs show that the Directorate Registers are subject to a high level of review by Members. It is also evident that clarification is needed as to the role of the POSCs in relation to the Directorate Risk Registers, and this will be provided by the Head of Audit and Risk to directorate risk leads via the Risk Management Group.
8. The Strategic Risk Register was reviewed, amended and approved by COG in February 2010, and reviewed and approved by Cabinet in April 2010.
9. The activity described above, as well as the monitoring and review by senior officers within Directorates and through cross-directorate groups, provides Members of the Committee with assurance that the Strategic and Directorate Risk Registers are a complete summary of the risks to the operational objectives and longer term strategic objectives of the Council.

Summary of the registers

10. The full Strategic Risk Register is attached for information at appendix 1. Table 2 below provides an overview of the Strategic and Directorate Risk Registers.
11. **Table 2: Summary of risks within registers**

Risk Register	No. of risks within register	No. of risks with 'HIGH' residual rating
Strategic	23	3

Directorate:		
Chief Executive's Dept	26	6
Children, Families & Education	13	4
Kent Adult Social Services	12	11
Environment & Regeneration	17	1
Communities	17	2
Total	85	24

12. Table 3 below summarises the top rated risks in the Strategic Risk Register (i.e. 12 and above), and the previous scores.

Table 3: Summary of significant residual rated risks

Current risk description (Previous risk description in italics where changed)	Risk rating change	Residual Risk Score (Dec 09)	Residual Risk Score (Sept 09)
Government agenda, funding, and constraints.	↔	High 20	High 20
Financial and economic deterioration of UK wide economy spills over into wider fabric of society. <i>Downturn in economic environment.</i>	↑	High 20	Medium 15
Failure to retain/recruit sufficient levels of social workers.	↑	High 20	New risk
Placing by other local authorities of vulnerable children and adults of all ages in Kent.	↑	Medium 15	New risk
Service transfers are inadequately funded.	↑	Medium 12	New risk
Information sharing and cross agency working to provide services.	↔	Medium 12	Medium 12
Impact of Hypothecated funding.	↔	Medium 12	Medium 12
Adherence to EU procurement legislation.	↑	Medium 12	New risk

Recommendations

13. Members are asked to:
- (i) Note the content of the Strategic Risk Register.
 - (ii) Consider whether the assurance provided as to the effectiveness of the systems established by senior officers to identify, assess, control and monitor financial and non-financial risks is sufficient.

David Tonks
Head of Audit & Risk
 ☎ 01622 694614

Background papers:

- Directorate Risk Registers
- Minutes of POSC meetings



STRATEGIC RISK REGISTER – March 2010

Corporate risks are managed by the Chief Officer Group with directorate support. Corporate risks are those than can be described as presenting a:

- Significant Council wide risk
- Significant risk specific to one directorate which could impact upon the Council as a whole
- Significant risk to the Council as part of working with external organisations or its role within the community

Ref & Directorate Activity	COG Resp'ible Officer	Source & strategic business objective(s)	Risk	Existing Mitigation	Proposed Mitigation	Residual Risk Rating (5x5 matrix)		
						Impact	L'Hood	Risk
No. 16 ALL Page 56	COG	Government agenda, funding, and constraints (External)	Government funding will reduce by an unknown quantity whilst statutory services may be expanded particularly in relation to adult care and education provision	<ul style="list-style-type: none"> • Robust MTP supported by business planning, including <ul style="list-style-type: none"> - Peer review of pressures and savings - Political prioritisation and decision making • Lobbying of Central Government 	<ul style="list-style-type: none"> • Realisation of Total Place initiative • Improved and co-ordinated strategy for lobbying 	4	5	20 ↔
No. 20 ALL	COG	Financial and economic deterioration of UK wide economy spills over into wider fabric of society (Financial)	<p>Reduction in Council Tax collection.</p> <p>Failure to deliver strategic objectives.</p> <p>Pressure across all services</p> <p>Pressure upon KCC's aspirations in relation to income generation</p> <p>Impact upon 106 Agreements and other income streams</p>	<ul style="list-style-type: none"> • Robust MTP supported by business planning, including <ul style="list-style-type: none"> - Peer review of pressures and savings - Political prioritisation and decision making • Economic development and regeneration activity 	<ul style="list-style-type: none"> • Policy led budgeting approach • Refocusing of priorities to target action to address financial, health wider socio-economic impacts of major recession • Demand management through a robust preventative strategy across all services • Strategy for lobbying government to support local solutions • Total Place and partnership working. 	4	5	20 ↑

Appendix 1

Ref & Director ate Activity	COG Resp'ible Officer	Source & strategic business objective(s)	Risk	Existing Mitigation	Proposed Mitigation	Residual Risk Rating (5x5 matrix)		
						Impact	L'Hood	Risk
No. 23 CFE	Rosalind Turner	Limited success of national and international campaigns .Historically it has been difficult to recruit Children's Social Workers and this is a problem nationally.	Failure to retain/recruit sufficient levels of social workers could lead to unallocated cases and a breakdown of children's placements.	<ul style="list-style-type: none"> CSS Recruitment Group monitors SW vacancies and agrees strategies for urgent situations. Active strategy in place to attract and recruit social workers through a variety of routes including a recruitment campaign in USA – to date 27 social workers recruited from USA arrive on 7th February 2010 and, after an induction period, will be in post from mid February. 22 final year DipSW students have been recruited through the bursary scheme and will be in post as newly qualified social workers from July 2010. Recruitment calendar ensures we recruit NQSW's annually. KCC will approach final year students at universities in the next few weeks. Targeted recruitment activity has taken place at recruitment fairs to raise the profile of Kent, a few social workers have been recruited in this way. Ready for Practice scheme targeted at MA social work students. 9 social workers recruited from Northern Europe via Jacaranda have started in West Kent in the last two months. East Kent will interview European social workers next week and anticipates recruiting 8 to10 Mid Kent plans to recruit in Northern Europe in May. 2010 	<ul style="list-style-type: none"> Work has commenced to recruit final year SW students to secure a further 22 staff to commence employment August 2010 Ongoing development of further strategies to support recruitment e.g. qualification routes through open university Disseminate best practice to secure stable SW staffing. CSS to consider Recruitment Coordinator role to ensure that all SW applications receive attention. CSS Realignment to review pay grading for SW team leaders and also support for Step into Management programme. Review 'growing our own' social workers. Consideration to be given to converting some social work posts to assistant social worker posts, changing the skill mix of the teams. 	5	4	20 ↑

Appendix 1

Ref & Directorate Activity	COG Resp'ible Officer	Source & strategic business objective(s)	Risk	Existing Mitigation	Proposed Mitigation	Residual Risk Rating (5x5 matrix)		
						Impact	L'Hood	Risk
No 4b	Oliver Mills / Rosalind Turner	Placing by other local authorities of vulnerable children and adults of all ages in Kent	<p>Increase in burdens on services resulting from external placements and other Local Authority placements of all ages.</p> <p>Increasing variability in the quality of education leading to pockets of deprivation.</p> <p>Cost shunt of service provision onto KCC.</p> <p>The rules of ordinary residence may become applicable to those placed, leading to increased demand for services.</p>	<ul style="list-style-type: none"> Multi-agency protocols regarding placement of children in Kent RT discussing with high placing LA's supported by GOSE. 	<ul style="list-style-type: none"> Formal policy on ordinary residence to be rigorously applied. OM leading for ADASS on national discussions around developments in the application of the rules on ordinary residence. 	3	5	15 ↑

Appendix 1

Ref & Directorate Activity	COG Resp'ible Officer	Source & strategic business objective(s)	Risk	Existing Mitigation	Proposed Mitigation	Residual Risk Rating (5x5 matrix)		
						Impact	L'Hood	Risk
No. 18	Oliver Mills / Rosalind Turner	Service transfers to the County are inadequately funded.	<p>Insufficient funding, staffing and expertise passed across to the County Council from the LSC as that is abolished on 31 March 2010 and replaced with new quangos and a far more significant LA role in Post 16 funding and provision. This could impact on support and funding to schools, colleges and work based training providers.</p> <p>LD transfer from NHS presents 2 levels of risk; from now to 31 March 2011, local health bodies pass insufficient funds across to maintain individual's services; and from April 2011 when the funding transfers nationally, that this is done by formula, and not by recognising actual costs.</p>	<ul style="list-style-type: none"> Transition group involving LSC, FE Colleges, Medway Council and KCC staff established to plan the transition. Specific group established to develop links with Kent FE Colleges. Work shadowing arrangements between KCC and LSC staff have been put in place and "induction" style meetings held with LSC staff to explain the role of KCC. Staff engaged in a range of activities and groups across the south east region in preparation for the changes. Detailed project plans and risk analysis in place as part of the work of the Transition Group. 	<ul style="list-style-type: none"> Detailed and transparent analysis and planning with local health bodies Lobbying of central government based on solid evidence 	4	3	12 ↑
No. 5 CFE/ CMY/ KASS	COG	Information sharing and cross agency working to provide services. (internal)	Failure to provide information which could lead to an impact upon service delivery and safety of clients.	<ul style="list-style-type: none"> Integrated systems in development Robust Safeguarding arrangements and common assessment framework 	<ul style="list-style-type: none"> Development of coherent county wide –wide strategy and protocols on sharing information between agencies 	4	3	12 ↔

Appendix 1

Ref & Directorate Activity	COG Resp'ible Officer	Source & strategic business objective(s)	Risk	Existing Mitigation	Proposed Mitigation	Residual Risk Rating (5x5 matrix)		
						Impact	L'Hood	Risk
No. 19	COG	Impact of Hypothecated funding.	Managing services due to the stop start nature or insufficient hypothecated funding and after source finishes within Government formulate grant with resultant impact upon performance.	<ul style="list-style-type: none"> • Make use of Freedoms and Flexibilities • Robust financial monitoring systems • Negotiations with Government and clarity where hypothecated funding is necessary • Clear 'exit strategy' for time limited funding 		3	4	12 ↔
No.21 ALL	COG	Adherence to EU procurement legislation.	Challenges from unsuccessful tenderers leading to increased costs from re tendering and delayed contract start up. From 20 th Dec 2009 risk of awarded contract being declared "ineffective" and being stopped potentially causing major operating difficulties. Damages and fines possible. Successful tenderer could also claim compensation if contract declared ineffective.	<ul style="list-style-type: none"> • Spending the Council's Money (on KNet) details correct processes to follow • Strategic Procurement available to give advice if asked • Legal Services available to give advice (chargeable) • Procurement resources present in some directorates giving advice and carrying out procurements 	<ul style="list-style-type: none"> • Initiate assurance reviews against Spending the Council's Money • Improve compliance with Spending the Council's Money in the Directorates • Strengthen procurement capability across KCC • Increase awareness and training in Spending the Council's Money • Communicate progress to maintain appropriate momentum 	4	3	12 ↑
No.2 ALL	COG	a) Major incident or accident (external)	<p>Inability to deliver services due to lack of human resource and technical support i.e.</p> <ul style="list-style-type: none"> • Vital supplies 'not getting through'. • Vital support to vulnerable people threatened. • High demand for post incident support. • Prolonged major disruption to road/rail travel. • Failure of external support structure 	<ul style="list-style-type: none"> • Intelligence gathering through Kent Resilience Forum • Regular 'exercises' and rehearsals • Competent and experienced management teams assessing risks against critical functions • KCC Emergency Planning procedure developing internal/external mitigation measures • Horizon scanning • Targeted proactive approach to Kent Resilience partnership • Comprehensive impact analysis completed 	<ul style="list-style-type: none"> • Testing resilience of providers • Improved business continuity planning 	3	2	6 ↓

Appendix 1

Ref & Directorate Activity	COG Resp'ible Officer	Source & strategic business objective(s)	Risk	Existing Mitigation	Proposed Mitigation	Residual Risk Rating (5x5 matrix)		
						Impact	L'Hood	Risk
		b) Pandemic event (High mortality rates) (external)		<ul style="list-style-type: none"> Contingency Plan for People Issues Issued by Personnel & Development Emergency Planning guidance 		5	2	10 ↓
		c) Pandemic (minor symptoms) (external)		<ul style="list-style-type: none"> Contingency Plan for People Issues Issued by Personnel & Development Emergency Planning guidance 		2	5	10 ↓
No.4a ALL	COG	Demographic changes within Kent. e.g. ageing population falling school rolls and increased growth in population (external)	<p>Failure to plan for growth which leads to increased demand upon services</p> <p>Failure to implement plans.</p>	<ul style="list-style-type: none"> Analysing and refreshing forecasts to maintain level of understanding and feeding into relevant MTP and business planning process 		2	5	10 ↑
No.8 All	CE/COG	Scale of organisation and size of population serviced and geography of county	<p>KCC is remote and fails to understand and/or meet the needs of the community.</p> <p>KCC fails to meet its statutory duties to engage.</p>	<ul style="list-style-type: none"> Communication / access to service strategy Framework for consultation and engagement in place and implemented. Consultation formally recorded through business planning process. Intelligence gathering and implementation through business plans Local Boards and other local forums 		3	3	9 ↔

Appendix 1

Ref & Directorate Activity	COG Resp'ible Officer	Source & strategic business objective(s)	Risk	Existing Mitigation	Proposed Mitigation	Residual Risk Rating (5x5 matrix)		
						Impact	L'Hood	Risk
No.9 KASS/ CFE	Oliver Mills / CFE	Health Service Economy (external)	<p>Differential services and access developing between East and West of the County.</p> <p>Failure of partnership(s) leading to poorer more dislocated services.</p> <p>Financial pressures leading to inappropriate cost transfers, or increased debt.</p> <p>Move to foundation trust status destabilising existing relationships.</p> <p>County dependence upon resilience of Health Service partners to deliver key services.</p>	<ul style="list-style-type: none"> Representation on PCT Boards PCT representatives attend extended quarterly KASS Strategic management Team meetings Joint appointments to key posts (specifically Public Health and in CFE; but there are a number of others) Close monitoring and management of debt position Shared projects and initiatives (with shared governance arrangements) 	<ul style="list-style-type: none"> Increasing emphasis on joint planning and joint commissioning of services. 	3	3	9 ↑

Appendix 1

Ref & Directorate Activity	COG Resp'ible Officer	Source & strategic business objective(s)	Risk	Existing Mitigation	Proposed Mitigation	Residual Risk Rating (5x5 matrix)		
						Impact	L'Hood	Risk
No.3 CED	David Cockburn	Reliance on ICT solutions for provision of key services (internal / external)	Severe or prolonged failure of ICT capability across Council and critical service systems.	<ul style="list-style-type: none"> Establish and maintain enterprise architecture to identify business drivers for ICT strategy. Identify through MTFP process ICT investment requirements to support business change. ICT Board has identified key priorities for investment in line with funding constraints. Strategic initiatives to be cross referenced between <u>ALL</u> Directorates prior to implementation. <u>All</u> ICT investment to be aligned to strategic framework. Consistency of IT platform across KCC (Technology refresh programme). Proactive contract monitoring Partnership working arrangements Identify ICT requirements that support effective business continuity 	<ul style="list-style-type: none"> ICT Board to take a more proactive role in relation to IT Disaster Recovery Planning. 	4	2	8 ↔
CED 6	COG	Regulatory, inspection and assessment activity.	KCC fails to meet its regulatory requirements leading to reputational damage and /or intervention into services	<ul style="list-style-type: none"> Performance Improvement Plan Revised Performance Management Framework New approach to revised Use of Resource assessment and Value for Money Work undertaken with partners to prepare for all new assessment regimes Regular contact with local Audit Commission lead. 	<ul style="list-style-type: none"> Structured mechanism for feeding back lessons learnt from assessment, regulation and inspection. Close working relationships between directorates and corporate regulatory activity. 	3	2	6 ↔

Appendix 1

Ref & Directorate Activity	COG Resp'ible Officer	Source & strategic business objective(s)	Risk	Existing Mitigation	Proposed Mitigation	Residual Risk Rating (5x5 matrix)		
						Impact	L'Hood	Risk
No.11 All	COG	Commercial Income generation activity (internal)	Commercial Income generation objectives and actions damage Kent County Council's reputation within business community.	<ul style="list-style-type: none"> Business case and risk analysis approval process Backing Kent businesses campaign 		2	3	6 ↓
No.13 ALL	COG	Corporate manslaughter/ Public Liability. (internal)	Prosecution following injury to the public or employees due to poor health and safety policies, maintenance of assets and procedures etc.	<ul style="list-style-type: none"> Health and safety policies, procedures, risk assessment and auditing Auditing of key contractual arrangements, e.g. Kent Highways Services Staff training Management awareness 		3	2	6 ↔
No. 7 P/CMY	COG	Closure of access routes could severely affect county due to geography (external)	Vulnerability to closed access routes due to geography and transport infrastructure of the County. Impact upon service delivery	<ul style="list-style-type: none"> Plan - Operation Stack Joint emergency planning arrangements Service delivery continuity plans 		2	3	6 ↔
No.12 All	COG	Partnerships (external)	<u>Governance</u> Ineffective approach to the set up of management and governance arrangements result in: <ul style="list-style-type: none"> failure to achieve desired outcomes deterioration in relationships. failure to attract right partners. 	<ul style="list-style-type: none"> Improved control environment to include financial management Risk analysis for key partnerships, risk management training programme council wide Formal control, monitoring and reporting mechanisms Effective communication strategy Focus on purpose of partnership 	<ul style="list-style-type: none"> Corporate approach to good governance arrangements is required 	3	2	6 ↔
			<u>Funding</u> Withdrawal of funding by partner bodies for those partnerships that are key to the achievement of KCC objectives.			2	2	4 ↑

Appendix 1

Ref & Director ate Activity	COG Resp'ible Officer	Source & strategic business objective(s)	Risk	Existing Mitigation	Proposed Mitigation	Residual Risk Rating (5x5 matrix)		
						Impact	L'Hood	Risk
No. 14 All	Amanda Beer	Staffing (internal)	The County may suffer loss of a significant number of key staff, or suffer from an inability to attract high calibre staff to fill vacant positions. Over dependency upon key staff.	<ul style="list-style-type: none"> • Delivery of Strategy for Staff • Staff care policy • Workforce strategy with private sector • Investment in training • More effective use of professional staffing resources on more complex issues • Succession planning • Reputational management of senior posts 		2	2	4 ↔
No.15 ER Page 65	COG	Underlying change in weather patterns (external)	General and severe wide scale flooding due to adverse weather conditions and failure of flood defences (coastal and other). Severe summer heat waves Weather conditions and demand lead to restrictions in public water supplies (e.g. standpipes) and public tension/disquiet Failure to appropriately manage time line and required actions	<ul style="list-style-type: none"> • Forecasting activity • Emergency procedures for special events • Business Continuity Planning • Work with Environment Agency, water companies and Districts • Kent Resilience Forum • Effective water management and water resource planning • Management of financial impact to include Bellwin scheme • Educating / influencing activities to change behaviour • Applying BREAM standards in design of new buildings • Climate change adaption and long term planning 		2	2	4 ↑

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By: The Director of Finance, Lynda McMullan
The Cabinet Member for Finance, John Simmonds

To: Governance and Audit Committee – 30 April 2010

Subject: Updated Financial Regulations

Classification: Unrestricted

Summary: This report asks Members to consider and agree the updated financial regulations, prior to approval by County Council.

FOR DECISION

1. INTRODUCTION

- 1.1 The Financial Regulations have been reviewed and updated. Whilst there has been no major re-write or change to the format of the regulations, amendments have been made to reflect changes in structures / working practices, to ensure our regulations reflect current best practice and to strengthen areas where there were known gaps.
- 1.2 In line with the terms of reference of this Committee, the revised regulations need to be agreed before being submitted to County Council for approval as an amendment to the Constitution.
- 1.3 This review has been undertaken as part of a programme of work looking not only at the Financial Regulations, but also the related Schemes of Delegation and Financial Procedures. The aim is to publish the whole suite of updated financial documentation on KNet with appropriate links between the documents as well as to other relevant procedures / publications, making it easily accessible to all staff.

2. MAIN AMENDMENTS

- 2.1 The process for conducting this review included:
 - Looking at financial regulations of other local authorities.
 - Addressing concerns/gaps raised by finance staff in relation to certain aspects of the regulations from experience of trying to implement and ensure compliance with them.
 - Ensuring adoption of best practice guidance published since the last review of the regulations.
- 2.2 The amendments made to the regulations can be seen in detail at Appendix 1, as they are presented showing all tracked changes.
- 2.3 The main areas of change to highlight are:-

- Regulations relating to the approval of capital projects have been clarified. (Ref. Section A.22).
- Regulations around the maintenance of reserves and provisions have been strengthened. (Ref. Section A.23).
- Treasury Management regulations have been updated to reflect the CIPFA Treasury Management Code of Practice, Fully Revised 2nd Edition, 2009. (Ref. Section C.22).
- Responsibility for approving debt write offs over £10,000 has been transferred from the Governance and Audit Committee to the relevant Policy Overview and Scrutiny Committee. (Ref. Section D.7).
- It has been made explicit that it is the personal responsibility of all staff concerned with the use and care of the County Council's resources or assets to be conversant with the requirements of the Financial Regulations. (Ref Section 2.14).

3. RECOMMENDATION

Members are asked to:

- 3.1 Consider and agree the updated Financial Regulations to be put forward to County Council for approval.

Julie Samson
Principal Accountant
Ext: 4684

KENT COUNTY COUNCIL

FINANCIAL REGULATIONS

| Updated [April 2010](#)

1

The Council's Financial Regulations set the control framework for five key areas of activity:

A. Financial Planning

Covers Performance Planning, Capital Strategy, Treasury Strategy, Pension Fund Strategy, Revenue Strategy, Revenue Budgeting, Capital Programme and Budgeting, Reserves and Key Decisions.

Full Council is responsible for receiving the medium term financial plans and formally agreeing the annual budget, in line with statutory guidance.

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The Head of Paid Service, Managing Directors and Executive Directors are responsible for contributing to the development of these plans, while the Director of Finance is responsible for preparing and presenting them to the Cabinet for consideration.

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B. Financial Management

Covers Revenue budget monitoring and control, Virement, Treatment of year-end balances, Capital Budget Monitoring, Accounting Policies, Accounting records and returns, Annual Statement of Accounts, Contingent Liabilities, Financial implications of Reports.

The Director of Finance is responsible for developing, maintaining and monitoring compliance with an effective corporate financial framework. This will encompass detailed financial regulations, professional standards, key controls and good financial information.

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The Head of Paid Service, Managing Directors and Executive Directors will operate within this framework, alerting the Director of Finance to any risk of non-compliance.

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C. Risk Management and Control of Resources

Covers Risk Management and insurance, Internal Control, Audit requirements, Preventing fraud and corruption, Assets, Treasury Management, Investments and Borrowing, Trust funds and funds held for third parties, Banking, Imprest Accounts, Staffing Costs.

Cabinet and the Governance and Audit Committee are jointly responsible for agreeing the Authority's risk management strategy, policy and supporting guidance and for reviewing the effectiveness of risk management within the Authority.

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The Director of Finance is responsible for developing, maintaining and advising upon robust systems for risk management and systems of internal control. This will be monitored through an effective internal audit function.

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The Head of Paid Service, Managing Directors and Executive Directors are responsible for establishing sound arrangements within these systems and notifying the Director of Finance of any suspected non-compliance.

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D. Systems and Procedures

Covers general processes and procedures, Income, Ordering and Paying for Works, Goods and Services, Payments to employees and Members, Taxation,

trading accounts/business units, Internal Recharges.

The Director of Finance is responsible for the Authority's accounting control systems, the financial accounts, supporting information and all financial processes or procedures.

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The Head of Paid Service, Managing Directors and Executive Directors are responsible for the proper operation of all systems, processes and procedures. All exceptions to the corporately agreed standards will be agreed with Director of Finance.

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E. External Arrangements

Covers Partnerships, External Funding, Work for third parties, Local Authority Companies.

The Director of Finance is responsible for promoting the same high standards of conduct in the management of partnerships as within the Authority.

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The Head of Paid Service, Managing Directors and Executive Directors are responsible for ensuring that the Council's interests are protected in such arrangements and that appropriate advice is taken at all stages.

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OVERALL FINANCIAL RESPONSIBILITIES

Introduction

2.1 Financial management covers all financial accountabilities in relation to the running of the Authority including the policy framework and budget. It is not possible to draft regulations or rules that cover every eventuality or circumstance. Consequently, the principles of sound financial management, proper exercise of responsibility, and accountability, as set out in Financial Regulations, should be applied in all circumstances, even where any particular circumstance is not specifically referred to.

2.2 **The full Council** is responsible for:

- i. ~~setting the policy framework;~~
- ii. ~~approving and monitoring compliance with the Authority's overall framework of accountability and control as set out in the Constitution;~~
- iii. ~~directly and through the Cabinet Scrutiny Committee, for monitoring compliance with agreed policy, including revenue and capital budgets;~~
- iv. ~~approving procedures for recording and reporting decisions taken. This includes key decisions and other decisions delegated by the Leader and those decisions taken by the Council and its Committees or delegated by them to officers. These delegations and details of who has responsibility for which decisions are set out in the Constitution;~~
- v. ~~agreeing the annual budget and Council Tax;~~
- vi. ~~determining and keeping under review how much money the Council can afford to borrow for capital expenditure;~~
- vii. ~~setting and revising the prudential indicators for capital finance;~~
- viii. ~~approving the policy on Minimum Revenue Provision (MRP) as set out in the annual MRP statement;~~
- ix. ~~setting the limits for virement or other budget changes through the Financial Regulations and decision making procedure rules;~~
- x. ~~setting the limits defining key financial decisions;~~
- xi. ~~determining any expenditure proposed by the Leader or the Cabinet that is outside the limits referred to in v above.~~

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2.3 **The Leader** is responsible for:

- i. ~~proposing the medium term financial plan, budget, council tax and prudential indicators to the Council;~~
- ii. ~~approving revenue, capital and treasury management strategies;~~
- iii. ~~determining which executive functions are exercised by him/herself, the Cabinet collectively, other individual members of the Cabinet or officers;~~
- iv. ~~ensuring that all executive decisions are taken in accordance with the Council's agreed principles of decision making including due consultation and the taking of professional advice from officers.~~

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2.4 **Individual Cabinet Members** are responsible, within their allocated responsibility area and approved budget for:

- i. ~~taking decisions in accordance with the framework of responsibilities delegated to them from the Leader;~~
- ii. ~~consulting with the Leader in relation to any proposed decisions as the Leader may direct;~~

- iii. complying with Financial Regulations in force as agreed by or on behalf of the County Council;
- iv. taking decisions which are otherwise delegated to officers but which are:
 - (a) not in accord with the Policy Framework or budget agreed by the Council or management and business plans within their portfolio
 - (b) withdrawn from the delegation to Managing Directors and Executive Directors
- v. taking account of legal and financial liabilities when taking decisions including due consultation with and the taking of advice from officers;
- vi. processing decisions in accordance with the decision making and reporting framework set out in the Constitution.

2.5 **The Cabinet Scrutiny Committee** is responsible for scrutinising decisions and proposals by the Leader, Cabinet, Cabinet Members, Head of Paid Service, Managing Directors and Executive Directors in relation to compliance with Council agreed policy and budget.

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2.6 **The Governance and Audit Committee** is responsible for:

- i. monitoring the Council's compliance with its own published standards and controls and with other standards and considering any proposals for changes to Financial Regulations and the Contracts and Tenders Standing Orders;
- ii. approving Spending the Council's Money and amendments to it;
- iii. liaising with the Audit Commission over the appointment of the Council's external auditor;
- iv. discussing with the external auditor and Cabinet the basis of the annual audit, including the overall level and composition of the fee and the content of performance work;
- v. receiving, considering and responding to reports from the external auditor including all performance reports and the Annual Governance Report;
- vi. overseeing the Internal Audit activity of the Authority;
- vii. monitoring the response of the Cabinet and Council Committees to audit reviews and investigations and the implementation of agreed recommendations approving the annual accounts on behalf of the Council;
- viii. monitoring the operation of borrowing and investment policies and Treasury Management activity;
- x. agreeing the risk management policy with the Cabinet and reviewing the effectiveness of risk management and monitoring insurance arrangements;
- xi. keeping under review the Authority's arrangements for corporate governance and agreeing from time to time necessary actions to ensure compliance with best practice.

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~~vi. advising the Council on the **Annual Plan** proposed by the Leader in relation to statutory requirements and guidance; and considering and responding to reports from the external auditor and Audit Commission Inspectorate;~~

~~Deleted: ix. approving the writing-off of debts from the Council's accounts (except those agreed by the Director of Finance) as provided for in the Financial Regulations.¶~~

2.7 **The Director of Law and Governance, as the Monitoring Officer**, is responsible for:

- i. after consulting with the Head of Paid Service and the Director of Finance, reporting to the full Council (or to the Leader or Cabinet in relation to an executive function) if he/she considers that any proposal, decision or omission would give, is likely to give, or has given, rise to a contravention of any enactment or rule of law, or any maladministration or injustice. Such a report has the effect of stopping the proposal or decision being implemented until the report has been considered;

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- ii. ensuring that records of executive decisions, including the reasons for those decisions and relevant officer reports and background papers, are made publicly available;
 - iii. advising whether decisions of the executive are in accordance with the Budget and Policy Framework. Actions that may be 'contrary to the Budget' include:
 - initiating a new policy for which no budget exists;
 - committing expenditure in future years above the approved budgeted level;
 - causing the total expenditure financed from council tax, grants and corporately held reserves to increase beyond that provided for in the approved budget;
 - iv. providing advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and Budget and Policy Framework issues to all Members.
- 2.8 The **Head of Paid Service** is responsible for
- i. overall corporate management and operational responsibility (including, as Head of Paid Service, overall management responsibility for all staff);
 - ii. the provision of professional advice to all parties in the decision making process (the executive, overview and scrutiny, full council and other committees);
 - iii. together with the Monitoring Officer, a system of record keeping for all the local authority's decisions (executive or otherwise);
 - iv. reporting to the Council on the manner in which the discharge by the authority of its functions is co-ordinated;
 - v. arrangements for internal control and the inclusion of the **Annual Governance Statement** in the annual accounts.
- 2.9 The **Director of Finance, as the Chief Financial Officer**, has statutory duties in relation to the financial administration and stewardship of the authority. These statutory responsibilities cannot be overridden. The statutory duties arise from:
- Section 151 of the Local Government Act 1972
 - Local Government Finance Act 1988
 - The Local Government and Housing Act 1989
 - The Local Government Acts 2000 and 2003
 - The Accounts and Audit Regulations 2003
 - The Accounts and Audit (Amendment) (England) Regulations 2006
 - The Accounts and Audit (Amendment) (England) Regulations 2009
 - The Local Government Pension Scheme Regulations 1974 and 1997
 - The Local Government Pension Scheme Regulations (Management and Investment of Funds) 1998
 - The Local Authorities Goods and Services Acts 1970 and 1988.
- 2.10 The **Director of Finance** is responsible for:
- i. after consulting with the Head of Paid Service and the Monitoring Officer, reporting to the full Council (or to the Leader or Cabinet in relation to an Executive function) and the Council's external auditor if he/she considers that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency, or if the Council is about to enter an item of account unlawfully;
 - ii. the proper administration of the financial affairs of the **Authority**;
 - iii. maintaining an adequate and effective **system of** internal audit;

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- iv. contributing to the corporate management of the Authority, in particular through the provision of professional financial advice;
- v. providing advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and Budget and Policy Framework issues to all Members and supporting and advising Members and officers in their respective roles;
- vi. providing financial information about the Authority to Members of the Council, the media, members of the public and the community.

