

**GOVERNANCE AND AUDIT COMMITTEE**

**Wednesday, 16th March, 2011**

**10.00 am**

**Darent Room, Sessions House, County Hall, Maidstone**

**There will be a presentation on Governance of the Superannuation Fund at 9.30am for Members of the Committee.**





## AGENDA

### GOVERNANCE AND AUDIT COMMITTEE

**Wednesday, 16th March, 2011, at 10.00 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*

#### **Membership (13)**

Conservative (12) Mr R L H Long, TD (Chairman), Mr M V Snelling (Vice-Chairman), Mr A R Chell, Mr B R Cope, Mr K A Ferrin, MBE, Mr C Hibberd, Mr D A Hirst, Mr P W A Lake, Mr J F London, Mr R J Parry, Mr R Tolputt and Mr C T Wells

Liberal Democrat (1): Mr T Prater

#### **Webcasting Notice**

Please note: this meeting may be filmed for live or subsequent broadcast via the Council's internet site – at the start of the meeting the Chairman will confirm if all or part of the meeting is being filmed.

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#### **UNRESTRICTED ITEMS**

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

1. Introduction/Webcasting
2. Substitutes
3. Declarations of Interest for items on the agenda for this meeting
4. Minutes - 30 November 2010 (Pages 1 - 8)
5. Work Programme (Pages 9 - 12)
6. Treasury Management Quarter 3 Review 2010/11 (Pages 13 - 22)
7. Impact of KCC's Budget on the Risk Register (Pages 23 - 28)
8. Audit Commission Opinion Plan (Pages 29 - 54)
9. Audit Commission Kent Superannuation Fund Audit Opinion Plan (Pages 55 - 78)

10. Revised accounting policies (Pages 79 - 92)
11. Company Protocol (Pages 93 - 98)
12. Approval of Anti Fraud and Corruption Strategy (Pages 99 - 110)
13. CIPFA Statement on the role of the Head of Internal Audit in public service organisations (Pages 111 - 118)
14. Internal Audit Strategy and Annual Plan (Pages 119 - 130)
15. Audit Opinions and Recommendations (Pages 131 - 136)
16. Audit Commission Certification of claims and returns Annual Report (Pages 137 - 148)
17. Internal Audit progress Report (Pages 149 - 166)
18. Other items which the Chairman decides are urgent
19. Motion to exclude the Press and Public

That under Section 100A of the Local Government Act 197, the public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 2 and 7 of Part 1 of Schedule 12A of the Act.

#### **EXEMPT ITEMS**

*(During these items the meeting is likely NOT to be open to the public)*

20. Internal Audit - Irregularities (Pages 167 - 170)

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

**Tuesday, 8 March 2011**

*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.*

## TERMS OF REFERENCE

### Governance and Audit Committee

#### *13 Members*

*Conservative: 12; Liberal Democrat: 1.*

The purpose of this 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.

On behalf of the Council this Committee will ensure the following outcomes:

- (a) Risk Management and Internal Control systems are in place that are adequate for purpose and effectively and efficiently operated.
- (b) 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.
- (c) 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.
- (d) The appointment and remuneration of External Auditors is approved in accordance with relevant legislation and guidance, and the function is independent and objective.
- (e) The External Audit process is effective, taking into account relevant professional and regulatory requirements, and is undertaken in liaison with Internal Audit.
- (f) The Council's financial statements (including the Pension Fund Accounts) comply with relevant legislation and guidance and the associated financial reporting processes are effective.
- (g) Any public statements in relation to the Council's financial performance are accurate and the financial judgements contained within those statements are sound.
- (h) Accounting policies are appropriately applied across the Council.

- (i) 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.

## KENT COUNTY COUNCIL

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### GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Medway Room, Sessions House, County Hall, Maidstone on Tuesday, 30 November 2010.