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2.11 And in particular is responsible for:

- i. setting financial management standards, including financial procedures, and monitoring their compliance;
- ii. advising on the corporate financial position and on the key financial controls necessary to secure sound financial and risk management;
- iii. providing financial information to support the proper financial planning of the authority, to inform policy development, and to assist Members and officers in undertaking their financial responsibilities;
- iv. preparing the revenue budget, and reporting to the Council, when considering the budget and Council Tax, on the robustness of the estimates and the adequacy of reserves;
- v. monitoring income and expenditure against the budget and taking action if overspends of expenditure or shortfalls in income emerge;
- vi. preparing the capital programme and ensuring effective forward planning and sound financial management in its compilation;
- vii. producing prudential indicators, reporting them to the Leader and the Council for consideration and establishing procedures to monitor and report on performance in relation to these indicators;
- viii. treasury management, the management of the Authority's banking arrangements and monitoring the Authority's cashflow;
- ix. issuing advice and guidance to underpin the Financial Regulations that members, officers and others acting on behalf of the authority are required to follow;
- x. ensuring that effective arrangements are in place for payments of creditors, income collection, payment of pensions, risk management and insurances and the production of financial management information;
- xi. ensuring that any partnership arrangements (or other innovative structures for service delivery) are underpinned by clear and well documented internal financial controls;
- xii. advising on anti-fraud and anti-corruption strategies and measures;
- xiii. contributing to cross-authority issues and to the development of the Authority;
- xiv. ensuring that statutory and other accounts and associated claims and returns in respect of grants are prepared;
- xv. ensuring that due consideration is given to the Authority's wellbeing, correct financial management and security of the Authority's assets when establishing a company or partnership arrangement; LINK
- xvi. ensuring that the MRP calculation is prudent;
- xvii. taking ownership of the Authority's corporate financial system;
- xviii. supporting the Superannuation Fund Committee in the management of the Kent Pension Fund.
LINK (CIPFA role of DOF document)

Deleted: advising on prudential indicators required to be set in accordance with the CIPFA prudential code for Capital Finance in Local Authorities and ensuring that all matters required to be taken into account in setting Prudential Indicators are reported to the Leader and the Council for consideration

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2.12 The Director of Finance, in accordance with Section 114 of the 1988 Act will nominate a properly qualified member of staff to deputise for him / her as Chief Financial Officer should he/she be unable to personally perform the duties under Section 114.

2.13 The Head of Paid Service, Managing Directors and Executive Directors are responsible for:

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- i. ensuring that the Leader or relevant Cabinet Member is advised of the financial implications and other significant risks of all proposals for the changes in services or the development of new services and that the financial implications have been agreed by the Director of Finance;
- ii. the signing of contracts on behalf of the authority provided that the expenditure to be incurred has the necessary budgetary approval. Further guidance regarding persons authorised to sign contracts on behalf of the Council can be found in the relevant directorate's Scheme of Financial Delegation. LINK
- iii. promoting the financial management standards set by the Director of Finance in their Directorates and to monitor adherence to standards and practices, liaising as necessary with the Director of Finance;
- iv. promoting sound financial practices in relation to standards, performance and development of staff in their Directorates;
- v. consulting with the Director of Finance and seeking his/her approval regarding any matters which are liable to affect the authority's finances materially, before any commitments are incurred;
- vi. ensuring that all staff in their Directorates are aware of the existence and content of the Authority's financial regulations and any related procedures and other internal regulatory documents appertaining to or amplifying them and that they comply with them. They must also ensure that all of these documents are readily available for reference within their Directorates;
- vii. managing service delivery within the agreed revenue and capital budgets and other relevant strategies and plans;
- viii. developing performance, corporate and service targets and contributing to the Medium Term Financial Plan;
- ix. ensuring that budget estimates reflecting agreed service plans are prepared, and that these are prepared in line with issued guidance;
- x. ensuring that financial management arrangements and practice are agreed with the Director of Finance, are legal and consistent with best practice and Council policy;
- xi. consulting with the Director of Finance on the financial implications of matters relating to policy development;
- xii. putting in place a scheme of financial delegation setting out arrangements for the discharge of the Head of Paid Service, Managing Director and Executive Director responsibilities contained within Financial Regulations.

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Personal Responsibilities

2.14 Any person concerned with the use or care of the County Council's resources or assets should ensure they are fully conversant with the requirements of these Financial Regulations. All staff should notify their line manager immediately of any suspected fraud, theft, irregularity or improper use of or misappropriation of the authority's property or resources. Concerns may also be raised via the Whistleblowing Procedure. LINK

FINANCIAL REGULATION A – FINANCIAL PLANNING

Introduction

A.1 The full Council is responsible for agreeing the Budget, which will be proposed by the Leader. In terms of financial planning, the key elements are:

- the Medium Term Financial Plan
- Vision for Kent
- Public Service Agreement
- Annual Performance Plans
- the Revenue Strategy and Budget
- the Capital Strategy and Programme
- the Treasury Strategy
- the Risk Management Strategy

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Medium term budget and financial strategy

A.2 The Head of Paid Service, Director of Finance, Managing Directors and Executive Directors are responsible for ensuring that Revenue, Capital and Treasury strategies on a three year basis are prepared for consideration by the Cabinet and for ensuring that such strategies are consistent with other plans and strategies.

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A.3 The Leader will publish to all Council Members each year a review of the issues relating to the Medium Term Financial Plan.

Performance Planning

A.4 The Director of Finance is responsible for:

- advising and assisting Directorates in producing the financial information that needs to be included in performance plans in accordance with statutory requirements and agreed timetables;
- the production of corporate guidance on the development of unit cost indicators (such as required for the National Indicator Set) and cost effectiveness measures;
- contributing, in collaboration with the Head of Paid Service, Managing Directors and Executive Directors, to the development of corporate and service targets and objectives and performance information;
- assisting in building priorities identified within performance plans into corporate and directorate budgets to enable delivery.

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A.5 The Head of Paid Service, Managing Directors and Executive Directors are responsible for:

- contributing to the development of performance plans in line with the Council's requirements;
- contributing to the development of corporate and service targets and objectives and performance information;
- ensuring that Directorate service plans are clearly aligned with budgets, to enable the delivery of service priorities;
- ensuring that targets identified within performance plans are built into local work programmes and targets for management and service delivery staff.

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Pension Fund

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A.6 The Director of Finance is responsible, having taken appropriate professional advice, for preparing and submitting to the Superannuation Fund Committee the Statement of Investment Principles, the Funding Strategy Statement, regular reviews of investment strategy, monitoring of investment managers and reporting on the pensions administration service delivered.

Deleted: a Funding Strategy Statement for agreement before 31 March of each year.

Revenue budgeting

Budget format

A.7 The general format of the Budget will be proposed to the Leader by Director of Finance. The draft Budget should include allocations to different services and projects, proposed sources of funding, proposed taxation levels and contingency funds.

A.8 Guidelines on budget preparation are issued to Cabinet Members, Managing Directors and Executive Directors by the Leader on the recommendation of the Director of Finance. The guidelines will take account of:

- legal requirements
- the Medium Term Financial Plan
- Vision for Kent
- Public Service Agreement
- available resources
- spending pressures
- relevant Government guidelines
- other internal policy documents
- cross cutting issues (where relevant).

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Budget preparation

A.9 The Leader is responsible for developing and proposing to the County Council the general content of the revenue budget in consultation with the Director of Finance.

A.10 Budgets will be produced in a format compatible with the portfolios allocated by the Leader to individual Cabinet Members.

A.11 The Head of Paid Service and the Director of Finance are responsible for ensuring that a revenue budget is prepared on an annual basis for consideration by the Leader and Cabinet before submission to the full Council, in accordance with the Budget Procedure Rules, as set out in the Constitution.

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A.12 The Director of Finance is responsible for:
i. ensuring that a process is in place to identify potential pressures on the budget;
ii. reporting to the full Council, when the budget and Council Tax is considered, on the robustness of the estimates and the adequacy of reserves provided for.

A.13 The Head of Paid Service, Managing Directors and Executive Directors are responsible for ensuring that budget estimates reflect agreed service plans, are

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submitted to the relevant Cabinet Member and the Leader and that these estimates are realistic and prepared in line with guidance issued by the Leader.

Resource allocation

A.14 The Leader in consultation with the Director of Finance is responsible for developing and maintaining a resource allocation process that ensures due consideration of the Council's Policy Framework.

Budget Amendment

A.15 Approved revenue budgets may be amended during a financial year in accordance with the virement regulations in B6-B9.

A.16 The ~~Head of Paid Service, Managing Directors and Executive Directors~~ may make changes to revenue budgets resulting from additional grant or other external income receivable during a financial year. Such changes must be notified to the Director of Finance.

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A.17 The ~~Head of Paid Service, Managing Directors and Executive Directors~~ may make technical adjustments to revenue budgets during a financial year resulting from changes to grant rules or realignment of resources to approved business plans. Such changes must be notified to the Director of Finance.

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Capital Programme and capital budgeting

A.18 The Leader is responsible for developing and proposing the capital programme to the County Council in consultation with the Director of Finance.

A.19 The ~~Head of Paid Service~~ and Director of Finance are responsible for ensuring that a medium term capital programme and financing plan is prepared on an annual basis for consideration by the Leader before submission to the full Council in accordance with the budget procedure rules as set out in the Constitution.

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A.20 The Director of Finance is responsible for advising on prudential indicators required to be set in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities and for ensuring that all matters required to be taken into account in setting prudential indicators are reported to the Leader and the Council.

A.21 The Director of Finance is responsible for:

- i. setting up procedures under which capital expenditure proposals are evaluated and appraised to ensure that value for money is being achieved, are consistent with service and asset management objectives and are achievable;
- ii. setting up procedures for corporate monitoring of external sources of capital funding;
- iii. ensuring that expenditure treated as capital expenditure by the County Council is in accordance with best accounting practice.

A.22 The ~~Head of Paid Services, Managing Directors and Executive Directors~~ are responsible for:

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- i. ensuring that capital proposals reflect agreed service plans, are prepared in line with guidance issued, are realistic, that necessary business case development and option appraisals have been carried out and any risks identified. Any impact of capital expenditure proposals on service running costs must be identified and included in revenue budget estimates or forecasts; [LINK](#)
- ii. consulting with the Director of Finance the relevant Cabinet Member and the Cabinet Member for Finance where it is proposed to bid for funding from external sources to support capital expenditure;
- iii. ensuring that the Capital Process & Procedures are followed. This includes ensuring that projects only proceed when they have received the necessary Project Advisory Group (PAG) approval and confirmation that any external funding is secured. [LINK](#) For schemes and headings where the total cost is estimated to be £1m or more this consent must be obtained from the Leader following procedures issued by the Director of Finance. The Leader may take the decision himself/herself or specifically delegate the decision to Cabinet or the relevant Cabinet Member. For schemes where the total cost is estimated to be less than £1m consent must be obtained from the relevant Cabinet Member;
- iv. ensuring that any new capital expenditure proposals which would require an increment to the total three year capital programme in order to proceed, regardless of funding, are agreed with the Director of Finance and are submitted to the Leader for consideration via the PAG process;
- v. ensuring that, in addition to the PAG process, appropriate approval is sought where relevant from the Leader, the Cabinet or an authorised Cabinet Member in accordance with the Constitution.

(By way of clarification, PAG is just a process for keeping track of current spending and cash flows. PAG does not replace the process for obtaining formal authority for a project and this is still needed.

So before a project can proceed, formal authority needs to have been obtained either through an explicitly approved budget in the Budget Book or business plan or through an explicit approval obtained by following the decision making procedures set out in the Council's Constitution and the Code of Practice for Contracts and Tenders (as detailed in Spending the Council's Money). [LINK](#) This applies even if PAG has already approved the proposed spending on the project.
- vi. carrying out post completion evaluation of projects as required, in order to review performance in implementation of the project against budget and project plans and to evaluate performance of the project in the delivery of expected outcomes. [LINK](#)

Maintenance of reserves & provisions

A.23 The Director of Finance is responsible for:

- i. advising the Leader and the Council on prudent levels of reserves for the Authority when the annual budget is being considered having regard to assessment of the financial risks facing the Authority;
- ii. ensuring that reserves are not only adequate but also necessary;
- iii. ensuring that there are clear protocols for the establishment and use of each earmarked reserve. Reserves should not be held without a clear purpose or without a planned profile of spend and contributions;

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- iv. ensuring that all renewals reserves are supported by a plan of budgeted contributions, based on an asset renewal plan that links to the fixed asset register;
- v. ensuring that no money is transferred into reserves after 31st December each financial year without prior agreement.

A.24 The Director of Finance is responsible for ensuring that provisions are set up for any liabilities of uncertain timing or amount that have been incurred and are required to be recognised when:

- a) the Authority has a present obligation (legal or constructive) as a result of a past event
- b) it is probable that a transfer of economic benefits will be required to settle the obligation, and
- c) a reliable estimate can be made of the amount of the obligation.

If the Authority does not yet have an obligation / or expects to have a future obligation as a result of something that has not yet happened, then a reserve should be set up and the regulations in A.23 above apply.

Key decisions

A.25 Cabinet Members are responsible, within their allocated responsibility area and approved budget, for taking decisions as agreed by the Leader of the County Council.

A.26 All decisions must be processed in accordance with the decision making and reporting framework set out in the Constitution and in taking decisions Cabinet Members must comply with the County Council's Financial Regulations.

Deleted: These can include:
 approving policy documents not included in the Policy Framework;
 approving management and business plans;
 key financial decisions as defined by the County Council, and decisions having a significant impact on services to the community through their effect on more than one ward or their major impact on one ward.

FINANCIAL REGULATION B - FINANCIAL MANAGEMENT

Introduction

- B.1 The Director of Finance is responsible for:
- ensuring that a prudential financial framework is in place and effective systems of financial administration are operating within the Authority;
 - maintaining and updating financial regulations and the management of a process for monitoring compliance with them;
 - ensuring proper professional practices are adhered to and acting as head of profession in relation to the standards, performance and development of finance staff throughout the Authority;
 - advising on the key strategic controls necessary to secure sound financial management;
 - ensuring that financial information is available to enable accurate and timely monitoring and reporting of comparisons of national and local financial performance indicators;
 - ensuring that Internal Audit carry out the necessary probity and system checks required to verify that proper Financial Management Standards are maintained.

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Revenue Budget Monitoring and Control

- B.2 The Director of Finance is responsible for:
- providing appropriate financial information to enable budgets to be monitored effectively;
 - monitoring and controlling overall expenditure against budget allocations and publishing a report to the Cabinet on the overall position on a regular basis, drawing attention to overspends, shortfalls in income and underspends including reference to proposed action to deal with any problems.

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- B.3 It is the responsibility of the Head of Paid Service, Managing Directors and Executive Directors to:

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- control income and expenditure within their area and to monitor performance, taking account of financial information and activity data relating to the services they provide;
- have a robust system in place for monitoring activity levels which drive major budget headings (over £10m);
- report to the Director of Finance and to the relevant Cabinet Member on variances within their own areas;
- ensure that spending remains within the service's overall cash limit, by monitoring the budget headings and taking appropriate corrective action where variations from the approved budget are forecast, alerting the Director of Finance and Cabinet Member to any problems;
- ensure that an accountable budget manager is identified for each item of income and expenditure under the control of the Managing Director or Executive Director. As a general principle, budget responsibility should be aligned as closely as possible to the decision-making that commits expenditure;
- ensure that a monitoring process is in place to review performance levels/levels of service in conjunction with the budget and is operating effectively.

- vii. ensure prior approval by the Leader and the relevant Cabinet Member and notification to the Cabinet Scrutiny Committee of new proposals, which fulfil one or more of the following criteria:
 - a. create financial commitments in future years in excess of existing budgets
 - b. change existing policies, initiate new policies or cease existing policies
 - c. materially extend or reduce the Authority's services
 - d. exceed the limit defined by the Council as a key financial decision
 - e. exceed any limit set by the Leader as requiring reference to him or a Cabinet Member
 - f. any such proposals under this regulation shall not have approval to proceed until necessary financial provision is available within approved budgets
- viii. ensure compliance with the scheme of virement as set out in paragraph B6 below.

Financial Implications of Reports

- B.4 The Director of Finance is responsible for:
- i. monitoring the quality of the financial implications information included in reports by the Head of Paid Service, Managing Directors and Executive Directors;
 - ii. providing financial implications where there are corporate implications and especially when corporate resources (revenue or capital) are required.
- B.5 The Head of Paid Service, Managing Directors and Executive Directors are responsible for:
- i. ensuring that financial implications in either the current or future years are identified within directorates for all relevant reports and that such financial implications are agreed by or on behalf of the nominated responsible professional finance officer and approved by the Head of Paid Service, Managing Director or Executive Director;
 - ii. ensuring that where reports impact on other directorates or have implications for corporate resources, financial implications are requested from other directorates and a copy of the report is submitted to the Director of Finance or nominated representative for clearance;
 - iii. ensuring in all relevant circumstances, that financial implications referred to in reports are reflected in current budgetary provisions or the medium term financial plan.

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Virement

- B.6 Transfers between revenue budget headings can take place as follows provided that they do not involve new policy or policy change and do not involve an increasing commitment in future years that cannot be contained within existing approved budget allocations. If these transfers do not change the purpose for which the funding was approved then these will be considered technical adjustments and not virements. If a change to the purpose of the funding is required so that funding will be used for a purpose different to that for which it was approved, then a virement is required. Once again this must not involve an increasing commitment in future years that cannot be contained within existing approved budgets. Virements must be approved as follows:

a. Virement within a portfolio:

Less than £200,000	the <u>Head of Paid Service</u> or relevant Managing Director <u>or Executive Director</u> in <u>agreement</u> with the appropriate Cabinet Member and the Director of Finance.	Deleted: Up to
From £200,000 up to (but not including) £1m	the relevant Cabinet Member in <u>agreement</u> with the Cabinet Member for Finance, <u>Managing or Executive Director and Director of Finance</u>.	Deleted: Chief Executive Deleted: consultation
£1m and above	The Leader or Cabinet	Deleted: Between Deleted: consultation Deleted: and Deleted: Above

b. Virement between portfolios:

Less than £200,000	the <u>Head of Paid Service</u> or relevant Managing Directors <u>or Executive Directors</u> in <u>agreement</u> with the appropriate Cabinet Members and the Director of Finance.	Deleted: Up to
From £200,000 up to (but not including) £1m	the relevant Cabinet Members in <u>agreement</u> with the Cabinet Member for Finance, <u>Managing or Executive Director and Director of Finance</u>.	Deleted: Chief Executive Deleted: consultation
£1m and above	The Leader or Cabinet	Deleted: Between Deleted: and Deleted: consultation Deleted: Above

B.7 Transfers involving a new policy or a change in an existing policy require prior approval by the Leader and Cabinet Member and notification to the Cabinet Scrutiny Committee in accordance with regulation B3(vi) above.

B.8 For the purpose of the amounts referred to in regulation B6, where transfers are a single transaction they must be effected as such and must not be effected as two or more smaller transactions.

B.9 Virement limits are cumulative, therefore when transferring budget from a heading, all previous virements from this heading must be taken into account when deciding the level of approval required, ensuring the highest level of approval has been/ will be sought.

B.10 Where an approved budget is a lump sum budget or a contingency intended for allocation during the year, its allocation will not be treated as virement, provided that the amount has been used in accordance with the purposes for which it was established and the Director of Finance has agreed the basis and the terms, including financial limits, on which it will be allocated.

B.11 The Director of Finance is responsible for monitoring and recording virements agreed and reporting to the Cabinet on the impact on revenue budgets.

Treatment of year-end balances

B.12 Cabinet is responsible for agreeing the detail of any annual roll forward of under and overspending on budgets.

Capital Budget Monitoring

B.13 The Director of Finance is responsible for preparing and submitting reports on the Authority's projected capital expenditure and resources compared with the budget on a regular basis.

B.14 The Director of Finance is responsible for establishing procedures to monitor and report on performance compared to the prudential indicators set by the Council.

B.15 The Head of Paid Service, Managing Directors and Executive Directors are responsible for:

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- i. preparing regular reports reviewing the capital programme provisions for their services;
- ii. preparing regular returns of estimated final costs of schemes in the approved capital programme for submission to the Director of Finance for inclusion in the report to Cabinet on the overall Capital programme position;
- iii. reporting to the Director of Finance circumstances when it is considered that additional County Council capital resources will be required to implement a project that has previously been given approval to spend, where such additional resources cannot be identified from within the Portfolio programme concerned;
- iv. reporting to the Director of Finance on any proposed variations to the Capital Programme during a financial year;
- v. reporting to the Director of Finance on any proposed additions to the Capital Programme resulting from the receipt of additional grant or other external funding. If this relates to an entirely new scheme then it must be considered by PAG and approved by the relevant Cabinet Member.
- vi. Reporting the completion dates on major projects, over £1m.

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B.16 Resources may be vired from one capital project or heading as follows provided that such transfers do not result in an overall increased commitment of capital resources and do not involve new policy or policy changes:-

- Less than £50,000 - the Head of Paid Service or relevant Managing Director or Executive Director
- From £50,000 up to (but not including) £200,000 - the relevant Managing Director or Executive Director in agreement with the relevant Cabinet Member and the Director of Finance
- £200,000 up to (but not including) £1m - the relevant Cabinet Member in agreement with the Cabinet Member for Finance, Managing or Executive Director and Director of Finance
- £1m and above - the Leader or Cabinet

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For the purpose of the amounts above, where transfers are a single transaction they must be effected as such and not effected as two or more smaller transactions.

Accounting policies

B.17 The Director of Finance is responsible for selecting and notifying to the Head of Paid Service, Managing Directors and Executive Directors accounting policies which comply with the current Accounting Code(s) of Practice, ensuring that such policies are applied consistently, and for ensuring that effective systems of internal control are in place that ensure that financial transactions are lawful.

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B.18 The Head of Paid Service, Managing Directors and Executive Directors are responsible for adhering to the accounting policies notified by the Director of Finance.

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Accounting records and returns

B.19 The Director of Finance is responsible for:

- i. determining the accounting records for the Authority, its form of accounts and supporting accounting records;
- ii. ensuring that accounting records are maintained in accordance with proper practices and legislative requirements;
- iii. establishing arrangements for the compilation of all accounts and accounting records whether within the Finance Group or within other Directorates.

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B.20 The Head of Paid Service, Managing Directors and Executive Directors are responsible for:

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- i. consulting with the Director of Finance on the accounting procedures and records to be utilised within their Directorate;
- ii. ensuring that the proper retention of accounting records in accordance with the requirements established by the Director of Finance, including the retention of prime financial documents i.e. invoices, delivery notes and purchase orders for the year they relate to plus a further 6 years. Invoices paid for by EU Grants must be identified and kept for 12 years: LINK
- iii. ensuring that all claims for funds including grants are made by the due date, are recorded in the central register, and in line with the 'corporate grant procedure': LINK
- iv. maintaining adequate records to provide a management trail leading from the source of income/expenditure through to the accounting statements;
- v. providing information required for, or to ensure completion of, all statutory and other financial returns by the due dates;
- vi. complying with any compliance testing which the Director of Finance requires in relation to the Directorate accounts;
- vii. operating control accounts as agreed by the Director of Finance, ensuring that these are regularly reconciled, and cleared as part of the regular monitoring procedures.

The annual statement of accounts

B.21 The Governance and Audit Committee is responsible for approving the annual statement of accounts on behalf of the Council.

B.22 The Director of Finance is responsible for:

- i. ensuring that the annual statement of accounts is prepared by the required statutory date in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: Based on International Financial Reporting Standards for the relevant year and that the accounts present a true and fair view of the financial position of the Council and its expenditure and income;
- ii. liaising with External Audit on the completion of the Statement of Accounts and the arrangements for the audit of these;

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- iii. ensuring that adequate documentation is available to support the Statement of Accounts. This will include copies of grant claims, reconciliations with financial ledgers and other records, and other working papers to demonstrate the derivation of data used.

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B.23 The Head of Paid Service, Managing Directors and Executive Directors are responsible for:

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- i. complying with accounting guidance agreed with the Director of Finance;
- ii. supplying the Director of Finance with information required to complete the Statement of Accounts;
- iii. producing the documentation required to support the Statement of Accounts;
- iv. ensuring that the final accounts information pack for the Directorate is completed in accordance with the annual timetable agreed with the Director of Finance.

Contingent Liabilities

B.24 The Director of Finance is responsible for:

- i. reviewing at least annually in consultation with Managing Directors and Executive Directors the existing contingent liabilities for inclusion as a note in the statement of accounts, to ensure they are still contingent and to ensure that adequate reserves exist to cover the potential liability if necessary;
- ii. taking steps wherever possible, in consultation with the Head of Paid Service, Managing Directors and Executive Directors, to minimise the risk of contingent liabilities.

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B.25 The Head of Paid Service, Managing Directors and Executive Directors are responsible for:

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- i. setting up procedures and processes to minimise the risk of creating contingent liabilities;
- ii. reviewing at least annually their service areas for contingent liabilities;
- iii. informing the Director of Finance of any new contingent liabilities and of any changes in the circumstances of existing contingent liabilities.

FINANCIAL REGULATION C – RISK MANAGEMENT AND CONTROL OF RESOURCES

Introduction

C.1 It is essential that robust systems are developed and maintained for identifying and evaluating all significant strategic, operational and financial risks to the Authority on an integrated basis. This should include the proactive participation of all those associated with planning and delivering services.

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Risk management and insurance

C.2 The Cabinet and the Governance and Audit Committee are jointly responsible for approving the Authority's Risk Management Strategy, Policy and guidance and for reviewing the effectiveness of risk management.

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C.3 The Director of Finance is responsible for:

- i. preparing the Authority's Risk Management Strategy and Policy, for promoting it throughout the Authority and for advising the Leader, Cabinet Member for Finance and Cabinet on proper insurance cover where appropriate;
- ii. effecting, in consultation with the Cabinet Member for Finance, corporate insurance cover, through external insurance and internal funding;
- iii. establishing arrangements for the handling of all insurance claims, in consultation with other officers where necessary;
- iv. undertaking a review of requirements to support the annual renewal of insurance contracts;
- v. ensuring that internal insurance provisions are adequate to meet anticipated claims.

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C.4 The Head of Paid Service, Managing Directors and Executive Directors are responsible for:

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- i. the identification and management of risk within their Directorate and for having in place monitoring processes for reviewing regularly the effectiveness of risk management arrangements. Further guidance can be found in the Risk Management Strategy and supporting Toolkit; [LINK](#)
- ii. complying with procedures agreed regarding the instigation, renewal, maintenance and amendment of the Authority's insurance arrangements.

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Internal control

C.5 The Director of Finance is responsible for:

- i. advising on effective systems of internal control. Internal control refers to the systems of control devised by management to help ensure the Authority's objectives are achieved in a manner which promotes economical, efficient and effective use of resources and that the Authority's assets and interests are safeguarded. These arrangements need to ensure compliance with all applicable statutes and regulations, and other relevant statements of best practice. They should ensure that public funds are properly safeguarded and used economically, efficiently, and in accordance with the statutory and other authorities that govern their use.

- ii. reviewing systems of internal control at least annually and providing an opinion on internal control within the Council in order to advise the Head of Paid Service on an Annual Governance Statement to be included in the Statement of Accounts.
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- C.6 The Head of Paid Service, Managing Directors and Executive Directors are responsible for:
- i. establishing sound arrangements for planning, appraising, authorising, monitoring and controlling their operations in order to achieve continuous improvement, economy, efficiency and effectiveness and for achieving their financial performance targets;
 - ii. promoting compliance with Council Policy, Standing Orders, Financial Regulations, Codes of Conduct and any statutory requirements;
 - iii. promoting an overall effective internal control system. Managerial Control Systems, including appropriate organisation structures, personnel arrangements and supervision, as well as Financial and Operational Control Systems and procedures, including physical safeguards of assets, segregation of duties, authorisation and approval procedures and information systems, should be documented and regularly reviewed;
 - iv. providing assurances for the annual governance statement, that financial and operational control processes are in place to enable directorates to achieve their objectives and manage significant risks.
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Audit requirements

- C.7 The Accounts and Audit Regulations 2003 (as amended) require every local authority to maintain an adequate and effective internal audit of its accounting records and its system of internal control.
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- C.8 The Audit Commission is responsible for appointing external auditors to each local authority. The basic duties of the external auditor are governed by section 15 of the Local Government Finance Act 1982, as amended by section 5 of the Audit Commission Act 1998.
- C.9 The Authority may, from time to time, be subject to inspection or investigation by external bodies such as H.M. Revenue and Customs who have statutory rights of access.
- C.10 The Director of Finance is responsible for:
 - i. ensuring an effective internal audit function, through adequate resourcing and coverage properly planned and determined through assessment of risk and consultation with management;
 - ii. ensuring that effective procedures are in place to investigate promptly any fraud or irregularity;
 - iii. ensuring that external auditors are given access at all reasonable times to premises, personnel, documents and assets that the external auditors consider necessary for the purposes of their work;
 - iv. ensuring there is effective liaison between external and internal audit.

C.11 The ~~Head of Paid Service, Managing Directors and Executive Directors~~ are responsible for:

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- i. notifying the Head of Audit and Risk immediately of any suspected fraud, theft, irregularity or improper use of or misappropriation of the Authority's property or resources. Pending investigation and reporting, all necessary steps should be taken to prevent further loss and to secure records and documentation against removal or alteration;
- ii. ensuring that internal and external audit are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work;
- iii. ensuring that all records and systems are up to date and available for inspection.

Preventing fraud and corruption

C.12 The Director of Finance is responsible for developing, reviewing and maintaining an anti-fraud and anti-corruption policy and for advising on effective systems of internal control to prevent fraud and corruption. [LINK](#)

C.13 The ~~Head of Paid Service, Managing Directors and Executive Directors~~ are responsible for ensuring compliance with the Anti-fraud and Anti-corruption Policy and with systems of internal control [to prevent fraud and corruption](#).