PRESENT: Mr R L H Long, TD (Chairman), Mr M V Snelling (Vice-Chairman), Mr A R Chell, Mr B R Cope, Mr K A Ferrin, MBE, Mr C Hibberd, Mr P W A Lake, Mr R J Parry, Mr T Prater and Mr R Tolputt

ALSO PRESENT: Mr J D Simmonds

OFFICERS: Mr A Wood (Acting Director of Finance), Mr N Vickers (Head of Financial Services), Mr G Wild (Director of Law and Governance), Mrs A Beer (Director of Personnel & Development), Mr D Tonks (Head of Audit & Risk) and Mr A Tait (Democratic Services Officer)

ALSO IN ATTENDANCE: Mr D Wells of the Audit Commission.

#### UNRESTRICTED ITEMS

##### **50. Minutes**

*(Item 3)*

RESOLVED that the Minutes of the meeting held on 15 September 2010 are correctly recorded and that they be signed by the Chairman.

##### **51. Treasury Management 6 Month review 2010-11**

*(Item 4)*

(1) The Head of Financial Services presented the Treasury Management 6 monthly review. He explained that the CIPFA Code of Practice recommended that Treasury Management activities should be reported twice yearly and described the County Council's investment strategy as risk-averse.

(2) The Head of Financial Services confirmed that the next meeting of the Treasury Advisory Group would consider whether to recommend inclusion of Standard Chartered Bank amongst the investments counterparties approved by Cabinet.

(3) RESOLVED that the report be endorsed for submission to Kent County Council.

##### **52. Debt Management**

*(Item 5)*

(1) The Head of Financial Services provided summary of the County Council's outstanding debt position, concentrating on debt over 6 months old.

(2) The Committee discussed the Health debt in the light of the current budgetary position of the PCTs.

(3) The Acting Director of Finance agreed to inform the Committee whether the £507.4k debt in respect of a land transfer fee for an academy was secure. He also explained the difficulties in gathering comparable information from other Local Authorities whilst offering to continue to seek to do so.

(4) RESOLVED that the report be noted.

### **53. Committee Work Programme**

*(Item 6)*

(1) The Head of Audit and Risk presented a forward work programme to the Committee for approval.

(2) RESOLVED that the forward work programme for the period up to November 2011 be agreed.

### **54. Member Development Programme**

*(Item 7)*

(1) The Head of Audit and Risk provided an update on the introduction of a training programme for Members of the Committee.

(2) The Committee agreed that training would be targeted at Committee members but that it should also be made available to all members of the Council.

(3) RESOLVED that approval be given to the commencement of a training programme from March 2011.

### **55. Change to Keep Succeeding**

*(Item 8)*

(1) Due to the inclement weather, the Transformation Programme Manager was unavailable to answer questions on the report. The Committee therefore posed the questions set out below and asked for a response to be made to each of its Members:-

(a) Whether all the written responses to “The First Bold Steps” informal consultation had been included within the documented responses sent to Members.

(b) The identity and remit of all the Outplacement Consultants, including details relating to their appointments and whether these appointments related to all Outplacement staff.

(2) In discussion of this item, Members of the Committee commented on the number of Directors in the proposed structure. There was also a call for greater clarity on the reporting lines for the Director of Children’s Services.

(3) RESOLVED that:-



- (a) the matters above raised by Committee Members in respect of the report be included in the full consideration of the “Change to Keep Succeeding” consultative process; and
- (b) the questions set out in (1) above be communicated to the Transformation Programme Manager for a response to each individual Committee Member.

## **56. Strategic Risk Register Update**

*(Item 9)*

(1) The Acting Director of Finance and the Head of Audit and Risk provided the Committee with the outcome of the latest review of the Strategic Risk Register. They reported that the level of risk had increased, but that both the Corporate Management Team (CMT) and Cabinet accepted the level of risk identified and the management actions in place to mitigate these risks.

(2) Members of the Committee raised the question of whether Risk 13 (Children’s Social Workers) was sufficiently highly rated. The Head of Audit and Risk identified that it was rated at the highest level, but would need to be re-assessed following the Ofsted report.