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Assets

Security of Assets

C.14 The Director of Finance is responsible for ensuring that processes are in place for maintaining asset registers in accordance with good practice for fixed assets. The function of the Asset Register is to provide the Authority with information about fixed assets so that they are safeguarded, used efficiently and effectively and adequately maintained [as well as for accounting purposes](#).

C.15 The ~~Head of Paid Service, Managing Directors and Executive Directors~~ should ensure that assets, and records relating to these, are properly maintained. They should also ensure that contingency plans for the security of assets and continuity of service in the event of disaster or system failure are in place.

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Inventories

~~C.16 The Head of Paid Service, Managing Directors and Executive Directors are responsible for maintaining and reviewing annually inventories of equipment, plant and machinery which has a value of over £200 or is portable and attractive.~~

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Asset Disposal

C.16 The Director of Finance in conjunction with the ~~Head of Paid Service~~ is responsible for issuing guidelines representing best practice for the disposal of [equipment, plant and machinery](#).

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C.17 Managing Directors and Executive Directors are responsible for complying with issued guidelines in respect of all asset disposals. [LINK](#)

Stocks of goods and materials

C.19 Managing Directors and Executive Directors are responsible for:

- i. ensuring that stocks of goods and materials are held at a level appropriate to the business needs of the Council;
- ii. ensuring that adequate arrangements are in place for their care and custody;
- iii. writing off the value of obsolete stock in their Directorates of up to £10,000 in consultation with the Director of Finance. All sums above £10,000 should be reported by the relevant Managing Director or Executive Director to the Director of Finance and Cabinet Member for Finance and then to the relevant Policy Overview and Scrutiny Committee for write off action.

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Intellectual Property

C.20 The Head of Paid Service is responsible in conjunction with the Director of Law and Governance for developing and disseminating best practice regarding the treatment of intellectual property.

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C.21 The Head of Paid Service, Managing Directors and Executive Directors are responsible for:

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- i. ensuring that controls are in place to ensure that staff do not carry out private work in council time and that staff are aware that anything they create during the course of their employment, whether written or otherwise, belongs to the Council;
- ii. complying with copyright, designs and patent legislation and, in particular, to ensure that:
 - a. only software legally acquired and installed by the Authority is used on its computers,
 - b. staff are aware of legislative provisions, and
 - c. in developing systems, due regard is given to the issue of intellectual property rights.

Treasury management

C.22 The Director of Finance is responsible for:

- i. reporting to the Cabinet Member for Finance, in accordance with the CIPFA Treasury Management in the Public Services Code of Practice, and accordingly will create and maintain, as the cornerstones for effective treasury management:
 - a. a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and
 - b. suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities;

The content of the policy statement and TMPs will follow the recommendations contained in sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

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- ii. reporting to the Council on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs;
- iii. establishing procedures to monitor and report on performance in relation to Prudential Indicators set by the Council;
- iv. ensuring that all borrowing and all investments of money are made in the name of the Authority or in the name of an approved nominee.

Deleted: reporting to the Cabinet and the County Council on the treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close, in the form TMPs; implementing and monitoring the treasury management policies and practices;

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Deleted: reporting to the Governance and Audit Committee and the Cabinet Member for Finance on the activities of the treasury management operation and on the exercise of delegated treasury management powers. One such report will comprise an annual report on treasury management for presentation by 30 September of the succeeding financial year; all decisions on borrowing, investment or financing;

C.23 This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Director of Finance, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's standard of professional practice on treasury management.

C.24 This organisation nominates the Treasury Advisory Group and Governance & Audit Committee to be responsible for ensuing effective scrutiny of the treasury management strategy and policies.

Loans to third parties and acquisition of third party interests

C.25 The Director of Finance is responsible for ensuring, jointly with the Head of Paid Service, Managing Directors and Executive Directors, that loans are not made to third parties and that interests are not acquired in companies, joint ventures or other enterprises without the approval of the full Council, the Leader, Cabinet or the Cabinet Member for Finance. LINK

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Trust Funds and funds held for third parties

C.26 Managing Directors and Executive Directors are responsible for arranging for all Trust Funds to be held, wherever possible, in the name of the Authority and ensuring that Trust Funds are operated within any relevant legislation and the specific requirements for each Trust.

Banking

C.27 The Director of Finance is responsible for:

- i. the control of all money in the hands of the Council;
- ii. operating central bank accounts as are considered necessary to the efficient operation of the Council's activities, within the terms agreed with the Council's bankers and reconciled weekly or monthly as required;
- iii. approving the opening or closing of any bank account operated by the County Council.

C.28 The Head of Paid Service, Managing Directors and Executive Directors are responsible for operating bank accounts opened with the approval of the Director of Finance in accordance with issued guidelines.

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Imprest Accounts

C.29 The Director of Finance is responsible for providing, in agreed circumstances and where such need is proven to be essential, cash or bank imprest accounts to meet minor or other agreed expenditure and for prescribing procedures for operating these accounts. [LINK](#)

C.30 The ~~Head of Paid Service, Managing Directors and Executive Directors~~ are responsible for the operation of approved cash and bank imprest accounts in accordance with procedures issued by the Director of Finance. [LINK](#)

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Credit Cards and Purchase Cards

C.31 The Director of Finance is responsible for

- i. providing credit cards and purchase cards to be used for agreed purposes and to be allocated to nominated members of staff;
- ii. prescribing procedures for the use of credit cards and purchase cards and the accounting arrangements required to record and monitor expenditure incurred with such cards.

C.32 The ~~Head of Paid Service, Managing Directors and Executive Directors~~ are responsible for:

- i. Operating the use of credit cards and purchase cards in accordance with the procedures issued by the Director of Finance. [LINK](#)

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Staffing Costs

C.33 The ~~Head of Paid Service~~ is responsible for ensuring that there is proper use of the evaluation or other agreed systems for determining the remuneration of a job.

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C.34 The ~~Head of Paid Service, Managing Directors and Executive Directors~~ are responsible for:

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- i. the management of total staff numbers by:
 - a. advising the Leader and the relevant Cabinet Member on the budget necessary in any given year to cover estimated staffing levels
 - b. adjusting the staffing numbers to that which can be funded within approved budget provision;
- ii. the proper use of appointment procedures;
- iii. monitoring staff activity to ensure adequate control over such costs as sickness, overtime, training and temporary staff;
- iv. ensuring that the staffing budget is not exceeded unless the necessary additional ongoing funding is available and the agreement of the relevant Cabinet Member or the Leader or Cabinet is obtained as required.

[Further guidance regarding authorisations to appoint members of staff is available in the relevant directorate's Scheme of Financial Delegation. LINK](#)

FINANCIAL REGULATION D – SYSTEMS AND PROCEDURES

Introduction

D.1 Sound systems and procedures are essential to an effective framework of accountability and control.

General

D.2 The Director of Finance is responsible for:

- i. determining the Authority's accounting control systems, the form of accounts and the supporting financial records and for ensuring that systems determined by him/her are observed;
- ii. approving any changes proposed by the Head of Paid Service, Managing Directors or Executive Directors to the existing financial systems or procedures or the establishment of new systems or procedures;
- iii. compiling, in consultation with the Head of Paid Service, Managing Directors and Executive Directors, a Business Continuity Plan to provide for as normal a continuation of financial services as possible in the event of any incident affecting systems used to deliver those services.

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D.3 The Head of Paid Service, Managing Directors and Executive Directors are responsible for:

- i. the proper operation of financial procedures and financial processes in their own Directorates in accordance with the systems and procedures set out by the Director of Finance;
- ii. obtaining the approval of the Director of Finance for any developments of new systems and changes to existing systems, by Managing Directors or Executive Directors that involve a financial operation or produce output that may influence the allocation of resources;
- iii. ensuring that their staff receive relevant financial training;
- iv. ensuring that, where appropriate, computer and other systems are registered in accordance with Data Protection legislation. The Head of Paid Service, Managing Directors and Executive Directors must ensure that staff are aware of their responsibilities under the Data Protection and Freedom of Information legislation;
- v. ensuring, jointly with the Director of Finance that there is a documented and tested Business Continuity Plan to allow information system processing to resume quickly in the event of an interruption;
- vi. ensuring that Oracle Financials is utilised except where otherwise agreed by the Director of Finance;
- vii. ensuring that vouchers and documents with financial implications are not destroyed, except in accordance with arrangements agreed with the Director of Finance. [LINK](#)

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Income

D4 The Governance and Audit Committee is responsible for approving procedures for writing off debts as part of the overall framework of accountability and control.

D.5 The Director of Finance is responsible for:

- i. setting the debt management policy for the County Council in order to maximise the income due to the Council and its collection;
- ii. approving the procedures, systems and documentation for the collection of income;
- iii. examining and actioning requests for write offs submitted by Managing Directors and Executive Directors;
- iv. maintaining a record of all sums written off and adhering to the requirements of the Accounts and Audit Regulations;
- v. ensuring that appropriate accounting adjustments are made following write off action;
- vi. ensuring, in consultation with the Head of Paid Service, Managing Directors or Executive Directors, that adequate provision is made for potential bad debts arising from uncollected income. LINK

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- D.6 The Director of Finance is authorised to write-off the following types of debt where:
- the debtor has gone into liquidation or is deceased and there are no funds nor estate on which to claim for recovery of the debt
 - the evidence against a debtor is inconclusive, and the Director of Law and Governance recommends write-off
 - the debtor has absconded and all enquiries have failed
 - the debtor is in prison and has no means to pay

- D.7 Other than covered in D6, all debt write offs over £10,000 should be put forward by the relevant Managing Director or Executive Director to the Director of Finance and Cabinet Member for Finance for agreement and then approved by the relevant Policy Overview and Scrutiny Committee.

Deleted: sums above £10,000

Deleted: should be reported jointly by the Director of Finance and Head of Paid Service or relevant Managing Director or Executive Director to the Governance and Audit Committee for write-off action.

- D.8 The Head of Paid Service, Managing Directors and Executive Directors are responsible for:

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- i. compliance with the agreed debt management policy of the Council. LINK
- ii. the write-off of irrecoverable debts in their Directorates of up to £10,000 in consultation with the Director of Finance;
- iii. ensuring that there is an annual review of fees and charges and that proposals for the level of fees and charges are approved by the Leader or relevant Cabinet Members;
- iv. ensuring that the agreed charging policy is implemented and consistently applied in respect of each relevant activity and service;
- v. separating, as far as is practicable, the responsibility for identifying amounts due and the responsibility for collection;
- vi. ensuring official receipts are issued and to maintain any other documentation for income collection purposes;
- vii. holding securely receipts, tickets and other records of income;
- viii. ensuring the security of cash handling.

Ordering and Paying for Works, Goods and Services

- D.9 The Director of Finance is responsible for:
- i. ensuring that all the Authority's financial systems and procedures for ordering and paying for works, goods and services are sound and properly administered;
 - ii. agreeing, in consultation with the Head of Paid Service, Managing Directors or Executive Directors where appropriate, any changes to existing financial systems and to approve any new systems before they are introduced.

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- iii. agreeing the form of official orders and associated terms and conditions;
 - iv. making payments from the Authority's funds on the Head of Paid Service, Managing Director's or Executive Director's authorisation that the expenditure has been duly incurred in accordance with Financial Regulations;
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 - Deleted: Chief Executive
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 - v. defining the requirements for the checking and certification of invoices prior to payment to confirm that the goods have been ordered and received, the invoice is in order and is certified for payment by the nominated budget manager. The Director of Finance will set and review a value for invoices, currently £100, below which payment will be made on certification that goods or services have been received and that the invoice is in order but will not require the additional certification of the budget manager;
 - vi. making payments, whether or not provision exists within the estimates, where the payment is specifically required by statute or is made under a Court Order;
 - vii. making payments to contractors on the certificate of the Head of Paid Service or appropriate Managing Director or Executive Director, which must include details of the value of work, retention money, amounts previously certified and amounts now certified.
 - Deleted: Chief Executive
- D.10 The Head of Paid Service, Managing Directors and Executive Directors are responsible for:
- i. ensuring that the Council's corporate financial systems are used for payment for work, goods and services except where specialist systems are used in agreement with the Director of Finance. Staff should not use personal credit cards to pay for work, goods or services on behalf of the Council;
 - ii. ensuring that verbal orders for works, goods or services are only placed exceptionally and are confirmed with an official written order;
 - iii. ensuring that orders are only used for goods and services provided to their Directorates. Individuals must not use official orders to obtain goods or services for their private use;
 - iv. ensuring that only those staff authorised by the Head of Paid Service or Managing Director or Executive Director sign orders and to maintain an up-to-date list of such authorised staff, including specimen signatures identifying in each case the limits of their authority;
 - Deleted: Chief Executive
 - v. ensuring that goods and services are checked on receipt to verify that they are in accordance with the order. This check should, where possible, be carried out by a different person from the person who authorised the order;
 - vi. ensuring that payment is not made unless a proper VAT invoice has been received, checked, coded and certified for payment;
 - vii. ensuring that payments are not made in advance of goods being supplied, work done or services rendered to the Council except with the approval of the Director of Finance;
 - viii. ensuring that invoices are approved for payment by staff authorised by the Head of Paid Service, Managing or Executive Director and that details of such authorised staff, including specimen signatures and limits of authority, are provided to Exchequer Services;
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 - ix. ensuring that all undisputed invoices are settled within 20 days from receipt of the invoice;
 - Deleted: within agreed terms or
 - Deleted: 30
 - Deleted: in accordance with the Best Value -Prompt Payment of Invoices Performance Indicator.

- x. ensuring that the department obtains best value from purchases by taking appropriate steps to obtain competitive prices for goods and services of the appropriate quality, which are in line with best value principles as contained in the Authority's Procurement Strategy. The financial values at which competitive processes become mandatory are contained within 'Spending the Council's Money': LINK
- xi. utilising the purchasing procedures outlined in the Authority's Code of Practice for Tenders and Contracts, contained within 'Spending the Council's Money'. LINK
- xii. Compliance with spend mandates (e.g. all print works via Commercial Services, Kent Top Temps for agency staff etc.)

D.11 All transactions must fall within the powers delegated to the Head of Paid Service or Senior Manager or have been approved by a decision (in accordance with the Council's Constitution) of the Cabinet, the Leader, an authorised Cabinet Member, the Council or one of its committees or sub-committees.

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D.12 No contract, agreement or other document shall be signed or sealed unless it gives effect to:

(i) a decision or resolution (in accordance with the Council's Constitution) of the Leader, the Cabinet, an authorised Cabinet Member or one of its committees or sub committees or

(ii) a decision by an officer exercising delegated powers

D.13 Budgetary provision must exist before any contract can be entered into. This provision should be explicit in a budget approved by resolution of the Council. Where budgetary approval exists for a specific item further Member approval is not generally required.

D.14 Where there is no specific budget line, the Head of Paid Service and Senior Managers with delegated authority may approve expenditure up to £100,000, provided the expenditure can be met within budget. Above £100,000 a formal decision by the Leader, the Cabinet or an authorised Cabinet Member is required in accordance with the Council's Constitution.

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Contract Management

D.15 Staff should refer to Spending the Council's money for advice and guidance regarding contract management. LINK

Ex Gratia Payments

D.16 The Head of Paid Service, Managing Directors and Executive Directors are responsible for approving reasonable ex gratia payments of £6,000 or less and for ensuring that a record of such payments is maintained.

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D.17 For ex gratia payments in excess of £6,000 the Head of Paid Service, Managing Directors and Executive Directors are responsible for obtaining the approval of the relevant Cabinet Member, the Cabinet Member for Finance and the Director of Finance

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Payments to employees and Members

- D.18 The Director of Finance is responsible for:
- i. arranging and controlling secure and reliable payment of pensions making arrangements for recording and for the accurate and timely payment of PAYE, Income Tax, National Insurance, pension and all other statutory and non-statutory payroll deductions;
 - ii. ensuring that there are adequate arrangements for administering pension matters on a day-to-day basis;
 - iii. ensuring the accurate and timely production of statutory returns to the Inland Revenue, particularly in respect of the financial year-end and the declaration of employee taxable benefits.

~~Deleted: and ensuring together with the~~
~~Deleted: Head~~
~~Deleted: Director of Personnel and Development, arrangements for payment of all travel and subsistence claims and the payment of allowances and expenses to Members.~~

- D.19 The ~~Director of Personnel and Development is responsible for~~ arranging and controlling secure and reliable payment, on the due date, of salaries, compensation payments or other emoluments, ~~staff expenses and Members' expenses and allowances~~ in accordance with procedures prescribed by him or her.

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- D.20 The ~~Head of Paid Service, Managing Directors and Executive Directors~~ are responsible for:
- i. ensuring that all appointments are made in accordance with the Council's regulations and approved establishments, grades and scales of pay.
 - ii. ensuring that adequate budget provision exists for:
 - all employee appointments
 - all permanent and temporary variations relating to employee appointments
 - all engagements of self-employed persons.

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Taxation

- D.21 The Director of Finance is responsible for:
- i. maintaining the Council's tax records, making tax payments, receiving tax credits and submitting tax returns by their due date as appropriate;
 - ii. advising Managing Directors ~~and Executive Directors~~ on all taxation issues that affect the Authority in the light of relevant legislation as it applies and guidance issued by appropriate bodies.

~~D.22 Where the Chief Executive and Managing Directors are owners of financial systems they are responsible for maintaining the appropriate records, making tax payments, receiving tax credits and submitting tax returns by their due date as appropriate.~~

- D.23 The ~~Head of Paid Service, Managing Directors and Executive Directors~~ are responsible for consulting with, and seeking advice from, the Director of Finance on the potential tax implications of any new initiatives for the delivery of Council activity and Services, ~~including those that could impact on our partial exemption.~~

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Trading accounts

- D.24 The Director of Finance is responsible for advising on the establishment and operation of trading accounts.

- D.25 The ~~Head of Paid Service, Managing Directors and Executive Directors~~ are responsible for:

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- i. observing all statutory requirements in relation to trading activity, including the maintenance of a separate revenue account to which all relevant income is credited and all relevant expenditure, including overhead costs, is charged in accordance with the CIPFA Best Value Accounting Code of Practice;
- ii. ensuring that the same accounting principles are applied in relation to trading accounts as for other services or business units;
- iii. ensuring that each business unit prepares an annual business plan. [LINK](#)

Internal Recharges

D.26 The Director of Finance is responsible for:

- i. ~~maintaining a system of delegating budgets to directorates for support services;~~
- ii. ~~establishing a framework for the carrying out of internal recharges in accordance with laid down timetables;~~
- iii. ~~arbitrating on disputed recharges where these cannot be satisfactorily resolved between directorates;~~
- iv. recharges for support services in accordance with the CIPFA Best Value Accounting Code of Practice for both budget and final accounts purposes.

D.27 The ~~Head of Paid Service, Managing Directors and Executive Directors~~ are responsible for:

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- i. ensuring that budgets for the purchase and provision of internal services are agreed between purchaser and provider and properly reflected in annual budgets and business plans and budget monitoring statements;
- ii. raising and/or processing recharges in accordance with the timescales laid down;
- iii. notifying and/or responding to disputed recharges in accordance with the timescales laid down;
- iv. monitoring the processing of recharges in accordance with the timetable agreed with the Director of Finance.

FINANCIAL REGULATION E – EXTERNAL ARRANGEMENTS

Partnerships

- E.1 The Director of Finance is responsible for:
- i. promoting ~~the same high standards of conduct with regard to financial administration in partnerships that apply throughout the Authority;~~ Deleted: and maintaining Deleted: Council
 - ii. advising on the financial implications resulting from entering into partnership agreements including tax treatment, limitation of liability, valuation of transferred assets or the grant of a right to use existing assets and any other long term issues;
 - iii. advising on the terms of any payment and performance mechanism relating to partnerships entered into by the Authority. Deleted: Council
- E.2 The ~~Head of Paid Service, Managing Directors and Executive Directors~~ Deleted: Chief Executive are responsible for: Deleted: and
- i. ensuring that, when entering into partnerships, the Council's financial and operational interests are protected;
 - ii. ensuring that appropriate financial and legal advice is taken ~~before entering into partnership agreements;~~ Deleted: when
 - iii. ensuring that, before entering into partnership agreements with external bodies, a risk management appraisal is carried out and an exit strategy is in place where appropriate;
 - iv. ensuring that necessary approvals are obtained before negotiations are concluded in relation to partnership agreements;
 - v. ensuring that the accounting and financial arrangements for partnerships satisfy the requirements of the Authority and allow for any required audit of the partnerships affairs. Deleted: Council

[More detailed guidance can be found in 'Risk Management of Key Partnerships – A guide to good practice' and the Companies' Protocol LINK](#)

External funding

- E.3 The Director of Finance is responsible for:
- i. ensuring that procedures are in place so that all the financial implications, including long term issues, resulting from entering into external funding agreements are identified;
 - ii. ensuring that all external funding agreed with external bodies is received and is properly recorded in the Council's accounts;
 - iii. maintaining a record of expected grants in liaison with the ~~Head of Paid Service, Managing Directors and Executive Directors;~~ Deleted: Chief Executive Deleted: or
 - iv. investigating ways of maximising grant income;
 - v. building in any agreed financial implications (e.g. matched funding) into the budget strategy;
 - vi. accounting for non-specific Government Grants received and receivable and submitting any required returns in respect of these.
- E.4 The ~~Head of Paid Service, Managing Directors and Executive Directors~~ Deleted: Chief Executive are responsible for: Deleted: and
- i. ensuring that external funding which is sought supports the Council's service priorities.

- ii. ensuring that any matched funding requirements relating to external funding agreements are identified and provided for in the budget prior to any external funding agreement being concluded;
- iii. ensuring that necessary approvals are obtained before external funding agreements are concluded;
- iv. ensuring that the conditions of external funding agreements and any statutory requirements are complied with;
- v. ensuring that expenditure met from external funding is properly incurred and recorded, that income is received at the appropriate time, returns are made by the specified dates, and that audit requirements of the funding body can be met;
- vi. maintaining a record of external funding agreements in place;
- vii. ensuring that any other expenditure associated with the grant (e.g. matching funding) is contained within the agreed Directorate budget;
- viii. accounting for specific Government Grants received and receivable in respect of services for which they are responsible and submitting any required returns in respect of these;
- ix. ensuring that all grants received are recorded in the central register, and in line with the 'corporate grant procedure' [LINK](#)

Work for third parties

E.5 The Director of Finance is responsible for issuing any required guidance on the financial aspects of contracts with third parties and external bodies.

E.6 The ~~Head of Paid Service, Managing Directors and Executive Directors~~ are responsible for:

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- i. ensuring that work for third parties does not impact adversely on the services of the ~~Authority~~ and that before entering into agreements a risk management appraisal has been carried out;
- ii. ensuring that guidance issued by the Director of Finance is complied with and that all agreements and arrangements are properly documented.

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E.7 The Leader or relevant Cabinet Member is responsible for approving the contractual arrangements for any work for third parties or external bodies where the contract value exceeds £200,000.

Companies

~~E.8 The Director of Finance is responsible for advising on the financial implications resulting from the creation of a company including tax treatment and accounting arrangements.~~

~~E.9 The Head of Paid Service, Managing Directors and Executive Directors are responsible for ensuring that no company is formed without first seeking financial and legal advice.~~

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~~[LINK](#)~~

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By: Cabinet Member for Finance
 Director of Finance

To: Governance and Audit Committee – 30 April 2010

Subject: **Audit Commission - Audit Opinion Plan**

Classification: Unrestricted

Summary: The attached plan sets out the proposed work of the Audit Commission to enable them to give an opinion on the Council's 2009/10 financial statements.

FOR INFORMATION AND DECISION

Introduction

1. The Audit Commission are required to provide the Committee, defined as those charged with governance under International Standards of Auditing, an update on the proposed work in relation to the Council's financial statements. The report attached sets out the results of the Audit Commission's latest risk assessment in relation to their audit of the financial statements and provides information on:
 - Assumptions underpinning the fee for the audit.
 - Specific actions Kent County Council could take to reduce its audit fees.
 - The Auditors Report.
 - Identification of risks to the audit opinion.
 - The Audit testing strategy and timetable.

Issues for the Committee to note

2. The fee for the audit of the financial statements remains unchanged as a result of the updated risk assessment, and the assumptions upon which the fee is based remain valid in the view of the District Auditor. The fee for the whole audit, approved by the Committee in June 2009, is £377,770.
3. The report sets out the results of the Audit Commission's risk assessment. Paragraph 14 and Table 1 of the report sets out the specific risks to the auditor's opinion, and the work proposed to mitigate these. These are risks which the District auditor has identified in relation to financial statements and do not necessarily have a bearing on the risk profile of the Council. Paragraphs 19 to 21 and Table 2 set out the proposed timetable for the opinion audit, including reporting to the Committee.
4. The District Auditor has also revised his statement on independence and objectivity at paragraph 23 of the report.
5. Paragraph 13 of the paper asks for a response from the Committee in relation to "its oversight of the Council's management in relation to the risk of fraud and of

possible breaches of internal control, and how the Committee gains assurance that the Council has complied with all relevant laws and regulations". More detail about the background of this request from the District Auditor is set out in Appendix two to the Audit Commission's report, but in summary the response is required to provide:

- a commentary on how the Committee oversees management processes to identify and respond to risks
- if the Committee aware of any significant internal and/or external operational, financial, compliance or other risks facing the Council which might have an effect on the financial statements for 2009/10? If such risks exist, the Committee's views on the likelihood of those risks materialising?
- whether the Committee has any knowledge of any actual, suspected or alleged frauds affecting the Council?
- if the Committee has been put on notice of any actual or possible instances of non-compliance with laws or regulations?

6. The deadline for the letter to be returned to the District Auditor is 14th May.

Recommendations

7. Members of the Committee are asked to:

- Note the outcomes of the Audit Commission's updated risk assessment and review of the assumptions supporting the fee.
- Approve that the Chairman provide the required response to the District Auditor, based on the draft at annex 1 of this report.

David Tonks
Head of Audit and Risk
Ext: 4614

Mr Darren Wells
Audit Commission
2nd Floor, The Agora
Ellen Street
HOVE
BN3 3LN

Dear Mr Wells

Kent County Council's Financial Statements 2009/10

Thank you for your letter of xx April 2010.

The Committee have considered the content of your letter, and have noted the particular information that you have requested, including the fact that you are interested in significant matters only. The Committee have approved the following response:

How the Committee Oversees Management process to identify and respond to risk.

The Terms of Reference of the Committees gives it responsibility for “agreeing the risk management policy with the Cabinet and reviewing the effectiveness of risk management ...”

The Committee has met this responsibility during the 2009/10 financial year, and as a result it is able to judge that it is satisfied with the management processes to identify and respond to risk.

The following work of the Committee during 2009/10 is relevant in this instance:

- Reviewing the strategic risk register of the Council twice in year as a source of assurance that management have identified, assessed and are controlling and monitoring the financial and non-financial risks of the Council.
- The establishment of a trading activities sub group to monitor and review the risks associated with the Councils trading activity
- Agreement and monitoring of an annual internal audit plan that provides assurance in relation to the management of the significant risks faced by the Council, and also provides assurance on the risk management and governance frameworks put in place by management.
- Receiving, requesting and assessing ad-hoc and routine assurance reports on:
 - Complaints (including those referred to the Ombudsman)
 - Private Finance Initiative
 - Surveillance activities
 - Corporate Governance indicators
 - Debt recovery and management
 - Treasury management
 - Insurance activities

- Receiving generally positive reports from the Audit Commission on its own risk based programme and tracking management responses to recommendations made.

The Committee also takes assurance from the findings of Audit Commissions' Use of Resources Assessment on the Council's governance arrangements including risk management and fraud.

In June 2010 the Committee will be asked to review and approve the Annual Governance Statement of the Council. This process will include consideration of the Council's ability to identify and manage risks and a consideration of the overall internal control environment.

Significant internal and/or external operational, financial, compliance or other risks facing the Council which might have an effect on the financial statements for 2009/10

The Committee is not aware of any such items that might have an effect on the financial statements for 2009/2010.

Actual, suspected or alleged frauds affecting the Council

The Committee receives a quarterly progress report from Internal Audit which includes details of frauds and irregularities. The Audit Commission has access to the same information through the published papers of the Committee. None of the cases during 2009/2010 would be deemed as significant. In addition there remain cases that are still subject to investigation which have yet to be reported. The Head of Audit and Risk has provided assurance that the circumstances of these cases would also not be considered significant, although until the investigations are complete this cannot be guaranteed.

Actual or possible instances of non-compliance with laws or regulations

The Legal and Democratic Services Unit is responsible for ensuring that the Council correctly applies the law and regulations governing its business. The department is led by the Director of Law and Governance, who is also the Council's Monitoring Officer. The Director of Law and Governance is able to attend all meetings of the Governance and Audit Committee, and would make the Committee aware of any significant possible instances of non-compliance with laws or regulations. In addition the Head of Audit and Risk would also report any known significant instances of non-compliance with laws or regulations. The Committee has not received any notifications through these two routes during 2009/10.

Yours sincerely

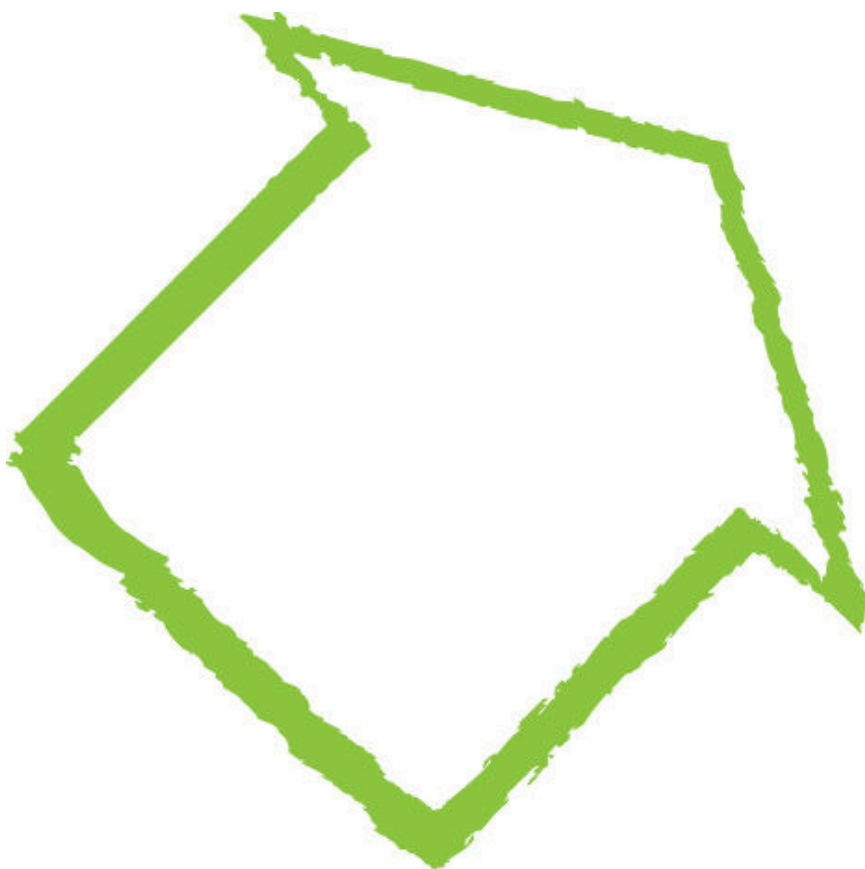
Chairman of the Governance and Audit Committee.

Audit Opinion Plan

Kent County Council

Audit 2009/10

April 2010



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Introduction

- 1 This plan sets out the audit work that we propose to undertake for the audit of financial statements 2009/10. The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:
 - audit work specified by the Audit Commission for 2009/10;
 - current national risks relevant to your local circumstances; and
 - your local risks.

Responsibilities

- 2 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.
- 3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 4 We comply with the statutory requirements governing our audit work, in particular:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice.

Fee for the audit of financial statements

- 5 The indicative fee for the audit is £377,770 and is at scale fee level. The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales for 2009/10. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 6 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of accounts is consistent with that for 2008/09;
 - a full set of working papers matching our requirements is delivered with the draft financial statements for audit;
 - controls testing confirms a robust system of internal control that we can rely on to reduce the requirement for substantive testing; and
 - Internal Audit undertakes appropriate work on cut-off at the year end and this is available for our review by 17 May 2010.
- 7 Where these assumptions are not met, I will be required to undertake additional work which could result in an increased audit fee. Where this is the case, I will discuss this in the first instance with the Director of Finance and we will issue updates to the plan to setting out the reasons for the increase in fee.
- 8 Further information on the basis for the fee is set out in Appendix 1.

Specific actions Kent County Council could take to reduce its audit fees

- 9 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, we will work with staff to identify any specific actions that the Council could take but at this time there are no matters to bring to your attention.

Auditors report on the financial statements

- 10 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) (ISA UK&I) issued by the Auditing Practices Board (APB).
- 11 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2010.

Identifying opinion audit risks

- 12 As part of our audit risk identification process, we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
 - establishing the nature of the Council's activities;
 - identifying the business risks facing the Council, including assessing your own risk management arrangements;
 - considering the financial performance of the Council; and
 - assessing the Council's internal control arrangements - including reviewing the control environment, the IT control environment and Internal Audit.
- 13 I also seek information from those charged with governance of the Council, which is the Governance & Audit Committee, to help the opinion audit risk identification process. Appendix 2 is my letter to the Chairman of the Committee and is an important part of my professional responsibilities as your external auditor. The letter requests a response to how the Committee exercises its oversight of the Council's management in relation to the risk of fraud and of possible breaches of internal control, and how the Committee gains assurance that the Council has complied with all relevant laws and regulations.

Identification of specific opinion audit risks

14 We have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1 Specific opinion audit risks

Risk area	Assertions	Audit response
<p>Payroll controls: In previous years we have relied on a control over the process by which new starters become live records on the payroll system. With the introduction of the IDOX system, it is no longer possible for us to test this control for compliance.</p>	<p>Occurrence, Accuracy, Completeness</p>	<p>We have identified compensating controls that should reduce the risk of material error from invalid starters on the payroll system to an acceptably low level and we will continue to monitor the operation of the compensating controls to ensure they remain robust.</p>
<p>Kent Public Services Network: We noted that there has been an error in the accounting treatment for the costs of this project which although not material in 2009/10 would accumulate into a material error over the period of the underlying contract. As a result of this error, Revenue Expenditure Funded from Capital Under Statute (REFCUS) becomes a risk area for the opinion audit. We also noted that a capital grant has been utilised to fund revenue expenditure in relation to the project which is allowed by the SoRP but only in exceptional circumstances and that the accounting treatment had not been supported adequately.</p>	<p>Classification Classification Classification</p>	<p>We have agreed with officers an amended accounting treatment and we will review the financial statements to ensure it has been followed. We will test in detail expenditure treated as REFCUS to ensure that it is correctly classified in the financial statements. We have asked officers for the Council's justification for taking the capital grant to revenue. We will also review the financial statements for other capital grants to ensure their treatment can also be justified.</p>

Identification of specific opinion audit risks

Risk area	Assertions	Audit response
<p>Icelandic bank deposits: Over the past year the repayments of the Council's deposits in Icelandic banks have been revised. As a result, fair values and impairments for the outstanding deposits will need to be recalculated for inclusion in the accounts using the latest available information.</p>	<p>Valuation and allocation</p>	<p>We will review the calculations made and associated accounting entries.</p>
<p>Domiciliary care payments: We are aware of the ongoing issues within the systems used for payment of domiciliary care contracts and the work being done by officers to resolve them. Whilst this does not constitute a risk of material mis-statement in the financial statements, there is a significant degree of uncertainty in the year end position.</p>	<p>Completeness, Accuracy, Cut-off, Valuation and Allocation.</p>	<p>We will review the Council's working papers in support of entries in the financial statements to ensure that they are free from significant error.</p>
<p>East Kent Opportunities LLP: Draft accounts for this joint arrangement were not prepared within the Council's closedown timetable for the 2008/09 financial statements and this resulted in a series of significant matters being reported to you in our 2008/09 Annual Governance Report. There is a risk that if the accounts for the joint arrangement are not submitted to us with the 2009/10 draft financial statements for audit this year, similar significant errors will occur.</p>	<p>Valuation and Allocation, Rights and Obligations, Completeness, Classification and occurrence.</p>	<p>We have requested that draft accounts for EKO LLP be submitted to us with the working papers supporting the main financial statements.</p>
<p>VAT partial exemption limit: The Council has come very close to breaching the partial exemption limit of 5 per cent. Breaching that limit could result in a material financial liability for the Council.</p>	<p>Existence, Valuation and Allocation</p>	<p>We have concluded that this is not a material opinion risk but we will review any accounting entries made.</p>

Testing strategy

- 15 On the basis of risks identified above we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.
- 16 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 17 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where substantive testing could be carried out early.
- review of accounting policies;
 - review of accruals at directorate level;
 - review of non-system income at directorate level;
 - fixed assets – confirmation of ownership and existence;
 - year end feeder system reconciliations; and
 - review of Impairments.

Where other early testing is identified as being possible, this will be discussed and agreed with officers.

- 18 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities. For 2009/10, we expect to be able to use the results of Internal Audit's work on cut-off.

Key milestones and deadlines

- 19 Although the Council is required to approve its financial statements by 30 June 2010 it produces its draft statements to an earlier timetable than most other councils. We expect to receive the draft accounts by 11 June 2010 and this should allow us to issue an interim Annual Governance Report to you on 30 June 2010 with our opinion on the by the end of July 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 20 We have agreed with officers a schedule of working papers required to support the entries in the financial statements.
- 21 At least once every week, we meet with the key officers and review the status of the matters arising from the audit. If appropriate.

Table 2 **Proposed timetable**

Task	Deadline
Control and early substantive testing	April and May 2010
Receipt of accounts	11 June 2010
Forwarding of audit working papers to the auditor	11 June 2010
Start of detailed testing	10 May 2010
Progress meetings	At least weekly
Present interim report at the Governance & Audit Committee	30 June 2010
Issue of opinion	By 31 July 2010
Audited accounts submitted	By 31 July 2010
Present final report to the Governance & Audit Committee	September 2010

The audit team

22 The key members of the audit team for the 2009/10 audit are shown in the table below.

Table 3 **Audit team**

Name	Contact details	Responsibilities
Darren Wells District Auditor	d-wells@audit-commission.gov.uk 0844 798 6110	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Grahame Brown Audit Manager	g-brown@audit-commission.gov.uk 0844 798 6107	Coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Liz Robinson Audit Manager	e-robinson@audit-commission.gov.uk 0844 798 1377	Manages day-to-day work on the audit opinion.
Jeremy Jacobs Team Leader	j-jacobs@audit-commission.gov.uk 0844 798 6121	Leads our audit team on a day-to day basis.

Independence and objectivity

- 23 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 3.
- 24 Ethical standards require auditors to continually evaluate any threats or perceived threats to their independence and objectivity. I have recently been made aware of a potential perceived threat to the independence of a member of the audit team which I am currently discussing with the Audit Commission's Head of Audit Practice. I will update members of the committee at its meeting on the 30 April 2010.

Meetings

- 25 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 4.

The audit team

Quality of service

- 26 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact Neil Childs, Head of Operations (n-childs@audit-commission.gov.uk).
- 27 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.
-

Planned outputs

- 28 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.
-

Table 4 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	April 2010
Annual Governance Report	June 2010 (interim) and September 2010 (final)
Auditor's report giving an opinion on the financial statements	July 2010
Final accounts memorandum	October 2010

Appendix 1 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:
 - our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers; and
 - liaison with Internal Audit.

Assumptions

- 3 In setting the fee, I have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09;
 - you will inform us of significant developments impacting on the audit;
 - Internal Audit meets the appropriate professional standards;
 - Internal Audit undertakes agreed work on cut-off to an appropriate standard such that we can place reliance on it for the purposes of our audit;
 - good quality working papers matching our requirements complete with explanatory narrative where appropriate and records will be provided to support the financial statements on 11 June 2010;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 – Information request to the Governance & Audit Committee

Our reference KE079/gb

April 2010

Mr R L H Long
Chairman of the Governance & Audit Committee
Kent County Council
Sessions House
County Hall
Maidstone
Kent ME14 1XQ

Direct line 08447 986110
Direct fax 08477 986138
Email d-wells@audit-
 commission.gov.uk

Dear Mr Long

Assistance with our external audit of Kent County Council's financial statements 2009/10

As your external auditor I must comply with the framework set out within the International Standards on Auditing (UK & Ireland) and I am writing to you as the Chairman of the Governance & Audit Committee to seek your assistance.

The framework includes a requirement for ongoing communication between auditors and the members of the Committee, in their role as those charged with governance of the Council, to ensure that there is a mutual understanding of the scope of the external audit and for the two-way exchange of information in order that we can both fulfil our respective responsibilities.

One key aspect of this requires me to obtain information from the Committee as part of my planning of the audit of the financial statements for 2009/10. Please note that responding to my request does not expect any additional work by the Committee but seeks its current view based on its members' knowledge gleaned from the Committee's usual activities and from any other sources that they have.

Appendix 2 – Information request to the Governance & Audit Committee

Standard 240 requires me to obtain an understanding of how the Committee exercises its oversight of the Council's management in relation to the identification and reporting the risk of fraud and of possible breaches of internal control in the Council. Management's processes in this regard might include:

- undertaking a formal assessment of the risk that the financial statements may be materially mis-stated due to fraud;
- identifying and responding to risks of fraud in the Council;
- communications to employees on ethical behaviour and good business practice; and
- communications to the Committee of the processes for identifying and responding to fraud.

Standard 250 requires me to understand how the Committee gains assurance that the Council has complied with all relevant laws and regulations. A key area that might be considered in this area is the role and activities of the Council's Monitoring Officer.

I should be grateful for provision of the following information:

- a commentary on how the Committee oversees management processes to identify and respond to risks;
- is the Committee aware of any significant internal and/or external operational, financial, compliance or other risks facing the Council which might have an effect on the financial statements for 2009/10? If such risks exist, I would like to know about them and the Committee's views on the likelihood of those risks materialising?;
- has the Committee any knowledge of any actual, suspected or alleged frauds affecting the Council?;
- has the Committee been put on notice of any actual or possible instances of non-compliance with laws or regulations?

I am interested in significant matters only. It could be that after discussion the Committee concludes that there are no matters to bring to my attention and this would be a satisfactory outcome to my request.

A response in the form of a short letter would be sufficient and it would be helpful to receive this by 14 May 2010. Please call me if you wish to discuss anything in relation to this request.

Yours sincerely

Darren Wells
District Auditor

Appendix 3 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Governance and Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

- 6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor’s opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being ‘additional work’ and charged for separately from the normal audit fee.
 - Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
 - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
 - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- 7 The District Auditor and members of the audit team must abide by the Commission’s policy on gifts, hospitality and entertainment.

Appendix 4 – Working together

Meetings

- 1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 2 Our proposal for the meetings is as follows.

Table 5 Proposed meetings/contacts with officers

Council officers	Audit Commission staff	Timing	Purpose
Director of Finance	District Auditor and Audit Managers	Quarterly	General update on Council business plus: <ul style="list-style-type: none"> • February - audit plan • June - accounts progress • September - final annual governance report
Chief Accountant	Team Leader	Monthly or more frequently depending on stage of audit	Update on audit issues
Governance & Audit Committee	District Auditor and Audit Managers with Team Leader as appropriate	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Other issues as appropriate
Internal Audit	Audit Manager and Team Leaders	Quarterly	Update on systems, IT environment and fraud risks

Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
 - reducing paper flow by exchange of documentation and working papers electronically;
 - use of telephone conferencing for meetings as appropriate; and
 - minimising travel when opportunities arise.

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

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For further information on the work of the Commission please contact:

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Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

By: Cabinet Member for Finance
 Director of Finance

To: Governance and Audit Committee – 30 April 2010

Subject: **Audit Commission – Kent Superannuation Fund**
Audit Opinion Plan

Classification: Unrestricted

Summary: The attached plan sets out the proposed work of the Audit Commission to enable them to give an opinion on the Council's 2009/10 financial statements.

FOR INFORMATION AND DECISION

Introduction

1. The Audit Commission are required to provide the Committee, defined as those charged with governance under International Standards of Auditing, an update on the proposed work in relation to the Kent Superannuation Fund, which forms part of the Council's financial statements. The report attached sets out the results of the Audit Commission's latest risk assessment in relation to their audit of the Kent Superannuation Fund and provides information on:
 - Assumptions underpinning the fee for the audit.
 - Specific actions that the Kent Superannuation Fund could take to reduce its audit fees.
 - Identification of risks to the audit opinion.
 - The audit testing strategy and timetable.

Issues for the Committee to note

2. The fee for the audit of the Kent Superannuation Fund remains unchanged as a result of the updated risk assessment, and the assumptions upon which the fee is based remain valid in the view of the District Auditor. The fee for the audit, notified to the Council in April 2009 is £64,250.
3. Paragraph 2 of the report explains the Committees responsibility, as viewed by the Audit Commission, in relation to the considering and agreeing the Fund's audit plans, as well as receiving and considering any reports arising from the Fund's audit.
4. The report sets out the results of the Audit Commission's risk assessment. Paragraph 14 and Table 1 of the report sets out the specific risks to the audit opinion, and the work proposed to mitigate these. Paragraphs 16 to 17 and Table 2 set out the proposed timetable for the opinion audit, including reporting to the Committee.

5. Paragraph 9 of the paper asks for a response from the Committee in relation to “its oversight of the Council’s management in relation to the risk of fraud and of possible breaches of internal control, and how the Committee gains assurance that the Council has complied with all relevant laws and regulations”. More detail about the background of this request from the District Auditor is set out in Appendix one to the Audit Commission’s report, but in summary the response is required to provide:
- a commentary on how the Committee oversees management processes to identify and respond to risks.
 - if the Committee aware of any significant internal and/or external operational, financial, compliance or other risks facing the Kent Superannuation Fund which might have an effect on the Fund’s financial statements for 2009/10? If such risks exist, the Committee’s views on the likelihood of those risks materialising?
 - whether the Committee has any knowledge of any actual, suspected or alleged frauds affecting the Fund?
 - if the Committee has been put on notice of any actual or possible instances of non-compliance with laws or regulations?
6. The deadline for the letter to be returned to the District Auditor is 14th May.
7. The Council’s constitution specifies that: the Superannuation Fund Committee, “...discharges the functions of the Council in relation to the control and investment of the Superannuation Fund.”

However, the Governance and Audit Committee has responsibilities in relation to the overarching governance framework within which the Council operates which includes the administration of the Superannuation Fund. Therefore it is appropriate that the response to the District Auditor be in the form of a joint letter from the Chairmen of both the Governance and Audit Committee and the Superannuation Fund Committee.

Recommendations

8. Members of the Committee are asked to:
- Note the outcomes of the Audit Commission’s updated risk assessment and review of the assumptions supporting the fee.
 - Approve that the Chairman of the Governance and Audit Committee jointly with the Chairman of the Superannuation Fund Committee provide the required response to the District Auditor, based on the draft at annex 1 of this report.

David Tonks
Head of Audit and Risk
Ext: 4614

Mr Darren Wells
Audit Commission
2nd Floor, The Agora
Ellen Street
HOVE
BN3 3LN

Dear Mr Wells

Kent Superannuation Fund's Financial Statements 2009/10

Thank you for your letter of xx April 2010.

The Governance and Audit Committee have considered the content of your letter, and have noted the particular information that you have requested, including the fact that you are interested in significant matters only. The Governance and Audit Committee have approved the following response:

How the Committees oversees Management process to identify and respond to risk.

The Terms of Reference of the Governance and Audit Committees gives it responsibility for “agreeing the risk management policy with the Cabinet and reviewing the effectiveness of risk management ...”

The Governance and Audit Committee has met this responsibility during the 2009/10 financial year, and as a result it is able to judge that it is satisfied with the management processes to identify and respond to risk.

The following work of the Committee during 2009/10 is relevant in this instance:

- Reviewing the strategic risk register of the Council twice in year as a source of assurance that management have identified, assessed and are controlling and monitoring the financial and non-financial risks of the Council.
- The establishment of a trading activities sub group to monitor and review the risks associated with the Councils trading activity
- Agreement and monitoring of an annual internal audit plan that provides assurance in relation to the management of the significant risks faced by the Council, and also provides assurance on the risk management and governance frameworks put in place by management.
- Receiving, requesting and assessing ad-hoc and routine assurance reports on:
 - Complaints (including those referred to the Ombudsman)
 - Private Finance Initiative
 - Surveillance activities
 - Corporate Governance indicators
 - Debt recovery and management
 - Treasury management
 - Insurance activities

- Receiving generally positive reports from the Audit Commission on its own risk based programme and tracking management responses to recommendations made.

The Governance and Audit Committee also takes assurance from the findings of Audit Commissions' Use of Resources Assessment on the Council's governance arrangements including risk management and fraud.

In June 2010 the Governance and Audit Committee will be asked to review and approve the Annual Governance Statement of the Council. This process will include consideration of the Council's ability to identify and manage risks and a consideration of the overall internal control environment.

The Superannuation Fund Committee has no direct responsibility for overseeing the management of risk of in Kent County Council. However, it does oversee the management of risks specific to the control and investment of the Superannuation Fund. This is achieved through a variety of means, including regular updates on:

- the fund position and structure and property portfolios;
- currency management;
- investment managers performance, and;
- pensions administration issues;

The Superannuation Fund Committee has also received a progress reports on delivering compliance with CiPFA's guidance on investment decision making and disclosure, and has adopted the CiPFA guidance on delivering good governance in local government pension funds.

Significant internal and/or external operational, financial, compliance or other risks facing the fund which might have an effect on the fund's financial statements for 2009/10

The Committees are not aware of any such items that might have an effect on the fund's financial statements for 2009/2010.

Actual, suspected or alleged frauds affecting the Council

The Governance and Audit Committee receives a quarterly progress report from Internal Audit which includes details of frauds and irregularities. The Audit Commission has access to the same information through the published papers of the Governance and Audit Committee. None of the cases during 2009/2010 would be deemed as significant. In addition there remain cases that are still subject to investigation which have yet to be reported. The Head of Audit and Risk has provided assurance that the circumstances of these cases would also not be considered significant although until the investigations are complete this cannot be guaranteed.

Actual or possible instances of non-compliance with laws or regulations

The Legal and Democratic Services Unit is responsible for ensuring that the Council correctly applies the law and regulations governing its business. The department is led by the Director of Law and Governance, who is also the Council's Monitoring Officer. The Director of Law and Governance is able to attend all meetings of the Governance and Audit Committee, and would make the Committee aware of any significant possible instances of non-compliance with laws or regulations. In addition the Head of A&R would also report any known instances of significant instances of non-compliance with laws or regulations. The Governance and Audit Committee has not received any notifications through these two routes during 2009/10.

Yours sincerely

Chairman of the Governance and Audit
Committee

Chairman of the Superannuation Fund
Committee

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Audit Opinion

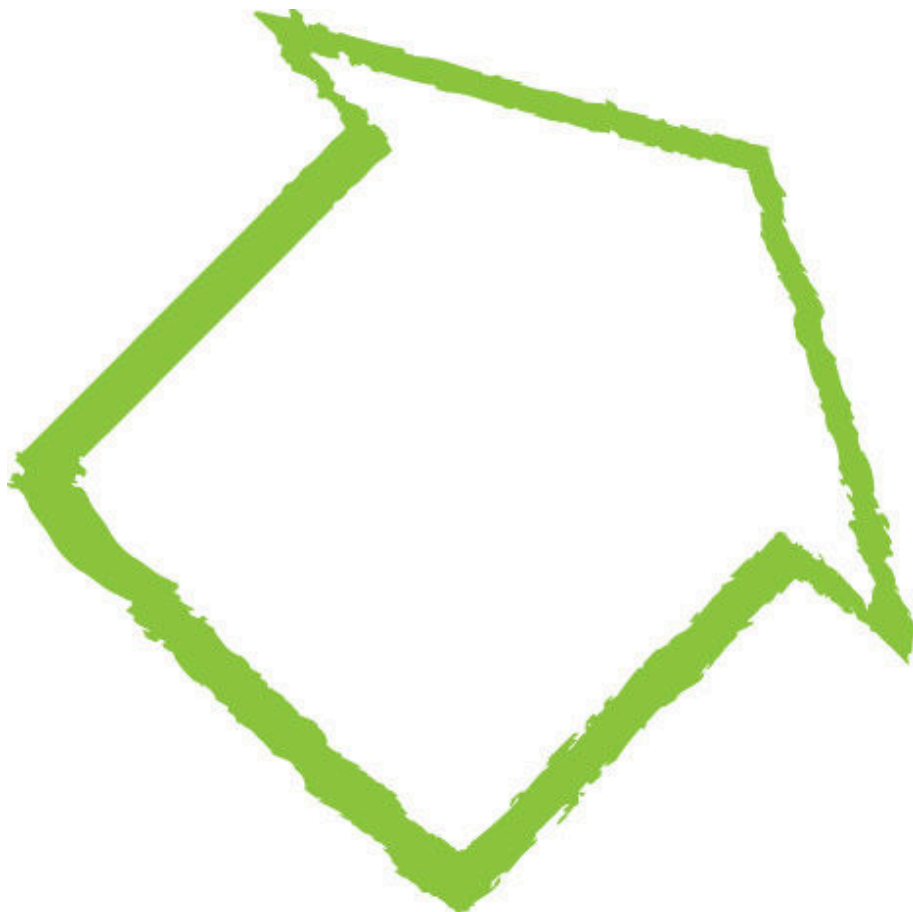
Plan

Kent Superannuation Fund

Kent County Council

Audit 2009/10

April 2010



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Introduction

- 1 Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 requires administering authorities to prepare an annual report for the pension fund, which should incorporate the annual accounts.
- 2 As the Superannuation Fund accounts remain part of the financial statements of Kent County Council as a whole, the Governance & Audit Committee retains the responsibility for receiving, considering and agreeing the Fund's audit plans, as well as receiving and considering any reports arising from the Fund's audit.
- 3 I have prepared a plan for the audit of the Superannuation Fund 2009/10 which will be presented to the Governance & Audit Committee in April 2010. I understand the key role played by the Superannuation Fund Committee in relation to the control and investment of the Fund. Given this, I will keep the Fund Committee updated on the progress of my audit.

The fee

- 4 I am required by professional auditing standards to specify the detailed risks that we need to consider as part of our opinion planning work. This involves:
 - identification of the risk of material misstatements in your accounts;
 - planning audit procedures to address these risks; and
 - ensuring that the audit complies with all relevant auditing standards, including Practice Note 15.¹
- 5 I wrote to the Council's Chief Executive on 30 April 2009 and set out the proposed fee of £64,250 (exclusive of VAT) for the 2009/10 audit of the Superannuation Fund. The scale fee set by the Audit Commission is £70,900 (excluding VAT). I am able to confirm that based on more detailed planning that has now been undertaken as we approach the formal opinion audit that the proposed fee remains appropriate.
- 6 While I am not expecting to amend the fee, should this be necessary I will discuss this with the Director of Finance in the first instance and will update the Committee.

Specific actions that Kent Superannuation Fund could take to reduce its audit fees

- 7 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, we have worked with your staff to identify any specific actions that the Fund could take and there are no actions to report to you at this time.

¹ Auditing Practices Board Practice Note 15 'The Audit of Occupational Pension Schemes in the United Kingdom'.

Identifying opinion audit risks

Organisation level opinion audit risks

- 8 As part of our audit risk identification process we need to fully understand the Superannuation Fund to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
- identifying the business risks facing the Fund, including assessing your own risk management arrangements;
 - considering the financial performance of the Fund; and
 - assessing internal control, which includes consideration of the effectiveness of the general and IT control environment and internal audit.
- 9 I also seek information from those charged with governance of the Council, which is the Governance & Audit Committee, to help the opinion audit risk identification process. Appendix 1 is my letter to the Chairman of the Committee and is an important part of my professional responsibilities as your external auditor. The letter requests a response to how the Committee exercises its oversight of the Council's management in relation to the risk of fraud and of possible breaches of internal control, and how the Committee gains assurance that the Council has complied with all relevant laws and regulations.

Information system opinion audit risks

- 10 To comply with International Standards on Auditing (United Kingdom & Ireland) (ISA (UK&I)) 315 we need to assess the risk of material misstatement arising from the activities and controls within the Fund information systems. To be able to assess these risks we need to identify and understand the material systems and document that understanding.
- 11 Material systems are those which produce material figures in the annual financial statements. For these systems we need to demonstrate our understanding by documenting the following:
- how transactions are initiated, recorded, processed and reported in the financial statements;
 - the accounting records relevant to the transactions;
 - how the Fund identifies and captures events and conditions which are material to the financial statements; and
 - the financial reporting process used to prepare the Fund's financial statements.

Assertions

- 12 When considering the risk of material misstatement we consider what the Director of Finance is stating when she signs the financial statements. An audited body's management is responsible for the preparation and presentation of the statements which give a true and fair view of the nature and activity of the Fund for the period. In doing so, management are making statements regarding the recognition, measurement, presentation and disclosures of various elements of the statements and related disclosures.
- 13 Representations from management are referred to as assertions about financial statements in ISA (UK&I) 500 and we have to ascertain that the statements are free from material misstatement at the assertion level. The ISA splits out the assertions and considers their applicability in respect of:
- Fund Account items;
 - Net Assets Statement items; and
 - disclosures and presentational elements of the overall financial statements.

Identification of specific opinion risks

- 14 We have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1 Specific opinion risks identified

Risk area	Assertion	Audit response
<p>Contributions With effect from 1 April 2008 employees' contributions to the Local Government Pension Scheme are on a tiered basis with differing rates depending on the band in which their pensionable pay for the previous year fell. There is a risk that contributions will not be paid to the Superannuation Fund at the right rates and that this could result in a material misstatement to the financial statements.</p>	<p>Accuracy Completeness</p>	<p>Review the systems and processes in place to ensure that contributions from participating employees' contributions are being collected at the right rates.</p>
<p>Internal controls at fund managers and custodians The Superannuation Fund outsources services to fund managers and custodians. Procedures are needed to ensure that reliance can be placed on the accuracy and completeness of the information provided such that where it is used to produce the Fund's financial statements it supports a true and fair view of the financial position of the Fund at year end.</p>	<p>Classification Existence Rights and obligations Valuation and allocation Occurrence Completeness Accuracy Cut-off</p>	<p>Review the actions taken by the Council to confirm that reliance can be placed on the information provided by fund managers and custodians.</p>

Identification of specific risks

Risk area	Assertion	Audit response
Derivatives The accounting for derivatives can be complex and is driven by the details of each contract.	Valuation and allocation	Obtain an understanding of the contracts and the accounting treatment adopted.
Valuation of unquoted and private equity investments There are no formally quoted prices so the valuation needs to be based on appropriate techniques relevant to the individual investments held.	Valuation and allocation	Review the basis of the valuation and undertake audit procedures to confirm that they are reasonable.

Testing strategy

- 15 On the basis of our mandatory work and the risks identified above we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end. Our testing of the controls within the main financial systems that provide information for the statement of accounts and is in progress.

Key milestones and deadlines

- 16 The Council is required to prepare the financial statements for the Superannuation Fund by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010 but aim to do so in July 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 17 We will maintain regular contact with officers throughout the audit. Once detailed work on the financial statements begins we will maintain a running log of issues arising from the audit which will form the basis of our reporting to the Governance & Audit and Superannuation Fund Committees.

Table 2 **Proposed timetable**

Task	Deadline
Receipt of accounts	11 June 2010
Receipt of working papers from officers	11 June 2010
Present report to those charged with governance at the Governance & Audit Committee	30 June 2010 (interim) September 2010 (final)
Issue of opinion	July 2010

The audit team

- 18 The key members of the audit team for the 2009/10 audit are shown in the Table 3 below. Appendix 2 summarises the independence and objectivity standards to which the audit team must comply.

Table 3 **Audit team**

Name	Contact details	Responsibilities
Darren Wells District Auditor	d-wells@audit-commission.gov.uk 0844 798 6110	Responsible for the overall delivery of the audit and signing the opinion. Maintains ongoing contact with Director of Finance.
Grahame Brown Audit Manager	g-brown@audit-commission.gov.uk 0844 798 6107	Jointly manages and coordinates the different elements of the audit of the Superannuation Fund.
Liz Robinson Audit Manager	e-robinson@audit-commission.gov.uk 0844 798 1377	Jointly manages and coordinates the different elements of the audit of the Superannuation Fund. Key point of contact for officers.
Jeremy Jacobs Team Leader	j-jacobs@audit-commission.gov.uk 0844 798 6121	Directs the pre- and post-statements audit work on a day-to-day basis.

Independence and objectivity

- 19 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.
- 20 Ethical standards require auditors to continually evaluate any threats or perceived threats to their independence and objectivity. I have recently been made aware of a potential perceived threat to the independence of a member of the audit team which I am currently discussing with the Audit Commission's Head of Audit Practice. I will update members of the committee at its meeting on the 30 April 2010.

The audit team

Quality of service

- 21 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Neil Childs, Head of Operations (n-childs@audit-commission.gov.uk).
- 22 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.

Planned outputs

- 23 Reports will be discussed and agreed with the appropriate officers before being issued to the Governance & Audit Committee

Table 4 **Planned outputs**

Planned output	Indicative date
Superannuation Fund opinion audit plan	April 2010
Annual governance report	30 June 2010 (interim) September 2010 (final)
Auditor's report giving an opinion on the financial statements (Note - the Fund's opinion is given as part of the opinion on the Council's financial statements)	July 2010

Appendix 1 - Information request to the Governance & Audit Committee

Our reference KE117/gb

April 2010

Mr R L H Long
Chairman of the Governance & Audit Committee
Kent County Council
Sessions House
County Hall
Maidstone
Kent ME14 1XQ

Direct line 08447 986110
Direct fax 08477 986138
Email d-wells@audit-
 commission.gov.uk

Dear Mr Long

Assistance with our external audit of Kent Superannuation Fund's financial statements 2009/10

As your external auditor I must comply with the framework set out within the International Standards on Auditing (UK & Ireland) and I am writing to you as the Chairman of the Governance & Audit Committee to seek your assistance.

The framework includes a requirement for ongoing communication between auditors and the members of the Committee, in their role as those charged with governance of the Council, to ensure that there is a mutual understanding of the scope of the external audit and for the two-way exchange of information in order that we can both fulfil our respective responsibilities.

One key aspect of this requires me to obtain information from the Committee as part of my planning of the audit of the Fund's financial statements for 2009/10. Please note that responding to my request does not expect any additional work by the Committee but seeks its current view based on its members' knowledge gleaned from the Committee's usual activities and from any other sources that they have.

Standard 240 requires me to obtain an understanding of how the Committee exercises its oversight of the Council's management in relation to the identification and reporting the

Appendix 1 – Information request to the Governance & Audit Committee

risk of fraud and of possible breaches of internal control in relation to the Fund. Management's processes in this regard might include:

- undertaking a formal assessment of the risk that the financial statements may be materially mis-stated due to fraud;
- identifying and responding to risks of fraud in the Fund;
- communications to employees on ethical behaviour and good business practice; and
- communications to the Committee of the processes for identifying and responding to fraud.

Standard 250 requires me to understand how the Committee gains assurance that the Fund has complied with all relevant laws and regulations. A key area that might be considered in this area is the role and activities of the Fund's professional advisers.

I should be grateful for provision of the following information.

- A commentary on how the Committee oversees management processes to identify and respond to risks.
- Is the Committee aware of any significant internal and/or external operational, financial, compliance or other risks facing the Fund which might have an effect on the Fund's financial statements for 2009/10? If such risks exist, I would like to know about them and the Committee's views on the likelihood of those risks materialising?
- Has the Committee any knowledge of any actual, suspected or alleged frauds affecting the Fund?
- Has the Committee been put on notice of any actual or possible instances of non-compliance with laws or regulations?

I am interested in significant matters only. It could be that after discussion the Committee concludes that there are no matters to bring to my attention and this would be a satisfactory outcome to my request.

A response in the form of a short letter would be sufficient and it would be helpful to receive this by 14 May 2010. Please call me if you wish to discuss anything in relation to this request.

Yours sincerely

Darren Wells
District Auditor

Appendix 2 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Governance & Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

Appendix 2 – Independence and objectivity

- 6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor’s opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being ‘additional work’ and charged for separately from the normal audit fee.
 - Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
 - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
 - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- 7 The District Auditor and members of the audit team must abide by the Commission’s policy on gifts, hospitality and entertainment.

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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www.audit-commission.gov.uk

By: Roger Gough – Member for Corporate Support Services
and Performance Management
David Tonks – Head of Audit and Risk

To: Governance and Audit Committee – 30 April 2010

Subject: **20010/11 Internal Audit Strategy and Annual Plan**

Classification: Unrestricted

Summary: This report details the Internal Audit Strategy and Annual Plan for 2010/11.

FOR DECISION

Introduction and background

1. This report sets out the Internal Audit Strategy and proposed supporting annual work programme for Internal Audit for 2010/11 and the breakdown of available days. The Audit Strategy is a requirement of the Code of Practice for Internal Audit in Local Government (2006) published by the Chartered Institute of Public Finance and Accountancy (CIPFA).
2. The Audit Strategy sets out the contribution that Internal Audit makes to the Council and includes sections on:
 - Internal Audit objectives and outcomes
 - Annual opinion to support the Annual Governance Statement
 - Addressing Local and National Risks
 - How the service is provided
 - Resources and skills required
3. The Annual Internal Audit Plan, which supports the strategy has three main components:
 - **The main audit programme** – by directorate and type of review, i.e. Section 151, Corporate Governance and cross cutting (Authority Wide).
 - **Fraud work** – including pro active fraud work, the review of strategies and policies to prevent fraud and corruption, fraud awareness including publication of 'Risky Business', liaison on the National Fraud Initiative (NFI) and reactive fraud work (ie investigations of potential irregularities).
 - **Other productive work** – such as advice and information, general liaison, and following up the implementation of recommendations made.

Development of Audit Plan

4. The Internal Audit Plan for 2010/11 was developed through a risk based planning process that incorporated the following elements:-
 - Identifying work that could support assessment of controls within the strategic and directorates risk registers,
 - Assessment issues identified from audit cumulative knowledge and experience against pre-defined criteria to allow an objective 'risk' score to areas, systems and processes;
 - Work to provide assurance to the Director of Finance that controls are in place and are operating effectively for key financial systems;
 - Work to evaluate the Corporate Governance Framework which contributes to the Head of Audit & Risk's overall assurance on corporate governance arrangements in the Authority, which in turn informs the Annual Governance Statement (AGS);
 - Management requests –for new and developing systems and processes.
5. The Draft Audit Plan was discussed and agreed with Directorates via the Resource Directors Group.
6. During 2009/10 the Specialist Audit (IT) contract was re-tendered and Deloitte LLP was awarded the contract. A three phased approach was taken by Deloitte's to compiling the IT section of the audit plan which was designed to take into account the various demands placed on IT within the directorates and the structure of the Council. These three phases are as follows:-
 - IT Risk Assessment;
 - Discussions with directorates, and;
 - Review of recent previous audit reports.

Staff

7. The plan is resourced by calculating the number of days available per member of staff in the Internal Audit Section.
8. The Internal Audit "establishment" is 13 FTE although for the 2010/11 audit year the actual number full time equivalent will be closer to 11 due to a combination of unavoidable absence and training commitments. In addition 275 days of ICT audit work and 15 days advice and information will be provided by Deloitte LLP.

Additional Assurance – Schools Compliance

9. In many County Councils schools compliance services fall within the programme of Internal Audit. Members of the Committee should be aware that in Kent this service is provided by the Children, Families and Education Financial Compliance Unit. This team assess the Financial Management Standard in Schools (FMSiS) and also carry out compliance visits to schools which cover a number of areas including, finance, Health & Safety and pre employment checks.
10. Since the 1st April 2009, 117 FMSiS assessments have been completed. A further 74 assessments were submitted before the 31st March 2010 and are in process of being assessed. A similar number will be carried out during 2010/11. At present each assessment takes on average of between 16 and 21 hours.

11. The Financial Compliance Unit also undertakes Compliance Visits in schools. This programme started in September 2009 and is also on a three year rolling programme. As at 31st March 2010, 107 Compliance Visits had been completed, with a further 300 planned to be completed by 31st March 2011. A Compliance Visit takes on average one day to complete

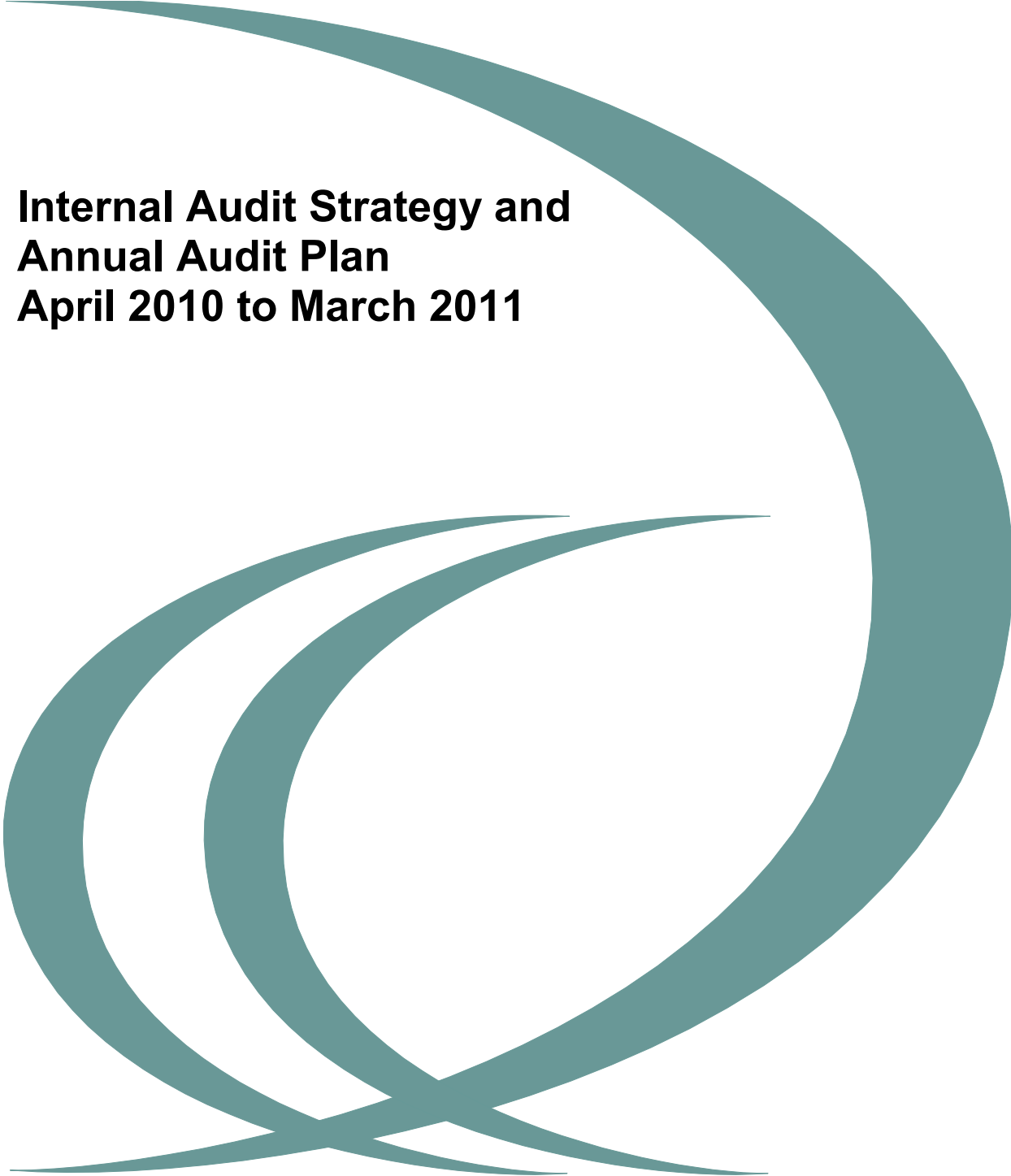
Recommendations

12. Members are asked to agree the proposed Internal Audit Strategy and Annual Plan for 2010/11 and recommending changes and additions as necessary.

David Tonks
Head of Audit and Risk
Ext: 4614

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**Internal Audit Strategy and
Annual Audit Plan
April 2010 to March 2011**



Internal Audit Strategy

Introduction

1. The CiPFA¹ Code of Practice for Internal Audit in Local Government (2006) requires the Head of Audit to produce an audit strategy. The Code defines an Internal Audit Strategy as a:

“ high-level statement of how the internal audit service will be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities.”
2. For the purposes of this strategy the terms of reference for the Kent Audit service are specified within its Audit Manual and Internal Audit Charter, which has been approved by the Governance and Audit Committee.
3. The Audit Manual sets out the overall objective of Internal Audit as supporting service delivery by providing an independent and objective evaluation of our clients’ ability to accomplish their business objectives and manage their risks effectively

Annual opinion to support the Annual Governance Statement

4. The Head of Audit will provide the accounting officer with an opinion on the overall adequacy and effectiveness of the Council’s risk management, internal Control and governance processes, collectively referred to as “the system of internal control”.
5. Each year we will assess the Council’s governance arrangements by comparing them with the principles described in the CIPFA SOLACE Governance Framework (Delivering Good Governance in Local Government, 2007). We will also annually assess the Council’s risk management arrangements, including risk management guidance, risk registers, risk reports and minutes of meetings for key decisions.
6. Our annual programme of work, undertaken to provide assurance to management and the Council on the operation of the internal control environment, will form a significant part of the evidence for the opinion. Audits will include recommendations that will, if implemented, further enhance the environment and the operation of the controls in practice. The implementation of these recommendations will also be monitored.
7. The internal audit work and findings will also be informed by the investigations and fraud risk management work carried out under the anti-fraud element of the plan.

Addressing Local and National Risks

8. As set out above, the adequacy and outcomes of the Council’s risk management framework will be assessed annually. Previous assessments have shown that the framework can be relied upon to identify the significant local and national risks faced by the Council. The Directorate and Strategic Risk Registers are therefore used to inform and guide the Internal Audit plan, which identified where assurance on control activity can be usefully provided.

¹ Chartered Institute of Public Finance and Accountancy

9. This work is supplemented by discussions throughout the year with senior officers who identify emerging or urgent issues and risks that will require audit attention. Depending on the timing of when these are identified they are either included in the annual plan, or added in year.

How the service will be provided

10. The provision of Internal Audit is delivered by an in-house team, supplemented by specialist IT Audit and general audit assurance work contracted from Deloitte LLP. There will be a continuing commitment to demonstrating that in-house provision represents a cost-effective means of delivering a high quality and professional service. Evidence to support this will continue to be provided from a variety of sources, including internal KPIs, external benchmarking comparisons, quality reviews and satisfaction surveys from clients and feedback from the external auditors.
11. The Internal Audit service will seek opportunities for more effective and efficient ways of working with local partners in the public sector, particularly if this avoids duplication and minimises overall costs.
12. Liaison with the County Council's external auditors will continue to ensure that they can place reliance on the work of Internal Audit meaning that the overall audit for the Council is delivered as efficiently, effectively and economically as possible.

Resources and skills required

13. In order to deliver the agreed annual audit plans, the appropriate level of resources will be made available to the audit team, to include the required mix of skills and specialisms. This will include general audit skills in respect of reviews of internal control, risk and governance arrangements, and appropriate coverage in specialist areas such as computer and contract audit and the investigation of frauds and irregularities.
14. Where audits require access to specialist expertise and knowledge that is not available within the audit team advice and input will be sought from the wide range of specialists and experts drawn from within the County Council and from outside sources.
15. A programme of training will be provided to team members to meet training needs identified through the Appraisal Scheme and feedback from quality reviews etc. This will ensure that team members are able to deliver a professional service in line with current best practice.

Annual Audit Plan

I. Authority Wide

Ref	Audit	Reason for Audit/Link to Strategic/Directorate Risk Register	Scope/Comments	Days
AW01 2011	Vetting and Barring scheme	Issue identified from Risk Based Audit Planning	To provide assurance as to compliance with the Independent Safeguarding Authority's (ISA) requirements in relation to the vetting and barring scheme.	20
AW02 2011	Employment Checks through Kent Top Temps	Issue identified from Risk Based Audit Planning	A review to ensure that appropriate pre-employment checks are carried out on staff recruited via Kent Top Temps.	15
AW03 2011	Corporate Governance	To support the Annual Governance Statement	A review of the Council's Corporate Governance Framework supplemented by a detailed assessment of one of the six themes of governance (Members expenses)	20
AW04 2011	Risk Management	To support the Annual Governance Statement	A review of the Council's risk management arrangements.	15
AW05 2011	Governance of Partnerships	To support the Annual Governance Statement.	A review of a sample of partnerships – Communities has requested that their key partnerships are included in the sample.	20
AW06 2011	Information sharing	To provide assurance on mitigating controls identified in Strategic Risk Register – Risk 5	To provide assurance as to the requirements for sharing sensitive and personal data. Also pick up sharing within directorates, with directorates and external bodies.	30
AW07 2011	Hypothecated funding	To provide assurance on mitigating controls identified in Strategic Risk Register Risk 19	Review hypothecated funding - financial control & exit strategies.	15



Ref	Audit	Reason for Audit/Link to Strategic/Directorate Risk Register	Scope/Comments	Days
AW08 2011	Performance Management Framework	To support the Annual Governance Statement and provide a basis for Internal Audit Planning	A review of the Council's performance management arrangements.	25
AW09 2011	Capital contract monitoring	Issue identified from Risk Based Audit Planning	A review of monitoring arrangements for a sample of capital programmes to ensure that timely and sufficient information is available on which to base decisions.	30
AW10 2011	Schemes of delegation and limits on approval	Findings from previous audits	To provide assurance that controls are in place to ensure decisions are made in line with the Councils intended scheme of delegation.	10
AW11 2011	Content Management (Web site (Internet))	Issue identified from Risk Based Audit Planning	To provide assurance on the adequacy of controls introduced as part of the new implementation to manage the web site and web content.	20
AW12 2011	Data Protection	Issue identified from Risk Based Audit Planning	To provide assurance that Data Protection requirements are being complied with and how this is managed across the council.	25
	Total days			245

II. Section 151

The work in this section is programmed to provide assurance to the Director of Finance with assurance that controls are in place and operating in key financial systems

Ref	Audit	Reason for Audit/Link to Strategic/Directorate Risk Register	Scope/Comments	Days
S01 2011	Year End Accounting	To provide assurance that controls are in place and operating in key financial systems.	To provide assurance that payments and income are accounted for in the correct financial year.	20
S02 2011	General Ledger	To provide assurance that controls are in place and operating in key financial systems.	To provide assurance on the adequacy of input controls including feeder system interfaces into the General ledger; and reconciliation of control and suspense accounts.	20
S03 2011	Corporate Purchase Cards (include Directorate level work)	To provide assurance that controls are in place and operating in key financial systems.	A review to provide assurance that purchase cards are used in accordance with corporate guidance, including an assessment as to the appropriateness of the types of expenditure incurred.	20
S04 2011	Accounts Payable	To provide assurance that controls are in place and operating in key financial systems.	To provide assurance that accurate and timely payments are made to bona fide creditors; for goods and services provided for the benefit of KCC.	20
S05 2011	Accounts Receivable	To provide assurance that controls are in place and operating in key financial systems.	To provide assurance that all income due is identified, invoiced, collected and recorded accurately and promptly.	15
S06 2011	KASS Income & debt management	To provide assurance that controls are in place and operating in key financial systems.	Review of the debt management process, including KASS following the transfer of responsibility.	15



Ref	Audit	Reason for Audit/Link to Strategic/Directorate Risk Register	Scope/Comments	Days
S07 2011	Treasury Management	To provide assurance that controls are in place and operating in key financial systems.	To provide assurance that all investments are properly authorised and procedures are complied with and new Governance arrangements introduced in 2009 are effective.	20
S08 2011	Payroll	To provide assurance that controls are in place and operating in key financial systems.	To provide assurance that payments are made accurately, to the correct staff and in a timely manner. This will include pension payments.	25
S09 2011	Construction Industry Scheme	To provide assurance that controls are in place and operating in key financial systems.	A review of the arrangements for the correct identification and deduction Income Tax (and NI?) under the Construction Industry Tax Scheme.	10
S10 2011	Medium Term Planning	To provide assurance that controls are in place and operating in key financial systems.	A review of the income and expenditure estimates, and the assumptions upon which they are built included in the current MTP.	15
S11 2011	Revenue Budget Monitoring	To provide assurance that controls are in place and operating in key financial systems.	Cyclical directorate revenue budget monitoring audits undertaken annually, to provide assurance that budgets are monitored and controlled.	20
S12 2011	Procurement (includes directorate work)	To provide assurance that controls are in place and operating in key financial systems.	To provide assurance that procurement is managed in accordance with KCC's 'Spending the Council's Money'. The sample will include contracts in the CFE directorate as requested by the Managing Director	30
S13 2011	Systems Mapping	To inform future audit planning including the development of a three year review programme	A review to 'map' key controls in financial systems.	30
S14 2011	Key Financial Controls in KCC 'establishments'	To provide assurance that controls are in place and operating in key financial systems.	To review compliance with financial controls in KCC's establishments/units/localities	30



Ref	Audit	Reason for Audit/Link to Strategic/Directorate Risk Register	Scope/Comments	Days
S15 2011	Pensions contributions	To provide assurance that controls are in place and operating in key financial systems.	To provide assurance that contributions for pensions are being correctly deducted and paid over to the Pension Fund. The work will be jointly delivered with Medway UA and Kent districts.	15
S16 2011	Pensions investment income	To provide assurance that controls are in place and operating in key financial systems.	To provide assurance that investment income derived from Pension Funds investments is correctly accounted for.	10
S17 2011	IFRS		To provide assurance on how IFRS requirements are being managed	5
	Total Days			320

III. Chief Executive's Department

Ref	Audit	Reason for Audit/Link to Strategic/Directorate Risk Register	Scope/Comments	Days
CED01 2011	Payroll Services contract with East Kent	Issue identified from Risk Based Audit Planning	A review of the operation of the Payroll Services contract with East Kent, to provide assurance that the service being provided meets the specified standards.	20
CED02 2011	Carbon Reduction Commitment Energy Scheme.	Management request for assurance	To provide assurance as to: (i) the accuracy of the data used for measuring carbon usage and reduction in relation the Carbon Reduction Energy Scheme (ii) the compilation of the document pack to support the Council's assertions in relation to participation in the scheme.	25
CED03 2011	Operation of Property Services Consultants Framework	Issue identified from Risk Based Audit Planning	Stage two of the review of the Property Consultants' Framework to provide assurance that individual procurement exercises undertaken are complying with the processes specified in the Framework.	20
CED04 2011	Building Maintenance contract	Issue identified from Risk Based Audit Planning	A review of payments to ensure that all payments made are for services provided, are properly authorised and are at rates agreed in the contract. .	20
CED05 2011	Schools Personnel Service	Issue identified from Risk Based Audit Planning	A review to provide assurance that the services provided by the Schools' Personnel Service meet the requirements of the Service level Agreement	15
CED06 2011	Regeneration Fund / Regeneration framework	Issue identified from Risk Based Audit Planning	To review the operation of the framework across KCC and integration with directorates.	15



Ref	Audit	Reason for Audit/Link to Strategic/Directorate Risk Register	Scope/Comments	Days
CED07 2011	Virus Protection / Spyware	Issue identified from Risk Based Audit Planning	A review of controls designed to protect KCC from computer viruses.	20
CED08 2011	Telecoms/Voice Over Internet Protocol (VOIP)	Issue identified from Risk Based Audit Planning	To provide assurance over the development of the project and deployment of the chosen solution at key stages in the life cycle of the project.	25
CED09 2011	PC End User Controls	Issue identified from Risk Based Audit Planning	A review to provide assurance that end users protect data they have access to.	35
CED10 2011	Data Backup and Data Centres	Issue identified from Risk Based Audit Planning	To provide assurance over the adequacy of backup arrangements to enable recovery of data and the physical and environmental controls over data processing.	25
CED11 2011	Oracle Modules (2) or Oracle Database Security audit	Issue identified from Risk Based Audit Planning	To provide ongoing assurance over the application controls and support arrangements.	30
	Total Days			250

IV. Commercial Services

Ref	Audit	Reason for Audit/Link to Strategic/Directorate Risk Register	Scope/Comments	Days
CS01 2011	General ledger	To provide assurance that controls are in place and operating in key financial systems.	An audit to test the adequacy of input controls including feeder system interfaces into the General ledger; and reconciliation of control and suspense accounts.	15
CS02 2011	Accounts Payable	To provide assurance that controls are in place and operating in key financial systems.	To provide assurance that accurate and timely payments are made to bona fide creditors; for goods and services provided for the benefit of KCC.	20
CS03 2011	Accounts Receivable	To provide assurance that controls are in place and operating in key financial systems.	To provide assurance that all income due is identified, invoiced, collected and recorded accurately and promptly.	20
CS04 2011	Services tender costing	To provide assurance that controls are in place and operating in key financial systems.	Review of a sample of tender bids submitted by Commercial Services to assess whether the bids have been prepared after taking into account all reasonable costs including KCC overheads. This will include a review of the overall costing process.	10
CS05 2011	Systems Mapping	To identify key controls in financial systems	A review to 'map' key controls in financial systems, to inform future audit planning including coverage of key controls on a cyclical basis.	30
	Total Days			95

V. Children, Families and Education

Ref	Audit	Reason for Audit/Link to Strategic/Directorate Risk Register	Scope/Comments	Days
CFE01 2011	Direct Payments	Issue identified from Risk Based Audit Planning	An evaluation of the effectiveness of the Direct Payments system for children. The review to include assessments, reviews and monitoring of payments.	20
CFE02 2011	Out of County Placements (social care)	Identified in the CFE Risk Register – Risk 2	An audit to examine the robustness of the planning and financial arrangements to ensure that value for money is achieved.	20
CFE03 2011	Out of County Placements (educational provision)	Identified in the CFE Risk Register – Risk 2	Linking to the audit of Out of County placements for social care, this audit to provide assurance that in meeting the educational needs of this client group the education provision is planned appropriately and budgets are managed and monitored effectively.	20
CFE04 2011	Financial control in schools	Identified in the CFE Risk Register – Risks 2 & 10	A review of the compliance visits to schools undertaken by the Directorate to enable Internal Audit to fulfil its requirement to assess the adequacy of other sources of assurance on key financial systems within the Authority.	5
CFE05 2011	ContactPoint	To support the Annual Compliance Certificate and identified in the CFE Risk Register – Risk 2	To provide assurance that compliance with the criteria specified by the Department for Children Families and Families.	20
CFE06 2011	Learning Skills Council Transfer of funds for further education	Identified in the CFE Risk Register – Risk 2	To provide assurance that the funds for 16 – 19 adult learning are managed appropriately, are used for the intended purposes and that statutory and legal requirements are met.	25



Ref	Audit	Reason for Audit/Link to Strategic/Directorate Risk Register	Scope/Comments	Days
CFE07 2011	Kent Children's Trust	Identified in the CFE Risk Register – Risk 3	To review the arrangements for the Kent Children's Trust to ensure that they are fit for purpose to deliver the objectives of the Children and Young People's Plan.	20
CFE08 2011	Adhoc Database and spreadsheet development and usage	Issue identified from Risk Based Audit Planning	To provide assurance around controls for the development and maintenance of spreadsheets and databases, that holds key/sensitive information.	20
	Total Days			150



VI. Communities

Ref	Audit	Reason for Audit/Link to Strategic/Directorate Risk Register	Scope/Comments	Days
CMY01 2011	Fee Income	Identified in the Communities Risk Register – Risk 1.2	An audit to assess the robustness of the systems in the directorate to monitor the fee income and the employment of mechanisms to vary costs in response to variations in expected income.	30
CMY02 2011	Protection of children & adults	Identified in the Communities Risk Register – Risk 8.1	To provide assurance that the Directorate is taking reasonable precautions to ensure that children, young people and vulnerable adults accessing their services are protected from harm.	25
CMY03 2011	Data Quality	Identified in the Communities Risk Register – Risk 5.1	This audit will provide assurance on the systems and controls over financial and non financial data that the Directorate relies on to manage its services and inform decision making.	25
CMY04 2011	Careworks Application	Issue identified from Risk Based Audit Planning	To provide assurance on the application controls.	20
CMY05 2011	Business Continuity	Issue identified from Risk Based Audit Planning	To review progress on the adoption of the Corporate Process	15
	Total Days			115

VII. Kent Adult Social Services

Ref	Audit	Reason for Audit/Link to Strategic/Directorate Risk Register	Scope/Comments	Days
KASS01 2011	Transaction Data Matching	Identified in the KASS Risk Register – Risk 11	Evaluation of the controls within the Transaction Data Matching system, following the implementation of changes to the process.	25
KASS02 2011	Flexible and Mobile Engagement (FAME)	Identified in the KASS Risk Register – Risk 3	Evaluation of the controls for the FAME project against the expected benefits of the scheme, specifically that electronic data capture is more efficient and reduces errors, thereby providing a more efficient service to clients.	25
KASS03 2011	Self Directed Support	Identified in the KASS Risk Register – Risk 8	A review of processes within the Directorate to include work on Personal Budgets.	25
KASS04 2011	Kent Card	Identified in the KASS Risk Register – Risk 8	A review of the usage of the Kent Card, identifying the controls for the usage and effectiveness of using the card.	10
KASS05 2011	Learning Disability transfer	Identified in the Strategic & KASS Risk Register	To provide assurance on the ongoing arrangements with Health for LD clients.	15
KASS06 2011	Quality of care in Residential Homes	Identified in the KASS Risk Register – Risk 7	An audit to provide assurance that arrangements are established and operating to ensure that the quality of care in residential homes is being maintained.	30
KASS07 2011	Client Billing	Identified in the KASS risk Register – risk 11 and deferred from 2009/10	To provide assurance on the accuracy and validity of charges to clients and other relevant parties.	25
KASS08 2011	Swift Application Controls	Issue identified from Risk Based Audit Planning	To provide assurance on the application controls.	25
	Total Days			180



VIII. Environment, Highways and Waste

Ref	Audit	Reason for Audit/Link to Strategic/Directorate Risk Register	Scope/Comments	Days
EHW01 2011	Roadworks Permits	Issue identified from Risk Based Audit Planning	Review of the Road Works permit scheme, to provide assurance that the scheme is operating as expected.	25
EHW02 2011	Over 60s travel passes	Issue identified from Risk Based Audit Planning '	Examination of the transfer process from district councils to KCC, particularly relating to the transfer of data and the quality of this data	20
EHW03 2011	Review of KHS	Identified in the EHW Risk Register – Risk KHS 18	To provide assurance on the effectiveness of contractual.	30
EHW04 2011	Highways Maintenance Programme	Identified in the EHW Risk Register - Risk KHS 4a,	A review to provide assurance that the KHS maintenance programme is consistent with the County's obligations under the Highways Act(s) etc.	25
EHW05 2011	Business Continuity	Adoption of Corporate Process	To review progress on the adoption of the Corporate Process	15
	Total Days			115

IX Work to minimise potential Fraud and Corruption

Description	Reason/Scope/Comments	Days
Planning & scoping future pro active fraud work	To identify any areas of potential fraud	10
Procurement fraud (part of the programme for next 3 years)	Identified as a potential area for fraud	35
Assessment against best practice frameworks	A review of Council's anti fraud and corruption arrangements against those recommended by CiPFA (Red Book) and the Audit Commission (Protecting the Public Purse).	15
Training / awareness raising includes publication of Risky Business the joint Internal Audit & Risk newsletter	To help raise fraud awareness in KCC, provide:- fraud awareness training, publication of 'Risky Business' joint Audit & Risk publication.	12
National Fraud Initiative	Participation in the Audit Commission's National Fraud Initiative (NFI) to identify and investigate any 'matches' in data sets.	30
Policy review (Whistle blowing etc)	A review of the anti fraud strategy for KCC	5
Payments to PSL	This issue was identified through Audit Intelligence during the year. A review will be carried out of the controls in place to prevent incorrect payment being made to PSL.	10
KTT timesheet authorisation	Review to assess the effectiveness of the automatic authorisation process of the Kent Top Temps timesheets	10
Irregularities and other investigations	Based on previous experience dealing with investigations of irregularities.	100
Total days		227

X Summary

Audit	Days
Authority Wide	245
Section 151 reviews	320
Chief Executive's Department	250
Commercial Services	95
Children, Families and Education	150
Communities	115
Kent Adult Social Services	180
Environment, Highways and Waste	115
Pro Active Fraud Work	127
Re active fraud work	100
Follow ups, liaison and Advice & Information	125
Grant Claims	70
Total	1,892

By: Cabinet Member for Finance
Director of Finance

To: Governance and Audit Committee – 30 April 2010

Subject: **Audit Commission – Audit Progress Report**

Classification: Unrestricted

Summary: The Audit Commission report provides a summary of progress to April 2010 against the 2009/10 External Audit Plan.

FOR INFORMATION

Introduction and background

1. In order that the Committee is kept up to date with the work of the Audit Commission, a regular report is submitted providing details of activity and findings under the main themes covered by the external audit plan. The update report attached covers work in the following areas:
 - financial statements (including those relating to the Superannuation Fund);
 - Whole of Government Accounts;
 - value for money conclusion;
 - use of resources scored assessment;
 - risk-based use of resources work;
 - National Fraud Initiative; and
 - grant claims and returns.
2. There are no recommendations arising from the report.

Recommendations

3. Members are asked to note the progress against the Audit Commissions 2009/10 Audit Plan

David Tonks
Head of Audit and Risk
Ext: 4614

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Audit Progress Report

Kent County Council

Audit 2009/10

April 2010

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Progress report

Introduction

- 1 Our audit work is detailed in our audit plans which are presented to the Governance & Audit Committee annually. The plans set out a number of areas of work and this report provides a summary of progress to April 2010 against the 20098/10 plan. Further progress reports will be issued to future meetings of the Committee.
-

Background

- 2 Our plans set out our work in the following areas:
 - financial statements (including those relating to the Superannuation Fund) and Whole of Government Accounts;
 - value for money conclusion;
 - use of resources scored assessment;
 - risk-based use of resources work;
 - National Fraud Initiative; and
 - grant claims and returns.
- 3 An update on each of these is set out in the following sections of this report.

Progress update

Financial statements and Whole of Government Accounts 2009/10

- 4 We have substantially completed the pre-statements audit of the statements. This involves a review of the Council's key financial and information systems that contribute to the production of statements to see if we can rely upon them to produce accurate data for inclusion in the statements. A separate report on this work has been included on the Governance & Audit Committee's agenda for its meeting on 30 April 2010.
- 5 We aim to complete the rest of our detailed work on the financial statements in May and June 2010 and to present our Annual Governance Report to the Governance & Audit Committee's meeting on 30 June 2010. We expect to sign off our audit opinion on the statements in July 2010 and to issue a report to officers of the detailed findings following that.
- 6 In undertaking our work we are liaising closely with your officers in the finance teams across the Council and with your internal audit team. We have established effective working relationships over the previous two audits and this is proving particularly valuable at this audit as your statements need to reflect elements of the International Financial Reporting Standards for the first time. These Standards are the subject of reports on the Governance & Audit Committee's agenda for 30 April 2010.
- 7 We will certify the Council's Whole of Government Accounts return in October 2009 which is in line with the timetable set out by the Treasury.

Value for money conclusion 2009/10

- 8 Using the framework for assessment set out by the Audit Commission centrally, we have to reach a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The conclusion will be issued formally as part of our audit opinion on the financial statements for 2009/10. We arrive at this conclusion by considering the outcome from specific risk work in the year and the use of resources scored assessment. At this stage of our audit there are no matters to raise with you.

Use of resources scored assessment 2009/10

- 9 We are required by the Audit Commission to undertake a scored assessment each year of the way the Council uses its available resources to support the achievement of its priorities. Our assessment builds on our work at the previous audit and contributes to the Commission's Comprehensive Area Assessment of Kent which will be issued in November 2010.

Progress update

National Fraud Initiative 2009/10

- 10 The Council participates in the Audit Commission's scheme that facilitates comparison of computerised data supplied by a number of organisations nationally in order to highlight potential cases of fraud. The 2009/10 data is now available and we are liaising with officers about the arrangements for further investigation of matches identified.

Grant claims and returns

- 11 Each year we are required to complete a specified programme of audit work on a number of claims and returns. This work will be completed in accordance with the deadlines set. A report on the findings from the work done on 2008/09 claims and returns has been included on the agenda for the Governance & Audit Committee meeting on 30 April 2010.
- 12 Our work on claims and returns for 2009/10 will start in Summer 2010.

Risk based use of resources work

- 13 The audit plan for 2009/10 show some areas of specific use of resources work. Appendix 1 sets out progress on these.

Appendix 1 - Risk based use of resources work 2009/10

Potential risks identified	Planned work in 2008/09 plan	Progress to date
<p>There is evidence of health inequalities across the county area. Joint working with health partners in the National Health Service (NHS) is needed to tackle the inequalities that exist.</p>	<p>We will undertake a follow up of our 2008/09 work to assess the progress made by the Health and Well Being Boards during 2009. Our findings will be issued jointly to all bodies involved in the review and an action plan prepared.</p>	<p>Our review is in progress and we expect to complete this work by October 2010.</p>
<p>Workforce planning underpins and supports improvements in service delivery. Where it is ineffective corporate ambitions might not be achieved.</p>	<p>We will review the effectiveness of the Council's existing workforce planning in terms of its contribution to the achievement of its vision by considering whether it addresses fully the Council's future workforce requirements including its plans for the ongoing development of its staff in order to fill identified future gaps.</p>	<p>We have facilitated at workshops with Council officers to inform our knowledge of the Council's arrangements and to identify opportunities to improve the way that the Council plans its workforce requirements for the future. The outputs from the workshops have been retained by officers and should be used to further improve the Council's planning in the future.</p>
<p>The transfer of responsibility of adults with learning disabilities from the NHS to local authorities needs to be achieved after consideration of a range of financial issues. The Council will have significant financial responsibilities for a large number of vulnerable people going forwards and</p>	<p>We will build on our work undertaken at the 2008/09 audit and monitor the progress made by attendance at key meetings and discussions with responsible officers. This work will be reported as part of our Annual Governance Report.</p>	<p>We continue to attend key meetings and there are no matters that need to be reported to the Committee at this time.</p>

Progress update

Potential risks identified	Planned work in 2008/09 plan	Progress to date
there is a need to ensure that the Council understands the financial impact of the transfers.		
Participation in the Building Schools for the Future programme is technically demanding and requires effective project management at all stages from the application phase to completion. The Council will invest a significant amount of money in the programme and there remains is an ongoing risk until all schemes are completed.	We will undertake a high level overview of the Council's approach in order to ensure the arrangements in place ensure that the Council achieves value for money. This work will be reported as part of our Annual Governance Report.	We maintain a contact with key officers. There are no matters that require reporting to the Committee at this time
The current economic climate has impacted significantly on the finances of local authorities including increased demand for some services, reduction in income from charges levied and increased levels of debtors. Potentially this places the Council's financial health at risk.	We will monitor the Council's financial performance to see how well it is managing the impact of the current economic climate and assess the impact on its overall financial health. This work will be reported as part of our Annual Governance Report.	We continue to monitor the Council's financial performance. There are no matters to highlight for the Committee at this time.

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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www.audit-commission.gov.uk

By: Roger Gough, Cabinet Member for Support Services and Performance Management and David Cockburn, Executive Director of Strategy, Economic Development and ICT

To: Governance and Audit Committee 30th April 2010

Subject: Shared Services work in Kent

1. Summary

As part of the Audit Commission work programme for 2008/9 they undertook a 'snapshot analysis' report on aspects of partnership working in Kent, linked to the CSCI/Audit Commission inspection of aspects of KASS services in March 2009 and the CAA assessment in 2009 of the work to develop the Kent Later Life Strategy.

This is neither an audit report nor an inspection, but an attempt by the Commission to update their knowledge of the position in Kent following the comment in the June 2008 Corporate Assessment report that *"KCC's capacity to deliver its ambitions would be stronger if it adopted a more inclusive, listening approach, particularly with local partners"*

This report sought views only from voluntary and community sector organisations and only those engaged-with as part of the partial inspection of KASS and with the development of the Later Life Strategy. It also failed to distinguish between those organisations representing service users and working in partnership with KCC to develop and commission services, and those organisations working with us as contractors to deliver services.

The report contains a number of statements treating the perceptions of those interviewed as statements of fact, when a simple cross-reference to the Directorate concerned would have established the truth. This is particularly the case in respect of what the Commission reports as the contractual position in KASS, where the statement that they have been "driving down the value of domiciliary contracts" is both incorrect and inflammatory. KCC sought to hold down contract prices, by tight control of the cost of living increases, but nothing more.

What may be significant are not the statements themselves, but the fact that such misinformed views are held by partners and contractors and that KCC is clearly failing to get the real truth 'out there'.

In a similar vein the comments about the working relationships between KCC and various forums representing (the views of) older people, whether direct service users or not, contains errors of fact and of interpretation, for example in respect of the long-established forum in Dartford.

KCC is currently conducting an authority-wide review of the effectiveness of partnership working and this 'snapshot' is being used as one of the inputs to that review process. Beyond that, there is no action to implement as a consequence of this report.

2. Recommendation

Members are asked to note the flaws in this report, but accept the content as a contribution to the wider review of partnership working now underway within KCC and with partners.

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Background Documents: None

Partnership

Working -

snapshot survey

Kent County Council

Audit 2008/09

April 2010



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- any director/member or officer in their individual capacity; or
- any third party.

Summary report

Introduction

- 1 This report explains the results of analysing some voluntary and independent organisations' perceptions of Kent County Council (KCC) as a partner, highlighting areas of strength as well as of development. It does this by drawing conclusions from three pieces of work. These were: an electronic survey of partners' opinions; involvement in the Care Quality Commission's (CQC) inspection of KCC's adult social care services; and examining the findings of the Comprehensive Area Assessment's (CAA) work on dealing with the needs of Kent's older people.

Background

- 2 Partnership issues were identified for further investigation in KCC following the Corporate Assessment (CA) report in June 2008. In an otherwise excellent assessment, the Audit Commission reflected on the need for the Council to consider its impact on voluntary and community organisations (VCOs). The report concluded in this regard that KCC's capacity to deliver its ambitions would be stronger if it adopted a more inclusive, listening approach, particularly with local partners.
- 3 The need to engage with partners to deliver area-wide outcomes is particularly important with VCOs. Volunteering is likely to be an increasing form of service delivery, and as the number of older people available to volunteer increases, KCC needs to be seen as a facilitator of services as well as a deliverer of them. So a view of the Council as a highly supportive and enabling partner will be essential to make the most productive use of resources not directly employed by KCC, available to the area.
- 4 As a result of this background, the Audit Commission has included as part of its annual audit plan for the current year, a snapshot analysis of partnership working involving the KCC and some of its VCO partners. Although the nature of the survey means that it is not possible to draw conclusions about all partnership working involving KCC, the analysis will help the Council in its own wider review of partnership working which has now commenced.

Audit approach

- 5 It was agreed with KCC that partnership issues should be explored through three approaches.
- 6 Firstly, a SNAP survey (an online questionnaire) was sent to a range of partners identified by KCC as key organisations in delivering services through financial contracts or advisory services and relationships.

- 7 Secondly, Audit Commission staff also took part with the CQC in their inspection of KCC adult social services in March 2009 where a range of VCOs were asked about partner working with the Council. This included a range of interviews with KCC councillors and staff.
- 8 Thirdly, older people's issues were an area for investigation to contribute to the Comprehensive Area Assessment (CAA) of Kent given the impacts of these larger numbers on the service demands on providers. This involved statutory as well as voluntary groups working with the increasing numbers of older people in Kent. This report takes into account those conclusions from that work that relate to partnership issues.

Main conclusions

- 9 Drawing together evidence from the three approaches to analyse VCO partners' views on KCC's ability to foster strong partnerships, the overall conclusion is that the Council is well regarded as a partner.
- 10 KCC strengths include giving strong and inspirational leadership to partners and valuing their differing objectives and approaches. This also relates to seeking to build partner leadership. Moreover, the Council supports these groups on difficult decisions on patient care and boosts their capacity through training.
- 11 Areas for consideration include the need to review the implications of the level of resources given to partners and to seek to ensure that partnerships achieve their goals. Also, KCC's work to build links with the older people's forums is at an early stage and needs further work to be fully effective.
- 12 The SNAP survey produced mixed results. Partners judged that KCC values the different contributions of partners and makes the most of them. They also state that the Council respects partners' own values, goals and restrictions. On the other hand, some partners believe that the Council could be more open to criticism in order to improve its approach to the VCOs.
- 13 Representatives from voluntary and independent organisations when interviewed as part of the CQC inspection concluded that KCC inspires, motivates and provides leadership. They also said that the Council makes it clear that voluntary and independent organisations need themselves to be inspirational, thereby enabling strong voluntary organisations. They also judged that the Council has good systems for monitoring and is working successfully on needs such as housing for vulnerable people. Moreover, the Council supports these groups on making difficult decisions on patient care and boosts their capacity through training. On the other hand, there were concerns over domiciliary contracts whereby voluntary and independent organisations perceived that they are now expected to absorb higher costs in these difficult times. In this case, there would be a risk of deteriorating quality or capacity to deliver the contract.

Summary report

- 14 The CAA work on older people's needs in Kent concluded that there is more to be done to make sure public services work together in the best way to make a real difference to older people's lives. There are large numbers of older people's groups in Kent and older people's forums work well in East Kent and Dartford. But these groups have not influenced public policy on services for all older people in all of Kent. As a result older people in Kent are likely to receive a different response from public services depending on where they live, and which service they are using. It is also more difficult for those who prefer not to attend public meetings, or who are too frail to do so, to influence what happens in their communities. This also makes it more difficult for public services in Kent to make sure they are delivering what older people want. KCC's work to build links with the older people's forums is at an early stage.
- 15 The recommendation following from this work, is as follows.
- That the Council considers how to respond to partners' perceptions that:
 - the Council could be more open to criticism in order to improve its approach with the VCOs;
 - the Council does not make changes to its procedures with partner goals in mind and does not react quickly enough to arrangements that do not work; and
 - the Council's work to build links with the older people's forums is at an early stage and older people's groups have not influenced public policy on services for all older people in all of Kent.

Detailed report

Partnership working

- 16 Partnership working was identified for further investigation in KCC following the Corporate Assessment (CA) in June 2008. The report noted that well-established partnership work is bringing real improvements to quality of life for local people, with ground-breaking care projects embracing new technology and the Council aiming to personalise services. It also stated that while KCC seeks excellence and its organisation is high quality, responsive and gives good value for money, this has required a drive and firmness of direction that has been seen by some as over-dominant. KCC recognises that it has reached a stage of maturity where further gains will depend on a more inclusive approach, internally and externally.
- 17 The CA report also noted that KCC's capacity to deliver its ambitions would be stronger if it adopted a more inclusive, listening approach - particularly with local partners. This is needed for the full development of localism and of inclusive decision-making that reflects fully the needs of all communities.
- 18 Integral to success in the Comprehensive Area Assessment (CAA) is the need to engage with all partners to deliver area-wide outcomes. This is particularly important with the voluntary and community organisations (VCO). Volunteering is likely to be an increasing form of service delivery, and as the number of older people available to volunteer increases, KCC needs to be seen as a facilitator of services as well as a deliverer of them. It should also be noted that the Kent's LAA from 2008 includes NI 6 - Participation in regular volunteering. Also, KCC has identified its need to ensure there is good governance in its partnerships which is set out in its good governance guide.
- 19 In order therefore to help KCC to understand and strengthen partnership working, it was agreed to set up a project to analyse opinions of the VCOs in a number of settings. The project has been in three phases.
 - Phase 1 – was to conduct a SNAP survey with a wide range of VCOs in February/March 2009.
 - Phase 2, was to join CQC on their inspection of adult social services (onsite March 2009) and interview VCOs on partnership relationships with KCC.
 - Phase 3 is to have regard to the work of the CAA in Kent on the Council and partner approaches to the ageing population in Kent.
- 20 Following analysis of the three phases of work, this report highlights the findings of the work to help KCC to consider them in its wider review of partnership working, which has now commenced.

Phase 1 - SNAP survey

- 21** A SNAP survey was sent to a range of partners identified by the Council as key organisations in delivering a range of services through financial contracts or advisory services and relationships. 22 responses were received from 75 groups contacted, giving a response rate of 29 per cent.
- 22** There were four main criteria assessed.
- How good the Council is as a partner.
 - KCC leadership and change.
 - Working together.
 - Delivery.
- 23** On the first criterion, there were positive scores between 59.1 to 72.7 per cent. Partners gave the highest score to the criterion that the Council works to ensure the diverse needs of all people, including disadvantaged people, are addressed. Partners also stated that the Council pays attention to measuring and monitoring the right things on partnership matters; and that the Council is ambitious about what can be achieved.
- 24** On the second criterion, there were positive scores between 40.9 per cent and 72.7 per cent. The high score was that the Council is honest about difficulties, indicating an open approach to dealing with difficult issues. On the other hand, two of the lowest scores in the survey were found in this section. They were – ‘Takes a long as well as a short term view, including on funding’; and ‘Is willing to be challenged by others’. The latter finding is similar to the judgement in the corporate assessment in 2008. This indicates that there is a continuing view that the Council could be more open to criticism in order to improve its approach with the VCOs.
- 25** On the third criterion, there was a wide range of responses from 36.3 per cent to 90.9 per cent. The highest score in the survey was that the Council ‘Respects that partners have their own values, goals and restrictions’. This indicates that the Council is aware of what drives and guides other organisations. On the other hand, one of the lowest scores in the survey was ‘Contributes money or staff to the partnership where needed’. The issue of money is a constant factor for the VCOs who are more dependent on grant funding than statutory organisations. This issue was also mentioned in the separate focus groups run by CQC. Examples mentioned by these organisations included driving down the value of domiciliary contracts whereby voluntary and independent organisations are now expected to absorb higher costs even though they are not in a position to do so. It has to be recognised that such organisations whose existence depends on funding from bodies like the Council are likely to want to maximise funding. So a view that Council funding is not enough is understandable. But the example of transferring financial risk to VCOs and cutting the income for some projects is a general concern expressed by Council partners, on which the Council will no doubt wish to reflect.

- 26 On the fourth criterion, there were positive scores between 31.8 per cent and 63.3 per cent. The highest score was against the criterion that the Council 'Sends the right people to the partnership so that decisions and action follows'. On the other hand, three of the five criteria in this section were amongst the lowest scores in the survey. These were: 'Tests solutions by working with those who will be affected by them'; 'Makes the changes it needs to make within the council to ensure the partnership achieves its goals'; and 'Stops doing things that do not lead to successful outcomes'. Taken together these three low scores indicate that partners believe that the Council does not make changes to its procedures with partner goals in mind and does not react quickly enough to issues that do not work.
- 27 In summary, the SNAP survey gives a range of matters for the Council to be satisfied with but there are other issues needing further reflection.

Phase 2 - Care Quality Commission inspection of adult social care

- 28 The CQC inspection covered a wide range of issues in relation to adult social care. From their findings, some of the issues that relate to partner working are stated below.
- 29 Strengths from the inspection included:
- the Council and partners promote healthier and safer lifestyles. The Brighter Futures Group¹ is a good example of this;
 - the Council had actively invested in the independent and voluntary sectors to provide a wide range of preventative services;
 - the Council was working to strengthen its capacity to support the health and wellbeing of family carers; and
 - strong links with the voluntary sector.
- 30 Areas for improvement included:
- the Council should act upon the feedback made by carers in the Carers Satisfaction Survey;
 - the Council and its partners should develop a communications and engagement strategy that ensures people who use services, carers and members of the public know how to report abuse and know how to keep themselves safe; and
 - the Council should review both the need for and the capacity of advocacy organisations to support and empower people through safeguarding processes, especially during the investigative process or where support needs are long term.

¹ The Brighter Futures Group (BFG) is a partnership between Adult Social Services, Primary Care Trusts and the voluntary sector and is funded with £1.39m from the treasury

Detailed report

- 31** From the focus groups with VCOs that took part in the CQC inspection, partnership strengths mentioned by them included:
- close work by Kent Adult Social Services (KASS) and housing partners has resulted in sound policies in place on partner working and awareness. KCC has a good to focus on safeguarding and offer more support when needed;
 - the Housing 21 Public Finance Initiative scheme on extra care housing engaged partners on its design. Good work with partners is improving housing for vulnerable people;
 - KCC listens and supports proactively. An example is hospital discharges where some hospitals want to discharge a patient to a home without assessment. There are cases where the care homes will raise the issue with KCC who has agreed that the home was correct not to accede to pressure. This gives confidence to partners that KCC will support them in difficulties; and
 - KCC supports partners' capacity. Training is offered by KCC at South Kent College on a wide range of training including for lifting and handling, first aid and care. These are excellent courses.
- 32** From the focus groups with VCOs that took part in the CQC inspection, partnership areas of development mentioned by them included:
- On Self Directed Support (SDS), partners are concerned that funding to VCOs might be cut. Also, while people receiving direct payments is very positive to give more choice, if there are not care managers regulating the service to ensure appropriate decisions are made, it could make older people vulnerable;
 - KCC does not stop doing some things that do not lead to successful outcomes. Examples include with the Kent Card where some clients are spending money outside the agreement. Also, invoicing on domiciliary care where providers have to invoice electronically, is leading to a saving for KCC but a cost for provider. Of the extra cost of 2 per cent, KCC is giving financial help towards the costs of 0.8 per cent but those organisations were left to find the other 1.2 per cent of cost. This hampers the capacity of voluntary organisations; and
 - KCC is not supporting advocacy providers sufficiently, who say that they do not have the capacity to meet demand. Some advocacy services are experiencing an increasing call for these services and there is now a waiting list; some advocacy services had Comic Relief funding which is finishing. Sustainability has not been assured.
- 33** In summary, VCOs in the focus groups judged that the Council has good systems for monitoring and is working successfully on needs such as housing for vulnerable people. Moreover, the Council supports VCOs in difficult decisions on patient care and boosts their capacity through training. On the other hand, VCOs are concerned about the ability of clients to handle complex decisions on care through Council initiatives and think that their long-term viability is being harmed through lack of funds from the Council.

Phase 3 - Ageing well in Kent

- 34 KCC is mentioned several times in the CAA work on the needs of older people, called 'Ageing well in Kent'. The Council has produced 'Living Life to the Full', the framework for bringing together the work being done by various partners.
- 35 Demographic trends in Kent show increasing numbers of older people. As a result, there was a focus in this year's CAA on how the Council was working with non-statutory groups to improve services to older people. Findings included:
- public services in Kent are coming together to help older people lead active and fulfilling lives. There are some successes. But there is more to do to make sure they are working together in the best way to make a real difference to older people's lives. This is important because the number of older people in Kent is rising fast;
 - partners in Kent are working to improve older people's lives. The KCC-run library service offers a good range of activities, such as advice on healthy living, and sessions where older people are able to share their memories to keep their minds sharp. Work is also going on to increase the number of jobs for older workers and, in schools, to improve understanding between older and young people. For older people who need care and support, there are good services. Examples include giving older people more control over the services they want. Good partnership work is dealing with older people's needs in their homes rather than have to admit them to hospital;
 - most areas are taking account of older people's housing needs. As a result, new housing has been built, where frail older people can receive extra care and support if they need it to live as independently as possible; and
 - there is more to be done to make sure public services work together in the best way to make a real difference to older people's lives. There are large numbers of older people's groups in Kent and older people's forums work well in East Kent and Dartford. But these groups have not influenced public policy on services for all older people in all of Kent. As a result older people in Kent are likely to receive a different response from public services depending on where they live, and which service they are using. It is also more difficult for those who prefer not to attend public meetings, or who are too frail to do so, to influence what happens in their communities. This also makes it more difficult for public services in Kent to make sure they are delivering what older people want. KCC's work to build links with the older people's forums is at an early stage.
- 36 In conclusion, the Council is in a position to play a pivotal role, not just to deliver improved services directly, but also to encourage partners to work better together to deliver that aim. At this stage, it was too early for this to be making a difference to older people in Kent. Services for older people in Kent will continue to be a focus for further investigation as CAA develops.

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By: The Director of Finance – Lynda McMullan
 Cabinet Member for Finance - John Simmonds

To: Governance and Audit Committee – 30 April 2010

Subject: International Financial Reporting Standards (IFRS)

Classification: Unrestricted

Summary: This report asks Members to note the changes that International Financial Reporting Standards will have on the Statement of Accounts and the process and resources required to achieve this.

1. Background

- 1.1 The Governance and Audit Committee are responsible for approving the Statement of Accounts each year at the June meeting. This report provides the Committee with a “heads up” on changes to the Statement of Accounts as a result of recent legislation.
- 1.2 The current Statement of Accounts is prepared on a UKGAAP (Generally Accepted Accounting Practice) basis and refers to Financial Reporting Standards (FRS's). In the 2007 budget statement the Chancellor announced that the public sector would be moving to International Financial Reporting Standards (IFRS). This will enable the Treasury to publish a set of accounts that show the financial position of the whole of the public sector in the UK. From 2010/11 the accounts for local authorities will need to be produced on an International Financial Reporting Standards basis (IFRS) in order to publish a consistent set of Whole Government Accounts.
- 1.3 Several of the standards have already been implemented. For the 2007/08 accounts the accounting and disclosures for financial instruments were changed to comply with FRS 25, 26 and 29 – which largely replicate the IFRS, so there will be little impact in the 2010/11 accounts. These changes looked at the recognition and de-recognition and re-measurement of existing financial assets and liabilities. A significant number of disclosures were added including the fair value of assets and liabilities and the key risks. There were also changes to fixed asset accounting in 2007/08 with the introduction of the Revaluation Reserve. These changes have increased the

corporate closedown process by 10-15%, putting significant pressure on our staff and resources.

- 1.4 The current level of resources required to implement IFRS is estimated to be 549 days as per Appendix 1, based on current assumptions. As a good working knowledge of Kent County Council will be essential for this work, no additional resource is sought, but this will obviously deflect staff from other priorities. This will be closely monitored by the Director of Finance.
- 1.5 Members of this Committee should take note of the changes that IFRS will have on the Statement of Accounts as this Committee has corporate responsibility for the signing of the Accounts.

2. Main areas of change

2.1 PFI

For the 2009/10 accounts, changes in relation to PFI need to be made. IFRS requires the accounts to be amended retrospectively which involves the re-visitation of the financial and operating models. For 2009/10 accounts we need to determine whether the assets are "on or off balance sheet". We anticipate from the work we have done to date that all PFI's will be on balance sheet. In essence this will mean that the long term debtor which is on the 2008/09 balance sheet will disappear and will be replaced by the value of the fixed asset and a lease liability. The difference in net worth will depend on how big the variation is between these two elements. There will not be any impact on Council Tax.

2.2 Leases (KCC as lessee and lessor)

Leases are potentially our biggest concern due to a lack of a central repository for the documents. Each document will need to be examined to determine whether it is an operating or a finance lease under IAS17. This has also been raised by our external auditors as a concern. Once all documents are located we will compile a register which will need maintaining. Once we have all the leases we can determine whether there is likely to be a change in their status i.e. changing from operating to a finance lease and vice versa, then we will only need to look at those that are material. Leased properties will need to be split between land and buildings and some buildings may change from being an operating to a finance lease.

A questionnaire was provided to schools as part of their early closedown returns and we hope to have these documents imminently.

We will also need to identify contracts which might have embedded leases. An example of an embedded lease could be where the fulfilment of the arrangement depends on the use of a specific asset or assets and conveys the right to use the asset.

2.3 Component accounting

We will need to be able to identify asset components which meet the criteria for separate accounting. These are where the value is significant compared to the total value of the asset and where it has a different useful life. This will predominantly affect our estate asset base, e.g. potentially items such as boilers and roofs may meet the criteria. This is something that has already been raised with Corporate Property and our Valuer and is in hand. This is not a retrospective change so will apply to those assets that we have revalued from the 1.04.10. It will require additional resource on the asset registers on an annual basis.

This may have a future cost implication in terms of valuations, which will be taken into account by Finance during the next budget round.

2.4 Employee benefits

Employee benefits, including accrued annual and flexi leave and teachers' holiday pay have to be accounted for under IFRS, if material. In essence, this means that we may have to accrue a debt for all of the annual leave and flexi-leave that staff have carried forward into the new leave year. Due to teachers being entitled to two weeks annual leave (for Easter) if they work on the 31st March, it is likely that this will be material.

In order to collect this information we have sent a template to all "supervisors" based on a download from Oracle HR, identifying names of team members but excluding new starts from 1.4.09 and casual and sessional staff. Supervisors will have two columns to complete, one for annual leave and one for flexi leave for each person under their supervision carried over at the end of 2008/09 (as this change is retrospective). For flexi leave we can assume that no more than the 21 hours allowed to be carried forward will be paid for so this will be the maximum entry allowed.

We will also need to know where a different leave year has been agreed.

This will provide a big enough sample to provide an estimate that we can put in the accounts to represent the accrual for untaken leave.

We will then only need to revisit this every few years to adjust for changes.

Again there will be no impact on Council Tax as per Statutory Instrument No 2010/454 which has added a new regulation that negates the impact of this transition to IFRS.

3. Risks

3.1 The main risks that were identified at the start of the project are listed below:

- Non delivery of IFRS compliant accounts to the published timetable.
- Capacity to deliver.
- CIPFA guidance may not be available in sufficient time.
- Documentation, particularly in relation to leases, may be time consuming to find or unable to be found.
- Competing demands on project team.
- Staff insufficiently trained.
- Late changes to accounts will have a greater impact and risk attached.
- Cost of delivery.

3.2 Our current risk assessment is shown on the plan against the tasks. The % complete is also shown. Green signifies that the task is either complete or should achieve the date identified. Amber reflects tasks that have either started or are yet to start but it is uncertain as to whether they will achieve the current complete date but if they don't this will not be a "showstopper". Red signifies a current perceived risk – i.e. the work has not started or has started and there are significant concerns around achieving the dates. At the moment only leases are shown as red and this is largely due to the level of concern over obtaining the documentation.

4. Recommendation

4.1 Members are asked to note this report in conjunction with the Audit Commission report (the following item on this agenda) and the resource plan. Members of this Committee should take note of the changes that IFRS will have on the Statement of

Accounts as outlined in this report as this Committee has corporate responsibility for the signing of the Accounts. The Committee should ensure, as far as possible, that this project is a corporate priority, with adequate provision of resources to ensure that an unqualified set of accounts can be produced for 2010/11.

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To: Governance & Audit Committee
Date: 30 April 2010
Subject: International Financial Reporting Standards (IFRS)
By: Director of Finance, Lynda McMullan
Cabinet Member for Finance, John Simmonds

Summary: This report provides the Committee with a progress report, from the Audit Commission, on our progress towards implementing International Financial Reporting Standards (IFRS)

FOR INFORMATION

Introduction

1 This agenda item is a follow-up to the previous agenda item.

Purpose of this report

- 2 One of the responsibilities of this Committee is to approve the annual Statement of Accounts. For 2010/11, there are major changes needed to the Accounts in order to make them compliant with International Financial Reporting Standards (IFRS). Members will need assurance that we are able to meet this new challenge
- 3 As our External Auditors, the Audit Commission has reviewed our readiness for the implementation of IFRS. The attached report from the Audit Commission sets-out their findings from their review, and makes four recommendations.
- 4 Our response to those recommendations is set-out in the report. Members will notice that some issues have been resolved simply due to the time between the fieldwork for the review and the issuing of the final report. The 'launch' with the project team has now also happened.
- 5 We welcome this report and will continue to work closely with the Commission to ensure as smooth a transition as possible to IFRS reporting.

Recommendations

- 6 In order to assess our likely readiness for implementing IFRS, Members are asked to note the attached report, in particular the four recommendations shown at Appendix 1, and our response to those.

Background Documents: The previous agenda item of this meeting

Officer Contact: Lynda McMullan, Director of Finance

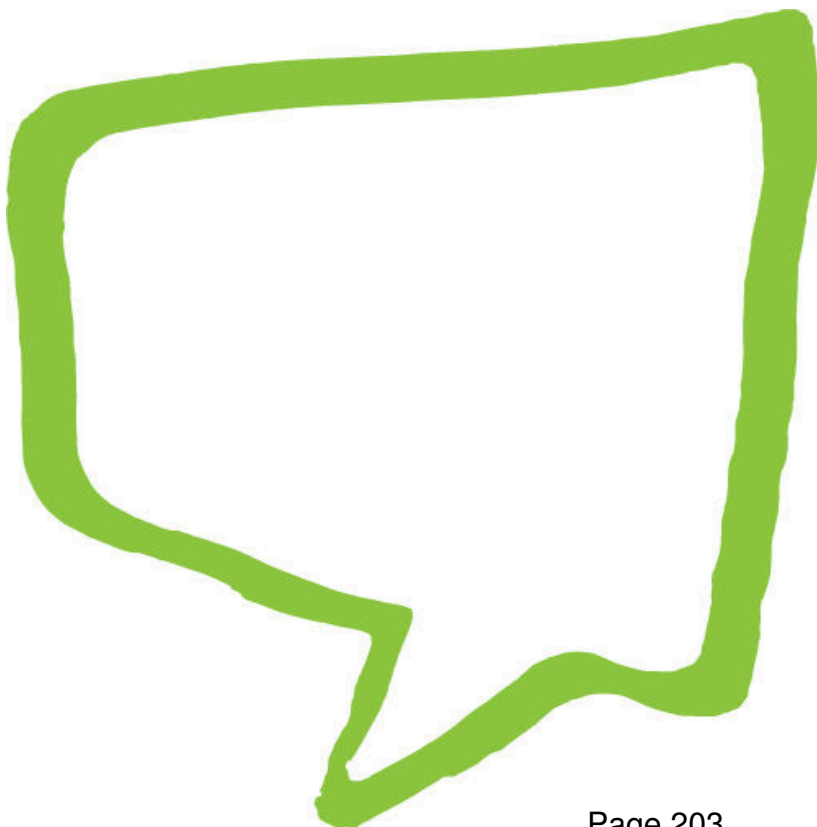
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International Financial Reporting Standards

Kent County Council

Audit 2009/10

March 2010



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Introduction and background

- 1 Kent County Council is required to produce its financial statements based on the International Financial Reporting Standards (IFRS) in 2010/11. Failure to do so could result in a qualified audit opinion on the statements and reputational damage to the Council.
- 2 The Government's motivation for the move to IFRS reporting in the public sector was stated in the 2007 Budget '...The Government needs to use high value performance data in combination with appropriate financial data...in order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice.'
- 3 The Audit Commission has promoted an early start on IFRS in local authorities and has published a series of briefing papers to highlight the key issues for authorities over the last three years. It noted that IFRS implementation in the private sector used fewer resources when planned and managed effectively.
- 4 Progress made by local authorities was assessed by external auditors in late 2009 and this showed that 15 per cent were on track and 20 per cent were having significant difficulties. The main issues that contributed to the difficulties included:
 - a lack of an initial impact assessment to identify how each IFRS impacts on systems, staff and internal and external financial reporting arrangements. A key area is the impact of IFRS on Private Finance Initiative (PFI) schemes and similar arrangements and it is essential that urgent work on these is undertaken as there is a potential impact on the 2009/10 financial statements;
 - robust project planning was not in place or not soundly based (over 50 per cent of project plans that did exist did not contain basic details such as what resources were needed to deliver IFRS compliant financial statements);
 - roles and responsibilities were not clearly defined;
 - resources allocated were not sufficient;
 - technical skills were not available;
 - there was a lack of recognition of the support needed from those service directorates which have a key role in supplying information to core finance teams to support decisions on IFRS accounting treatments; and
 - key tasks were not being delivered to the deadlines set.
- 5 The Commission concluded that effective leadership and project management is essential. Members also have a key role to ensure that IFRS implementation is managed effectively. They should be aware of the core requirements of IFRS and assure themselves that implementation is a corporate priority. Timely progress reports should be made to members. In most of those local authorities that had a good level of member engagement, this was being undertaken by an audit committee, or equivalent, which is line with the corporate governance responsibilities of such committees.

- 6 IFRS are principles based and requires finance staff to use professional judgement to determine accounting treatments. The experience of implementation in the NHS shows that the best results were linked to good liaison with external audit.

Audit assessment at March 2010

Project planning

- 7 The Council's progress is broadly in line with its implementation project plan. Officers prepared a project plan for IFRS implementation in October 2009 covering the period from October 2009 to November 2011 although initial work on implementation had started earlier than this. The plan is comprehensive and recognises all the key stages and if followed, should ensure a smooth transition. A number of key tasks have been achieved but there has been some slippage. Resources have been identified to undertake the work but not all have been trained yet. Consideration of PFI schemes and leases is behind schedule as is the capture of data required for re-stating the 2008/09 financial statements but officers have recently updated the project plan and are focussed on meeting the key deadlines for all these tasks. We would encourage members and directorate staff to support the IFRS project team in this complex process by ensuring that information is provided quickly and resources are made available when requested in accordance with the plan.
- 8 We have reviewed the Council's progress against its project plan and have set out below the highlights.
- Impact assessment - the Council has a good understanding of the changes to its financial statements arising from the implementation of IFRS and the work needed to support them.
 - Budgetary implications - the Council has considered the budgetary implications of the changes and concluded that they are mostly neutral in terms of the Council's net worth.
 - System changes - the Council has considered the need for changes to systems to accommodate IFRS reporting in respect of the annual leave accrual and component accounting and concluded that there are no changes required to material systems at this time.
 - Guidance - the Council is up to date with the Chartered Institute of Finance & Accountancy (CIPFA) guidance and Audit Commission briefings.
 - Technical skills - the Council has assessed the resources required to achieve its IFRS plan and while some training has been supplied further training is needed.
 - Directorates hold the detailed information needed by finance to determine accounting treatments for PFI schemes and leases and there have been some delays in gathering the required information. Access to complete information is being addressed by the Council as a priority as it could impact on the audit opinion on the 2009/10 financial statements.

Recommendations

- R1** Directorates should provide support to finance staff to allow the accounting treatments to be determined in accordance with the IFRS project plan.
- R2** A Council-wide central repository for documentation relating to all leases, significant service contracts and PFI schemes should be established.

PFI schemes

- 9** The Council has several PFI schemes and the accounting treatment of these schemes could change as a result of IFRS. To comply with the new reporting requirements, the Council needs to undertake a detailed review of the original PFI contract documentation, calculate the fair values of assets that may revert to their ownership at the end of the contract and consider whether a finance lease may exist in respect of those assets.
- 10** There are several key stages in this process and we have reviewed progress.
 - Acquire original financial model for each PFI scheme - the Council holds most of these although some are less detailed than others and further information might be needed.
 - Consider in respect of each scheme whether scheme assets should be disclosed on the Council's balance sheet under IFRS - the Council has concluded that for each of the schemes, the relevant assets will need to be reported on its balance sheet.
 - Identify fair values of assets and calculate interest rates - this has been completed for all but one PFI scheme. The Council is taking action to get the outstanding information.
 - Draft the resulting accounting treatment for each scheme - this is planned for later in the year when it is clearer whether or not any late guidance may be forthcoming from CIPFA. We will review all proposed accounting treatments as they are submitted to us which should, if possible, be ahead of the preparation of the Council's financial statements.

Recommendation

- R3** Outstanding information to support the development of accounting treatments for PFI schemes should be obtained.

Leases

- 11 A potentially significant change resulting from IFRS implementation in 2010/11 is the revised definitions of finance and operating leases. This means that some leases, previously classified as operational, might be reclassified as finance leases with the asset and associated liability coming onto the Council's balance sheet. This applies to situations where the Council is the lessor or the lessee. The Council has demonstrated a good understanding of the disclosure requirements.
- 12 There is also a requirement to review significant service contracts and concessions and consider whether any assets involved may need to be accounted for as if subject to a finance lease for inclusion in the 2009/10 financial statements.
- 13 In summary a service concession contractually obliges a private sector operator to provide services related to infrastructure (property) to the public on behalf of a local authority. This typically includes roads, street lighting, schools and telecommunications networks. It also includes fixed assets used for administrative purposes in delivering services to the public.
- 14 There are several key stages in this process which we have reviewed with officers.
 - Identify and obtain details of all leases - this process is taking longer than anticipated and a questionnaire has recently gone to all schools to assist in the acquisition of relevant information.
 - Identify service concessions that may contain a lease - a questionnaire has recently been sent out to directorates asking them to consider whether such arrangements exist and responses are awaited.
 - Reclassify leases where appropriate and calculate asset and liability values - this process will take place when all information is available.

Recommendation
R4 Outstanding information to support the development of accounting treatments for leases should be obtained as a priority.

Employee leave accrual

- 15 There is a requirement under IFRS for the Council to recognise the year end value of its employees' accrued holiday entitlement. The Council is gathering this information at 31 March 2010 which is in line with its project plan.

Re-statement of 2009/10 financial statements

- 16 The 2009/10 financial statements will need to be restated under IFRS in order to provide comparative figures for the 2010/11 financial statements.

- 17 The Council has progressed well with this although as noted in paragraph 14, obtaining the details of leases is taking longer than anticipated. This is covered by recommendation 4.

Intangible assets

- 18 The definition of intangible assets is broadened under IFRS and the Council has developed a process for identifying expenditure that meets the new definition.

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 Directorates should provide support to finance staff to allow the accounting treatments to be determined in accordance with the IFRS project plan.	3	All	Yes	There is a project launch on the 1 April to which reps from all directorate/CED relevant units are attending and this will be reiterated. There is currently support from the Finance Operations Group and this will be enhanced as the project moves ahead.	1 April 2010
6	R2 A Council-wide central repository for documentation relating to all leases, significant service contracts and PFI schemes should be established.	2	All	In principle	Property leases are currently held within Property but other leases are held in Legal and within directorates and schools. The full extent of the situation will not be known until we have moved forward on this part of the project and the practicalities understood as to whether this is feasible or not.	1 April 2010
6	R3 Outstanding information to support the development of accounting treatments for PFI schemes should be obtained.	3	PFI teams in CFE and KASS	Yes	Since this report has been written most of the PFI information has been received.	6 April 2010
7	R4 Outstanding information to support the development of accounting treatments for leases should be obtained as a priority.	3	All	Yes	This will be addressed at the project launch.	1 April 2010

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By: Cabinet Member for Finance
Director of Finance

To: Governance and Audit Committee – 30 April 2010

Subject: **Audit Commission: Certification of claims and returns - annual report**

Classification: Unrestricted

Summary: The attached report from the Audit Commission summarises their work on the certification of funding from government grant-paying departments.

FOR INFORMATION

Introduction and background

1. Each year the Council makes claims for specific funding from a range of central government departments. Where these claims exceed £100,000 the Audit Commission provides various levels of certification that conditions attached to the funding received by the Council from government grant paying bodies have been met.

Purpose of this report

2. The report provides a summary of the work completed in relation to the certification of claims for funding for the 2008/2009 financial year. The report relates to ten claims reviewed by the Audit Commission, totalling £143m.
3. The report makes a total of seven recommendations to improve the control environment in relation to claims submitted for certification. The response to these recommendations is being developed by officers, but due to the timing of the report a completed action plan has not been produced.
4. Although this report is very operational in nature and designed to support officers improve arrangements, it is the Audit Commission's policy to present the report to the Governance and Audit Committee, hence its inclusion on the agenda.

Recommendations

5. Members of the committee are asked to note the attached report.

David Tonks
Head of Audit and Risk
Ext: 4614

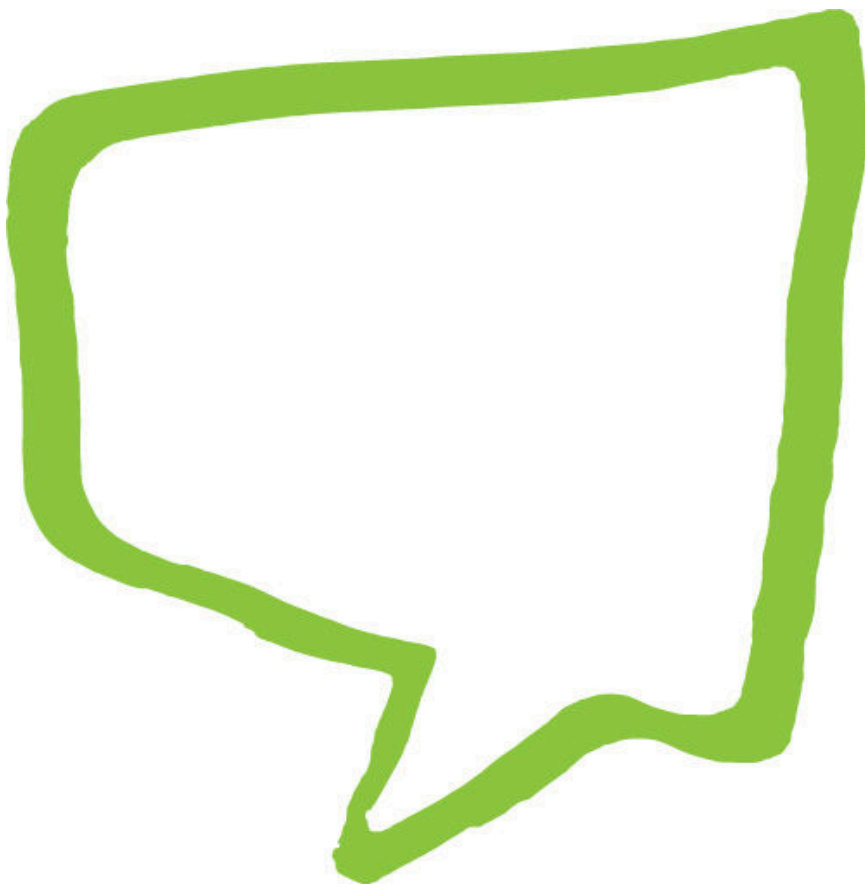
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Certification of claims and returns - annual report

Kent County Council

Audit 2008/09

February 2010



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Status of our reports

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- any director/member or officer in their individual capacity; or
- any third party.

Key messages

Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants.

This report summarises the findings from the certification of 2008/09 claims. It includes any messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.

Certification of claims and returns

- 1 Kent County Council receives significant funding from various grant-paying departments. The grant-paying departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.
- 2 In 2008/09, the audit team certified ten claims with a total value of £143 million. Of these, we carried out a limited review of six claims and a full review of four claims. (Paragraph 10 explains the difference). We made amendments to eight of the claims and issued a qualification letter in relation to the Teachers' Pensions Return. Appendix 1 sets out a full summary.

Certification of fees

- 3 The fees we charged for grant certification work in 2008/09 total £17,665.

Actions

- 4 Appendix 2 summarises the key recommendations.
- 5 The relevant officers of the Council have agreed these recommendations.

Background

- 6 The Council claims funding for specific activities from grant paying departments. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:
 - an adequate control environment over each claim and return; and
 - ensuring that the Council can evidence that it has met the conditions attached to each claim.
- 7 I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to the Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.
- 8 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.
- 9 The key features of the current arrangements are as follows.
 - For claims and returns below £100,000 the Commission does not make certification arrangements.
 - For claims and returns between £100,000 and £500,000, auditors undertake limited Part A tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
 - For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited Part A tests to agree from entries to underlying records but do not undertake detailed Part B testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake both Parts A and B tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong.
 - For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

Findings

School centred initial teacher training grant

Control environment

- 10 Although the complexity of the return is relatively low, we concluded that we could not fully rely on the control environment as there had been a change in the officer responsible for compiling the claim.

Key findings

- 11 The Council amended the claim in the period between the submission of the claim and the onsite audit visit due to human error when typing entries into the claim. The amended version of the claim was audited in accordance with the grant-paying body instructions and no errors were identified.

Recommendation
R1 Officers should continue to check the claim for consistency and accuracy before submitting to audit.

LSC funding of Further Education in Local Authority Institutions

Control environment

- 12 We concluded that we could not fully rely upon the control environment for the preparation of the claim due to the following factors:
- there had been a change in officer compiling the claim; and
 - a minor human error was identified in the previous years claim which could have recurred in the 2008/09 claim.
- 13 Due to our knowledge and experience from our work in previous years we decided that we could however restrict our detailed Part B testing by using smaller samples sizes.

Key findings

- 14 Our testing of the claim in accordance with the grant-paying body's instructions did not identify any errors. There are no issues to report to officers or members based on our audit work.

European Regional Development Fund - various projects

Control environment

- 15 The Council submitted five claims funded from the European Regional Development Fund on behalf of the Government Office for the South East (GOSE). These are:
- Marlowe Innovation Centre;
 - Technical Assistance - D1 Management, Implementation, Monitoring & Control of Expenditure (TA1-29);
 - Technical Assistance - D2 Evaluation & other Technical Assistance Activities (TA2-29);
 - Franco-British Interreg IIIa 2000-2006; and
 - Link: ED (Linking Nord - Pas de Calais & Kent Educationalists).
- 16 As all of the claims were between the £100,000 and £500,000 threshold set by the Audit Commission we were only required to undertake limited Part A tests to agree claim entries to underlying system records.

Key findings

- 17 Our testing of the claims in accordance with the grant-paying body's instructions identified errors in all the claims. For four of the claims there was no overall effect on the amount of grant entitlement as the errors were classification issues within the expenditure section of the claims. One recommendation is arising from the audit of these claims.

Recommendation

R2 The Council should ensure that the correct version of the claim form is used when compiling the claim.

- 18 The detailed findings for the claim where entitlement was amended in advance of certification is set out below.

Link: ED (Linking Nord - Pas de Calais & Kent Educationalists)

- 19 Following discussions with auditors from GOSE the Council did not include additional income from study visit trips totalling £10,920 in the 'Statement of project expenditure and source of funding'. The Council produced a revised claim for auditor certification.

Recommendation

R3 Officers compiling grant claims should ensure that amounts entered onto the claim form meet the definitions of income and expenditure as set out by the grant paying body.

Findings

The Thames Gateway Kent Urban II Community Initiative Action Plan 106

Control environment

- 20 We concluded that we could not fully rely upon the control environment for the preparation of the claim due to the following factors:
- the form was the final claim of a six year project which included a high volume of individual transactions and projects per quarter; and
 - an error was identified in the previous years claim.
- 21 Due to good internal controls operating by the Council we decided that we could restrict our detailed Part B testing by testing ten projects over the lifetime of the scheme.

Key findings

- 22 Our testing of the claim in accordance with the grant-paying body's instructions identified no error. There are no other issues to report to officers or members based on our audit work.

Sure start, early years and childcare

Control environment

- 23 Although the complexity of the claim is low and the officer compiling the claim has been doing so for a number of years we were unable to rely fully on the control environment as there had been significant changes to the grant conditions for 2008/09:
- the Council was no longer allowed to pool any portion of the grant into an LAA; and
 - the introduction of funding for the graduate leader scheme.
- 24 Due to our knowledge and experience from our work in previous years we decided that we could however restrict our detailed Part B testing by using smaller samples sizes. We allocated the required sample of 20 between revenue and capital expenditure schemes.

Key findings

- 25 Our testing of the claim in accordance with the grant-paying body's instructions identified no error. There are no other issues to report to officers or members based on our audit work.

Teachers' Pensions Return

Control environment

- 26 We concluded that we could not fully rely upon the control environment for the preparation of the claim due to the following factors:
- the return is highly complex with a large volume of transactions; and
 - the return is completed by an external body, Capita PLC, on behalf of the Council.
- 27 We could not restrict the sample sizes for the detailed Part B testing and undertook a sample of 20 for all tests.

Key findings

- 28 Our testing identified a number of issues relating to the compilation and approval of the return.
- 29 Three amendments were made to the return in relation to the entries for contributory salary as audit testing identified that a small number of contributions did not agree with the payroll records of the authority or other payroll providers.

Recommendation

- R4** The Council should ensure that Capita carry out an accuracy check of the entries in the return to payroll system records.

- 30 The certified claim was subject to qualification relating to two matters. Teachers' Pensions does not expect any Council's return to be qualified for the same reason two years in a row. The DCFS has asked the Council to prepare an action plan to give the department assurance that it has put systems in place to avoid a repeat qualification. The qualification matters are set out in full below.

Review by Kent County Council of the submitted TR17 return

- 31 The instructions set out by Teachers' Pensions (TP) on behalf of the Department for Schools, Children and Families requires us to ensure that where any part of payroll administration has been outsourced, the Council has put in place adequate arrangements to satisfy itself that contributions have been correctly deducted and remitted to TP, on behalf of the Council, in accordance with the Regulations.
- 32 In our audit work we noted that there are no arrangements in place whereby the Council verifies the information included in the return whether supplied to or by Capita. The Council is effectively relying on Capita for the accuracy of the return without having satisfied itself that it is reasonable to do so.

Findings

- 33** The preparation of the monthly payments and the return is outsourced to Capita HR & Payroll Services. Capita prepare the payments and the return based on the payroll information from three key sources:
- the payroll records for the schools for whom Capita prepare the payroll (520 schools);
 - the monthly finance return as prepared by the Council regarding the individual teachers for whom they pay directly; and
 - the monthly finance Returns as submitted by the 69 schools who are responsible for the preparation of their own payroll records.
- 34** The information detailed on the finance returns is checked by Capita HR & Payroll Services to ensure that the deductions agree in total percentage to the monthly contributory salary and that any additional contributions agree to additional supporting documents supplied. However, no check is performed to ensure that these figures are derived from the payroll records themselves.
- 35** The responsibility for ensuring that the payments and the return have been prepared correctly lies with the Council. At present, the Council checks that the return agrees to the information in the Annual Return. However, there are two weaknesses in this approach:
- the check is not performed until after the date that the return was signed by the Children's, Families and Education directorate finance lead and submitted to Teacher's Pensions; and
 - the Annual Return is prepared from the same source as the return so should always agree.

Recommendation

- R5** The Council should put arrangements in place for the verification of all information included in the Teachers' Pension return from whatever source prior to signing it off for submission as fairly stated.

Outstanding supporting documentation – Part B 'Other' schools payroll provider

- 36** The return regulations set by TP requires auditors to consider the arrangements the authority has in place to satisfy itself as to the completeness and accuracy of the information and whether or not there is adequate evidence to support the entries made in the return from other payroll providers.
- 37** Our audit testing covered all three external payroll providers: Wispay; Kent Schools; and 'Other' schools which comprises of 69 individual schools who prepare their own payroll records. Sufficient assurance was obtained for the Wispay and Kent Schools sample.

- 38** Neither Capita nor the Council could provide supporting documentation for the sample selected from the 'other' schools in advance of the certification deadline. The superannuable pay in respect of 'other' schools totals £115,981,846 for the 2008/09 return.

Recommendations

- R6** The Council should ensure that full supporting documentation is available for the 69 schools that prepare their own payroll records.
- R7** The documentation from the 'other' schools should be checked by Capita and the Council to ensure the information is accurate and correctly reflected in the claim.

Appendix 1 – Summary of 2008/09 certified claims and returns

Claims and returns above £500,000

Claim or return	Certified value £	Part A or both Parts A and B completed ¹ ?	Amendment required?	Qualification letter required?
School centred initial teacher training grant	725,856	Parts A and B	Yes	No
LSC funding of Further Education in Local Authority Institutions	2,909,571	Parts A and B	No	No
The Thames Gateway Kent Urban II Community Initiative Action Plan 106	7,741,129	Parts A and B	Yes	No
Sure start, early years and childcare	44,136,226	Parts A and B	No	No
Teachers' pensions return	85,744,229	Parts A and B	Yes	Yes

¹ See paragraph 10 for explanation

Appendix 1 – Summary of 2008/09 certified claims and returns

Claims and returns between £100,000 and £500,000

Claim	Certified value £	Amendment required?	Qualification letter required?
Marlowe Innovation Centre	473,762	Yes - no overall effect	No
Technical Assistance - D1 Management, Implementation, Monitoring & Control of Expenditure (TA1-29)	432,255	Yes - no overall effect	No
Technical Assistance - D2 Evaluation & other Technical Assistance Activities (TA2-29)	172,945	Yes - no overall effect	No
Franco-British Interreg IIIa 2000-2006	102,001	Yes - no overall effect	No
ERDF - Link: ED	201,192	Yes - decreased by £6,552	No

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R1 Officers should continue to check the claim for consistency and accuracy before submitting to audit.	2				
6	R2 The Council should ensure that the correct version of the claim form is used when compiling the claim.	1				
6	R3 Officers compiling grant claims should ensure that amounts entered onto the claim form meet the definitions of income and expenditure as set out by the grant paying body.	2				
8	R4 The Council should ensure that Capita carry out an accuracy check of the entries in the return to payroll system records.	2				
9	R5 The Council should put arrangements in place for the verification of all information included in the Teachers' Pension return from whatever source prior to signing it off for submission as fairly stated.	3				
10	R6 The Council should ensure that full supporting documentation is available for the 69 schools that prepare their own payroll records.	3				

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R7 The documentation from the 'other' schools should be checked by Capita and the Council to ensure the information is accurate and correctly reflected in the claim.	3				

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By: Roger Gough – Member for Corporate Support Services
and Performance Management
David Tonks – Head of Audit and Risk

To: Governance and Audit Committee – 30 April 2010

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 summarises the progress against the 2009/10 internal audit programme, provides the results from reviews that we have completed in the period since the last report to the Governance and Audit Committee, and reports the achievement against Internal Audit's Key Performance Indicators.

Overview of Progress

2. This report contains the outcome of Internal Audit's work between November 2009 and March 2010 and audits started, or at draft report stage up to 31 March 2010. During this period 11 audits were completed, 23 draft reports were issued, and 34 audits started.
3. Detailed progress against the planned audits for 2009/10 is listed at annex A, and a summary of each of the 11 audits completed in the period is at annex B.
4. The audit programme has progressed well in line with the timetable agreed by the Governance and Audit Committee in March 2009. There have been some adjustments to the timing of individual audits, and some audits have either been postponed at directorates' request or will no longer go ahead. The amendments are detailed at annex C, and show a small overall decrease in the level of work completed. The changes made have all been agreed by the Head of Audit & Risk and the Senior Audit Manager, do not represent any compromise on the independent position of Internal Audit, and still provide the required level of assurance in relation to risks identified. As at the time of this report 90% of the plan was completed. It is anticipated that this figure will increase when the Annual Audit Report is presented to members in June 2010.

5. Other information included in this report is:

- Directorates' progress against the implementation of recommendations made and agreed which were due to be actioned by March 2010 (annex D)
- A summary of the advisory and other work of Internal Audit (annex F)
- A detailed breakdown of Internal Audit Performance Indicators (annex G).

Irregularities

6. Since the end of November 2009 six cases of suspected irregularity have been reported, each involving either KCC finances or business processes. These are currently under investigation. One investigation has been concluded during the period which is summarised at annex E.

Implications for Governance

7. No significant control weaknesses have been identified from the audits completed or the irregularities investigated in the current financial year. All audits are allocated an assurance level which are defined in annex H. Of the 11 audits completed in the current reporting period, none were given the lowest category of assurance (minimal) which could indicate a significant risk for the Council.

Recommendation

8. Members are asked to:

- Consider the report and comment on the
 - progress to date against the 2009/10 audit programme, and
 - changes to the audit programme.

David Tonks
Head of Audit & Risk
Ext: 4614

**Progress Against 2009-10
Audit Plan Quarters 1,2,3
and 4**

Annex A

Ref	Audit	Status	Audit Assurance
AW01 2010	Corporate Governance	Daft report issued 7 Apr 10	
AW02 2010	Risk Management	Drft report issued 7 Apr 10	
AW03 2010	Governance of Partnerships	Draft report issued 1 April 2010	
AW04 2010	Pro-active Fraud work - Contracts	Ongoing	
AW06	Use of Consultants/Consultancy firms	Audit has commenced expected date for issue of draft report 7 May 10	
AW07 2010	Premises Security	Final report issued 16 Sep 2009	Substantial
AW08	Handling Information Risk	Draft report issued 16 Apr 10	
AW09	ISG Management/Strategy	Draft report issued 24 march 2010	
AW10 2010	Use of databases and spreadsheets	Draft report issued 31 March 2010	
AW11 2010	Business Continuity Planning	Draft report issued 5 Feb 2010	
S01	Year End Accounts Closedown	Final report issued 11 June 2009	Substantial
S02	Bank Reconciliations	Draft report issued 19 March 2010	
S03	General Ledger	Final report issued 5 March 2010	High
S04	Imprest Accounts	Draft report issued 23 Feb 2010	
S05	Accounts Payable	Final report issued 29 Dec 2009	Substantial
S06	Accounts Receivable	Draft report issued 6 April	
S07	Treasury Management	Draft report issued 9 Apr 10	
S08	Payroll	Draft report issued 30 March 2010	
S09	Capital Monitoring	Draft report issued 9 April	
S10	Pension Contributions	Final report issued 22 Oct 2009	High
S11	Revenue Budget Monitoring	Draft report issued 31 March 2010	
S12	Partial Exemption	Draft report issued 22 March 2010	
S13	Management Review	N/A	N/A
S14	Overtime Payments	Final report issued 1 Feb 2010	Substantial
CED01	Income – Legal Department	Final report issued 6 Nov 2009	Limited
CED02	Public Service Agreements (PSA)	Completed 26 Feb 2010	N/A
CED03	Property Management System Security	Final report issued 22 Oct 2009	Substantial
CED04	Building Consultants Procurement Framework	Draft report issued April 2010	
CED05	Staffcare Services	Draft report issued 8 Feb 2010	
CED07	Axis Pensions System	Final report issued 25 Aug 2009	Substantial
CFE01	Data Quality	Draft report issued 18 Feb 2010	
CFE03	Child Protection	The audit has commenced expected completion date May 2010	
CFE04	SEN Transport	Draft report issued 26 March 2010	
CFE05	Student Awards Transition Plan	Final report issued 16 March 2010	High
CFE07	Personal Allowances for Looked After Children	Draft report issued March 2010	
CFE08	ContactPoint	Draft report issued 10 Mar 2010	
CFE09	Building Schools for the Future	Final report issued 24 Feb 2010	Substantial
CFE10	Appledore Sub Imprest Account	Final report issued 2 March 2010	Substantial
CFE12	Children's Centre Resource system	Draft report issued 24 March 2010	

**Progress Against 2009-10
Audit Plan Quarters 1,2,3
and 4**

Annex A

Ref	Audit	Status	Audit Assurance
CFE13	Cluster Funding	The audit has commenced expected completion date to draft report 30 Apr 10	
CFE15	Cage Green School	Final report issued 23 Dec 2009	Substantial
CFE16	Use of Corporate Purchase Cards in Schools	Draft report issued 25 March 2010	
CFE17	West Kent Learning Federation	Draft report issued 29 March 2010	
CMY02	Thanet Gateway Plus	Final report issued xx Dec 2009	N/A
CMY04	Turner Contemporary Charitable Trust	Draft report issued 8 April 2010	
CMY05	Coroners' Imprest Accounts	Final report issued 6 Oct 2009	Limited
CMY06	Libraries – IT Renewal Project	The audit has commenced expected completion date 31 May 10	
CMY08 (a)	Key Training	Final report issued 27 Aug 2009	N/A
CMY08 (b)	Key Training	Final report issued 8 march 2010	N/A
CMY09	Apprenticeship Scheme	Final report issued xx	N/A
KASS01	CRB - Volunteers	Second draft report issued 22 Feb 10	
KASS02	Residential Payments	The audit has commenced expected completion date 31 May 10	
KASS03	Direct Payments	Draft report issued 2 March 10	
KASS05	Performance and Data Quality	Daft report issued 16 Apr 10	
KASS06	Client Billing Process	Draft report issued 8 April 2010	
KASS09	Swift – Client Billing	Final report issued 20 Nov 2009	N/A
ER01	Review of Kent Highways Services	Draft report issued 16 March 2010	
ER02	Kent Thameside Regeneration	Draft report issued 23 Dec 09	
ER03	Ashford Regeneration	Expected completion date to draft report stage 16 April 2010	
ER05	Kent Freedom Pass	Expected completion date to draft report stage 16 April 2010	
ER06	Performance and Data Quality	The audit has commenced expected completion date 9 Apr 10	
ER08	Kent Highways Services – Road Work Permit Scheme IT System	The audit has commenced expected completion date 23 April 10	
ER07	Allington Incinerator	Final report issued 22 Feb 2010	Substantial

Audits highlighted in bold indicate completed audits

S03 – General Ledger

Scope

A review of the adequacy of input controls including feeder system interfaces into the General Ledger and reconciliation of control and suspense accounts.

Overall Assurance – High

The audit found that there are good controls over input, access and data transfers into the General Ledger and that there is regular monitoring to ensure that input is accurate, valid and complete. One area for improvement was identified which related to a large number of journals being input under a single journal reference in the Communities Directorate. A recommendation has been made that journal entries should be posted separately with unique reference numbers. This recommendation has been accepted by management.

S05 – Accounts Payable

Scope

The audit reviewed the processes in place to ensure that accurate, timely payments are made to *bona-fide* creditors for goods and services provided for the benefit of the council.

Overall Assurance - Substantial

The audit found that there is a process in place to identify any duplicate account details set up in Oracle in order to identify

potential duplicate suppliers. A report should be produced on a quarterly basis. At the time of audit this report had not been completed for the past two quarters and we were advised that this was because of staffing changes and that the report would be completed shortly.

The audit confirmed that there are good procedures in place to check that duplicate payments have not been made.

Exchequer Services staff carry out a monthly check for validity of authorisations on a randomly selected sample of 50 invoices.

Our testing showed that payments are made within 20 working days (unless there were genuine reasons why they could not be). Processes are in place to ensure that payments are made within KCC's specified timescales.

We have made two recommendations regarding the checking of authorising signatures and access controls on the Foster Payments System. The recommendations have been accepted by management.

S14 – Second Follow Up - Overtime Payments

Scope

The scope of the audit was to review the progress of the implementation of the recommendations made in the 2008/09 audit.

Overall Assurance – Substantial

Following the first follow up review, the Employee Services Manager prepared a detailed and comprehensive action plan to complete the recommendations. This audit confirmed that satisfactory action as been taken on all of the outstanding issues.

The Director of Personnel and Development has taken action to ensure that managers are informed through the Policy Group and Joint Rewards Implementation Team of the need for effective action to monitor and control overtime to ensure that directorates comply with the Working Time Directive (WTD). Revised guidance and reminders have been issued and action is being taken to review areas where excessive working hours are identified.

Three further recommendations have been made which have been accepted by management.

CFE05 – Student Awards Transition Plan

Scope

The scope of the audit was to review the transition plan which has been put in place to ensure that the directorate is able to retain staff and maintain service levels up to March 2011 when responsibility for assessing and paying student loans transfers to the Student Loans Company.

Overall Assurance – High

The audit found that there are contingency plans in place should staffing levels become insufficient to maintain service levels. This includes the use of temporary staff from Kent Top Temps.

Throughout the transition period workloads will continue to be monitored by managers. Performance indicators for 2009/10 were achieved and the Awards Manager is confident that based on expected workload and complement of staff that they will be achieved ahead of schedule during 2010/11.

The Awards Manager has been asked to provide two updated transition plans taking into account staffing levels as well as any other changes in circumstances that may affect the department.

No recommendations have been made for this audit.

CFE09– Building Schools for the Future

Scope

The scope of the audit was to carry out a review of the governance and projects and programme management arrangements for the delivery of the capital programme and to review the financial management arrangements associated with delivery.

Overall Assurance – Substantial

The audit found that there were satisfactory financial and contractual management arrangements in place. The roles, responsibilities and accountabilities for managing key elements of projects and programmes were clear and there were governance arrangements for managing the contractor/delivery partner relationships.

Three recommendations were made relating to strengthening programme level risk and issue management; the format and completeness of programme level monitoring and reporting should be improved; and a review should be undertaken of resourcing needs and roles of the programme going forward.

These have been accepted by management.

CFE10 – Appledore – Sub Imprest Account

Scope

The scope of the audit was to review the use, monitoring, reconciliation and reimbursement of the account.

Overall Assurance – Substantial

All payments sampled for the audit were considered to be appropriate for the usage of the imprest account, although it was difficult to always determine if expenditure had been appropriately authorised as it was not always obvious who the 'authorising' signature belonged to. The audit identified that staff do not always sign to confirm that they have received amounts of cash. Segregation of duties operates well, with CFE finance staff performing the reconciliation and reimbursement of the account. At the time of the audit all records from the sample were up to date.

Two recommendations have been made which have been accepted by management.

CFE15 – Follow Up - Cage Green School

Scope

The scope of the audit was to review the progress of the implementation of the recommendations made in the 2008/09 audit.

Overall Assurance – Substantial

Twenty-six recommendations were made in the previous audit report. At the time of the follow up audit, four were still outstanding. These relate to the following:-

- Page 238
- Improving controls around the receipt of goods;
 - Committing expenditure to financial records at the time orders are made;
 - Recording the school's non ICT assets in the assets register; and
 - Investigating queries and issues regarding the voluntary fund.
- Management have agreed to implement the recommendations.

CMY08 – Key Training Second Tranche

Scope

The scope of the audit was to review the Key Training action plan which has been put into place to recover the 2008/09 deficit.

Overall Assurance – Not Applicable

The 2008/09 £211k deficit has been identified in the 2009/10 budget. Part of the reason for the deficit was that expected income was not received from the Learning Skills Council and therefore, income is now being closely monitored. The directorate has also put in place a planned profile of income from the Learning Skills Council, with estimates made using the 2008/09 income profile, together with forecast based on current performance.

We reviewed the five point action plan, although there was still work to be completed on the action plan at the time of the audit, it is currently in process and progressing well.

KASS – Swift Client Billing Post Implementation Review

Scope

The objective of this audit was to assess the adequacy and effectiveness of controls operating to mitigate the risks within the client billing process, such as the controls within the Swift client billing module, the interface between Swift and the Corporate Oracle finance system and the process by which Oracle is used to generate invoices.

Overall Assurance – Not Applicable

A number of problems have occurred within the Swift client billing process since it went live in November 2008, such as charges being incorrectly shown on the statements issued to client or statements being issued where care is no longer being provided. These errors have been in part due to the bespoke nature of the process that is used to generate client statements; for example,

standard Oracle functionality is not used due to the fact clients are billed on a four weekly cycle to match the benefit payment cycle. A sustainable process needs to be established by reducing the number of sources of potential error that can occur during the billing run.

A number of recommendations have been made which have been accepted by management and an action plan is in place to address the issues identified. These include considering the use of standard Oracle functionality to improve the accuracy of the statements issued to clients

CMY02 - Thanet Gateway Plus Post Completion Review

Scope

The scope of the audit was to carry out a post completion review of the Thanet Gateway Plus project, so that the critical success factors can be captured and applied to future projects.

Overall Assurance – Not Applicable

The review was carried out at the request of Communities management and considered the various stages of the project and the factors that contributed to the success of the project, i.e. that it was completed on time, within budget and achieved its objectives. The following factors were considered as follows:-

- The establishment of objectives;
- The project approval process;
- Project planning and management;
- Partnership working;

- Project Monitoring;
- Risk Management;
- Budget management; and
- Decision making;

The above contributed towards the success of the project. All deliverables were achieved and good project management processes were applied through the life of the project. Partnership working was successful as partners understood the objectives of the project and were able to focus on it and arrive at a consensus that was to the benefit of the customer.

EHW07 – Allington Waste to energy Plant

Scope

To review the processes and systems in place used to support the operation of the waste to energy plant.

Overall Assurance - Substantial

The audit found that the contract with Kent EnviroPower Ltd (KEL) is monitored effectively. There is good liaison between KCC Waste Management and KEL to control and record access to the site and controls on vehicle approvals are operating correctly. The invoice certification at KCC Waste Management provides an independent check on vehicle details by matching the information on the billing list to the master list of approved vehicles. However, tonnage details collated independently by KEL are not used to confirm tonnage processed and claimed on the invoice. We have made three recommendations to improve controls which have been accepted by management.

The following table details the amendments to the 2009/10 audit plan and shows audits that will no longer go ahead and new audits or pieces of work, together with the deleted and additional days. The text in blue / **italic** is to highlight the changes since the December report.

Ref	Planned Audit	Comments	Impact (Days)
<i>AW05</i>	<i>Use of interim and temporary senior managers</i>	<i>It has proven difficult to identify a valid "population" for the Audit to assess. Work in on-going to find a means to enable the audit to proceed.</i>	<i>-30</i>
CED06 2010 Commercial Services	Cheque Payments	Originally a management request, however, only a few payments processed by cheque, therefore audit will no longer go ahead.	-20
CED08 2010	Routewise	This audit will be incorporated into the audit of SEN Transport (CFE04)	-20
CFE02 2010	Post 16 Education	The timescale for the streamlining of funding and commissioning for post 16 education has been delayed by the Department for Children, Schools and Families (DCSF)	-30
<i>CFE06</i>	<i>Partnerships</i>	<i>Incorporated into authority wide partnership audit.</i>	<i>-30</i>
CFE09 2010	ContactPoint	This audit has been incorporated into CFE08 2010 which was a review of IT controls	-25
CFE11 2010	ICS Capita One	The audit was to review interface/application controls for a Foster Payment system, but the system is not being implemented.	-20
CMY03	Business and Project risk Identification	Originally a management request, but assurance was provided as part of the Risk Management audit.	-25
CMY01	Adult Education Budget Management	Directorate in the process of reviewing budget reporting arrangements, substituted audit of Key Training.	-20
KASS02	Transaction Data Matching	The directorate are in the process of introducing a number of changes to the process and this audit has been deferred until	-30

Amendments to the 2009/10 Audit Programme

Annex C

Ref	Planned Audit	Comments	Impact (Days)
		2010/11. However it has been substituted by an audit of residential payments.	
<i>KASS04</i>	<i>Swift – implementation of V24 and AIS</i>	<i>Because of timing of the implementation this will be carried out in 2010/11 as part of application controls</i>	<i>-25</i>
<i>KASS06</i>	<i>Client Billing</i>	<i>Substituted for work on the IT interfaces for client billing.</i>	<i>-25</i>
<i>KASS07</i>	<i>Procurement exc social care</i>	<i>Majority of procurement is around social care so no longer considered to be a high risk area. Substituted for A&I.</i>	<i>-30</i>
<i>KASS08</i>	<i>Voluntary Organisations</i>	<i>Changes to be introduced as part of self directed support (SDS) in the next few months, therefore, audit to be deferred.</i>	<i>-35</i>
ER04 20101	Manston Development	Work was carried out in 2008/09 on governance arrangements. There has been no further developments and this audit has therefore, been deferred.	-25
<i>ER08</i>	<i>KHS Road Works Permit Scheme</i>	<i>Scheme has not been in place long enough for there to be sufficient data to audit – deferred until 2010/11, although audit reviewing IT system to support the Permit Scheme has been substituted for this.</i>	<i>-25</i>
Total days removed from plan			415

Ref	Planned Audit	Comments	Impact (Days)
AW	Financial Controls Matrices	Development of matrices identifying risks and controls in financial systems.	25
<i>AW</i>	<i>IT Needs Assessment</i>	<i>IT Needs Assessments – identifying infrastructure, framework and applications</i>	<i>10</i>
AW	National Fraud Initiative - Data Matching	Additional time spent following up and investigating matches.	30
CED	Overtime Payments	2 nd follow up to review completed action, including compliance with Kent Scheme of Overtime and local agreement and working time directives.	10
<i>CED</i>	<i>Classcare Accounts</i>	<i>Audit of Classcare accounts</i>	<i>5</i>
S04 2010	Imprest Accounts	Additional scope for this audit. A review of six months' returns for 115 imprest accounts, to identify the use of accounts, type of expenditure.	48
CFE04	SEN Transport	This audit now incorporates the Routewise audit (CED08)	15
<i>CFE09 (2009)</i>	<i>Building Schools for the Future</i>	<i>Additional work to look at changes to governance arrangements</i>	<i>10</i>
CFE15	Cage Green School	Follow up audit to review financial controls at a school	10
CFE16	Schools	A management request to review the use of purchase cards at a selection of schools.	10
CFE17	Pupil Referral Unit	A management request – reviewing purchasing arrangements	10
<i>CFE</i>	<i>ContactPoint</i>	<i>Advisory work to facilitate support to partners and the annual certification</i>	<i>5</i>
CMY08 (a)	Key Training	A review to identify the processes and controls for forecasting and managing the budget (phase 1).	15

Amendments to the 2009/10 Audit Programme

Annex C

Ref	Planned Audit	Comments	Impact (Days)
CMY08 (b)	Key Training	To evaluate progress against the action plan that has been put in place to recover the 2008/09 deficit (phase 2).	15
CMY09	Apprenticeship Scheme	Evaluations of the costings by Key Training for delivering the Apprenticeship Scheme (management request)	15
KASS	Residential Homes	A review of data and payments for residential care home.	20
<i>KASS</i>	<i>Self Directed Support (SDS)</i>	<i>Internal Audit facilitated a control risk self assessment workshop (CRSA)</i>	<i>10</i>
<i>KASS</i>	<i>Advisory work</i>	<i>Additional advisory work</i>	<i>10</i>
<i>EHW08</i>	<i>KHS Road Works Permit Scheme IT System</i>	<i>A review of the IT system that will be used to support the Road Works Permit Scheme</i>	<i>25</i>
E&R	KHS	Advisory work.	25
Total days added to plan			323
Total change in audit plan			-92

**Directorates Progress with the Implementation of Audit Recommendations
(Covers November, December 2009, January, February and March 2010)**

The tables on the following pages provide information on the directorates' progress with the implementation of agreed recommendations. All of the findings that the recommendations relate to are given a risk rating of either; Critical, High, or Medium. All of the recommendations that had a 'critical' rating have been implemented.

Table 1 – This details the recommendations that were due to be actioned between November 2009 and March 2010. 68 'actions' were due to be in place by the end of March 2010; 62 have been implemented and 6 actions are outstanding; revised dates for implementing the outstanding recommendations have been provided.

Table 2 – This details the cumulative total of recommendations that were due to be implemented between April 2009 and March 2010. In total 127 recommendations were due to be implemented of which 121 have been implemented and 6 are outstanding. Revised dates have been provided for implementing these. The 6 outstanding actions are included in table 1.

Table 3 – This provides details of the outstanding actions and the reason for non completion.

Table 4 – This provides information of the outstanding actions from 2008/09. In total 99 recommendations were due to be implemented, of which 96 have been implemented and 3 are outstanding. However, these have now all been superseded by further work completed by Internal Audit, or are considered to be low risk/priority.

All recommendations from 2007/08 have been implemented.

**Directorates Progress with the Implementation of Audit Recommendations
(Covers November, December 2009, January, February and March 2010)**

Table 1 - Recommendations that were due to be actioned between November 2009 and March 2010

Directorate	Total actions due to be in place by end of March 2010	Actions in place	Priority of outstanding actions as at 31 March 2010			Comments on recommendations		
			C	H	M	Audit		To be completed by
Authority wide and S151	5	5				Premises Security	All recommendations completed	
	3	3				Governance of Partnerships (2008)	Audit superseded by ongoing Partnership audits	
	4	4				Governance of Individual Partnerships (2009)	Audit superseded by ongoing Partnership audits	
Page 245	3	3				Schemes of Delegation	All recommendations completed	
	3	3				Third Party ICT Service Provision (Procurement)	All recommendations completed	
	1	1				Data Protection	Audit superseded	
Chief Executive's Department	1	1				Payroll – Appointment to payment of new employees	Low risk, so recommendation closed	
	2	2				Microsoft Exchange	All recommendations completed	
	2	1			1	Property Management System Security	A planned change to the Enterprise application in May 2010 will mitigate the risks identified in the audit.	May 2010
Children, Families & Education	2	2				Effectiveness of Financial Management	All recommendations completed	
	26	22		2	2	Cage Green School	Four recommendations were still outstanding after the follow up audit, which were Deliveries, Commitments, Asset Register and Auditing of the	May 2010

**Directorates Progress with the Implementation of Audit Recommendations
(Covers November, December 2009, January, February and March 2010)**

Directorate	Total actions due to be in place by end of March 2010	Actions in place	Priority of outstanding actions as at 31 March 2010			Comments on recommendations		
			C	H	M	Audit		To be completed by
							Voluntary Fund. Please see table 3 for more information.	
Kent Adult Social Services	1	1				LD Transfer	All recommendations completed	
	2	2				Payments to Voluntary Organisations	No longer applicable	
	2	2				Swift Client Billing	Audit superseded	
Environment, Highways and Waste Communities	2	2				Household Waste Recycling Contracts	All recommendations completed	
	1	1				CRB checks for volunteers – follow up	All recommendations completed	
	4	4				Coroners' imprest accounts	All recommendations completed	
	2	2				Health and Safety – Direction of Travel	All recommendations completed	
	2	1		1		Internet Access by the Public – KEY Training	The software 'zamzam' was sourced to filter websites, however it was discovered that it was not adequate for use. Alternative software is currently being sourced.	July 2010
TOTAL	68	62		3	3			

C= Critical

H = High

M = Medium

**Cumulative Progress with the Implementation of Audit Recommendations
(April 2009 to March 2010)**

Annex D

Table 2 - cumulative total of recommendations that were due to be implemented between April 2009 and March 2010

Directorate	Number of recommendations due to be implemented April 2009 – March 2010			Number of recommendations implemented			Number of recommendations still outstanding		
	Critical	High	Medium	Critical	High	Medium	Critical	High	Medium
Chief Executive's Department		2	7		2	6			1
Kent Adult Social Services	13	6	12	13	6	12			
Communities	2	16	6	2	15	6		1	
Environment, Highways & Waste	1	1	8	1	1	8			
Children, Families & Education		13	15		11	13		2	2
Authority Wide & S151		10	15		10	15			
Totals	16	48	63	16	45	60		3	3

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The outstanding High risk recommendations relate to Cage Green School and Internet Access by the Public - KEY Training. Please see Table 3 for more information on the outstanding recommendations

95% of agreed recommendations have been implemented.

**Progress with recommendations due to be implemented
between April 2008 and March 2009**

Annex D

Table 3 - Details of the outstanding actions and the reason for non completion

Directorate	Audit	Outstanding recommendation	Reason for non-completion	Date to be completed by
Communities	Internet Access by the Public – KEY Training	Internet activity monitoring logs and attempts to access blocked sites should be reviewed periodically and any violations should be highlighted and appropriate action should be taken. Evidence of the checks performed should be retained.	The software 'zamzam' was sourced to filter websites, however it was discovered that it was not adequate for use. Alternative software is currently being sourced.	July 2010
Children, Families and Education	Cage Green School	Goods received should be checked for quality and quantity to delivery notes and copy orders to ensure that all items ordered are received and that the delivery is complete. The documentation should be signed and dated by the checking officer to clearly show the checks carried out.	<p>A review of delivery notes and testing of a sample of purchase orders showed that delivery notes are now being checked and signed. However, they are not always dated and the relating order form is not always ticked to confirm that the order and delivery match.</p> <p>The Finance Administrator will check all deliveries received and sign and date the delivery note if applicable. The delivery will then be checked to the original order and items received will be marked on the order.</p>	May 2010
		The value of all orders, including those placed over the phone, via the internet, or using companies' own order forms, should be committed to financial records as they are raised.	Whilst some orders are committed to the system, the majority of non Kent County Supplies orders are not. Occasionally orders are still being placed on company order forms. Whilst we understand there may be rare occasions where it may not be possible to commit expenditure at the time of order we saw examples of orders that should be committed at the time of ordering, e.g. coach hire for a school trip (£500).	May 2010

**Progress with recommendations due to be implemented
between April 2008 and March 2009**

Annex D

Directorate	Audit	Outstanding recommendation	Reason for non-completion	Date to be completed by
			Staff have been reminded that green order forms are required for all commitments including school visits. The Financial Administrator will input orders at the start of the financial year for monthly items e.g. Rates and utilities. All orders will be committed to financial records at the time they are placed.	
Page 249		All valuable and desirable items should be included on the asset register, including leased equipment. The register should contain sufficient information (i.e. make/model and relevant serial numbers) to ensure that each item can be sufficiently identified. All assets should be visibly security marked.	A room-by-room register has now been completed in conjunction with the existing ICT register. However, although items such as musical instruments have now been included some items, such as the mini-bus, have still not been included on the asset register. The Premises Committee will ensure all assets over £100 will be added to the asset register.	May 2010
		The voluntary fund, which has not been audited for three years, should be audited as a matter of priority. The Governing Body should ensure that the account is audited annually by an appropriately qualified person, who is completely independent of school personnel and the operation of the school's financial systems.	The Headteacher had requested that the Voluntary Fund be audited by KCC. The staff who were asked to audit the fund refused to sign it off for several reasons, including lack of evidence of reconciliation of bank statements, no evidence of receipts issued and lack of evidence of authorisation of payments. The Headteacher has been asked to complete an investigation regarding this. The Headteacher has completed an investigation into the voluntary fund. The Bank account has been closed and all funds are processed through the school bank account.	May 2010

**Progress with recommendations due to be implemented
between April 2008 and March 2009**

Annex D

Directorate	Audit	Outstanding recommendation	Reason for non-completion	Date to be completed by
Chief Executive's Department	Property Management System	<p>The password settings enforced within the Enterprise system should be formally documented and reviewed by management, to determine whether they are considered appropriate to mitigate the potential impact of unauthorised users gaining access.</p> <p>Management should consult the system provider to determine whether it is possible to strengthen the current password parameters to align them with the current corporate standard. For instance, enhancements may be included within future upgrades that will be applied as part of the system maintenance process or there may be alternative solutions available to strengthen them. It is recognised that management may need to consider the level of risk exposure against additional cost to determine whether changes are considered essential.</p>	A planned change to the Enterprise application in May 2010 will mitigate the risks identified in the audit.	May 2010

Table 4 - the outstanding actions from 2008/09

Directorate	Actions still outstanding	Date actions will now be implemented	Audit title
Chief Executive's Department	1	November 2009	Payroll – Appointment to Payment of new employees
Authority Wide and S151	1	March 2010	Data Protection
	1	December 2009	Governance of Partnerships

All outstanding recommendations that were due to be implemented between April 2008 and March 2009 have been implemented, with the exception of the audits shown above. These audits have now been superseded by further work completed by Internal Audit or are Low Risk. Please see Table 1, where these audits are shown.

Irregularities: Investigations completed (November 2009 to March 2010)

Annex E

Ref	Directorate	Details of Irregularities	Value if applicable	Details and Outcome
xx790	KASS	Theft of cash/goods	£170	<p>A day centre has had seven separate occasions when cash and goods have been stolen, this included a forced entry over a weekend. The police were informed and a surveillance camera installed.</p> <p>Internal Audit have suggested a number of actions to improve controls including:</p> <ul style="list-style-type: none"> • the use of a purchase card to reduce the amount of cash held on the premises; • regular changing of the lock key safe code • regular reconciliation of records to cash held. <p>Since the above actions were implemented there have been no further reported incidents of theft.</p>

Advisory Work

The Internal Audit team is involved in a range of advisory work across the Authority, including:

- Attendance at various working groups/forums, including, Procurement Forum; ICT Operations Board, Client Billing Group, Self Directed Support, Oracle R12.
- Development of matrices for financial systems, identifying risks and controls.
- Providing advice to the ContactPoint team in preparation for the annual certification.

Internal Audit facilitated a Control Risk Self Assessment Workshop (CRSA) in KASS for Self Directed Support (SDS). This type of workshop works well for new and changing processes/systems. The workshop involves stakeholders identifying risks and existing controls and actions to mitigate risks.

Irregularities

The Internal audit team investigate a number of irregularities each year. These are either identified through our audit programme, or are reported to us. In addition to the two cases reported at annex F, we are currently investigating three other cases. When completed, these will be reported to the Governance and Audit Committee.

Audit work for external clients

Audit work completed on behalf of external customers includes:

- Grant claims
- Parishes
- Kent Fire and Rescue Service
- Review of financial forecasting techniques for the Kent Police Authority

Pro-active fraud work

- Newsletter – The newsletter now includes risk and insurance issues and will be published quarterly from December 2009.
- NFI data matching.

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

Performance Indicator	Target	Actual (Apr 2009– March 2010)
<p><u>Effectiveness</u></p> <ul style="list-style-type: none"> • % of recommendations accepted • % of recommendations implemented • CPA/CAA Score for Internal Control 	<p>98%</p> <p>90%</p> <p>Level 4</p>	<p>99%</p> <p>95%</p> <p>3*</p>
<p><u>Efficiency</u></p> <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 	<p>95%</p> <p>80%</p> <p>80%</p> <p>By March G&AC meetings</p> <p>By May</p>	<p>90%</p> <p>90%</p> <p>65%</p> <p>March G&AC meetings</p> <p>May</p>
<p><u>Quality of Service</u></p> <ul style="list-style-type: none"> • Average Client Satisfaction Score – 	<p>70%</p>	<p>90%</p>

Percentage of plan delivered as at 31 March 2010

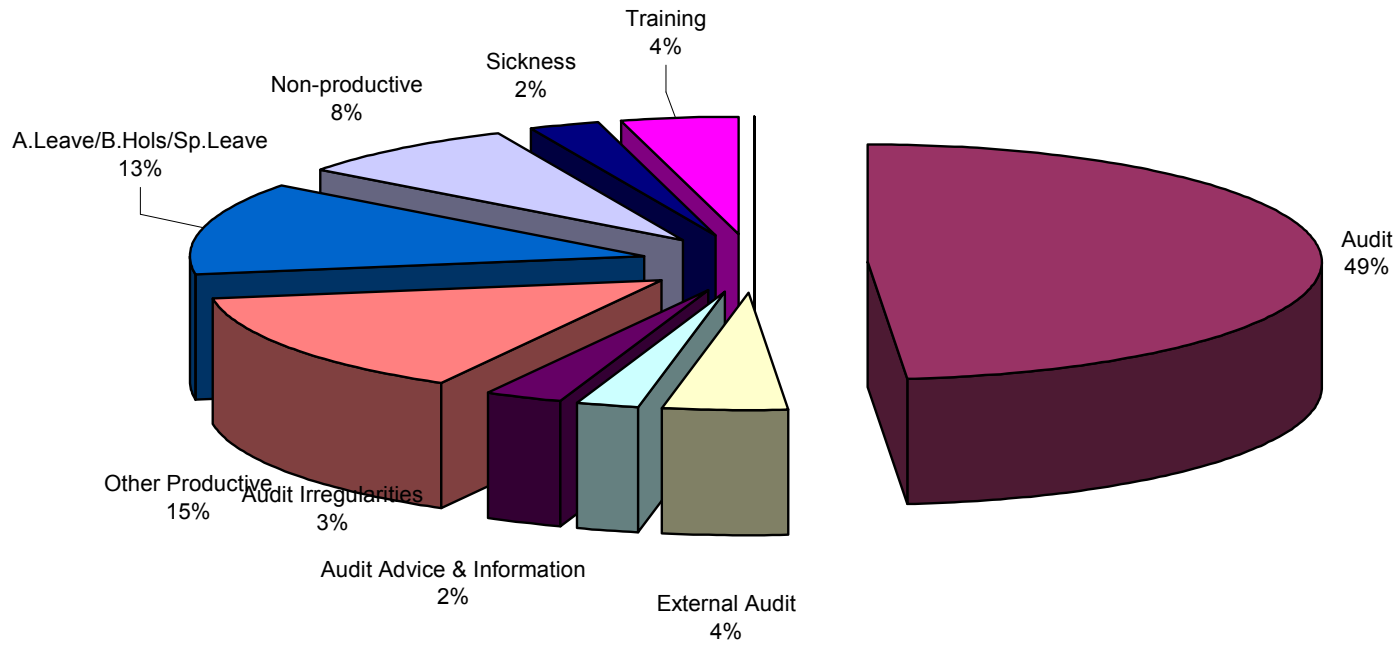
Team Structure

Number of staff 11 FTE

Qualified 6

Number of staff training 4

Breakdown of all time in Internal Audit April 2009 to March 2010



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>