(3) RESOLVED that the changes to the strategic risk register and the actions being taken to mitigate these risks be noted for assurance.

## **57. Audit Commission Annual Audit Letter**

*(Item 10)*

(1) Mr Darren Wells from the Audit Commission provided a summary of the most important findings from the 2009/10 audit. He explained that the action plan had not been completed but that its recommendations had been agreed.

(2) The Director of Personnel and Development was present to answer questions. She reassured the Committee that the recommendations in respect of severance agreements for senior managers were being implemented in full.

(3) RESOLVED to:-

- (a) note that the requirement of the External Auditors to prepare and issue an annual audit letter to the County Council has been met; and
- (b) agree the proposed actions for publication of the annual audit letter.

## **58. Effectiveness of External Audit Liaison**

*(Item 11)*

(1) The Head of Audit and Risk summarised the effectiveness of the liaison arrangements between External and Internal Audit.

(2) RESOLVED that the current level of liaison between Internal and External Audit be noted, together with their intent to improve this level as part of their annual planning.

#### **59. Self assessment of anti-fraud and anti-corruption arrangements**

*(Item 12)*

(1) The Head of Audit and Risk presented the outcome of a self-assessment against two good practice frameworks for anti-fraud and anti-corruption arrangements. He said that although the level of reported fraud was quite low, the inherent risk of fraud had increased. He intended to report back to the Committee within the next six months.

(2) In response to questions from Members of the Committee, the Head of Risk referred them to the Internal Audit publication "Risky Business" which could be accessed on the KCC intranet at "knet2/news-and-events/newsletters/irregular-happenings".

(3) RESOLVED to:-

- (a) Note the assessment of the County Council's framework for anti-fraud and anti-corruption arrangements against CIPFA and the Audit Commission's recommended practice; and
- (b) agree that the Head of Audit and Risk lead on the required changes to the County Council's framework for anti-fraud and anti-corruption arrangements, with update reports to the Committee.

#### **60. Internal Audit Progress Report**

*(Item 13)*

(1) The Head of Audit and Risk summarised the progress of Internal Audit activity against the 2010/11 internal audit programme.

(2) RESOLVED to note:-

- (a) the amendments to and progress against the 2010/11 internal audit programme; and
- (b) the assurance provided in relation to the County Council's control environment as a result of the outcome of the internal audit programme completed to date.

#### **61. Audit Fees update**

*(Item 14)*

(1) The Chairman and Mr K A Ferrin reported on a meeting which they had held with the Audit Commission concerning the audit fee. The Audit Commission had

indicated that the fee was a levy which the County Council was legally required to pay.

(2) The Committee agreed to recommend to Cabinet that representatives from the County Council's administration should discuss the External Audit fee arrangements with the Department for Communities and Local Government.

(3) RESOLVED that:-

- (a) those elements of the proposed fee where the scope of the work is more certain (i.e. financial statements, whole of government accounts) totalling £286,100 (74% of the proposed fee) be agreed;
- (b) a decision be taken at the next meeting of the Committee on whether or not to refer the auditor's proposed fee to the Audit Commission for determination; and
- (c) Cabinet be asked to agree that representatives from the County Council's administration should discuss the External Audit fee arrangements with the Department for Communities and Local Government.

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By: Chairman of Governance and Audit Committee  
David Tonks, Head of Audit and Risk

To: Governance and Audit Committee – 16 March 2011

Subject: COMMITTEE WORK PROGRAMME

Classification: Unrestricted

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**Summary:** A forward work programme 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 wish to examine in more detail.

## **FOR DECISION**

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### **Introduction and background**

1. This is 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.

### **Current work programme**

2. Annex 1 shows the latest programme of work for the Committee up to November 2011. The content of the programme is matched to the Committee terms of reference and aim to provide the minimum coverage necessary to meet the responsibilities set out. The programme is updated to reflect the requests from members for additional reports on specific items of interest, although in some cases the exact timing of this work has yet to be finalised.

### **Recommendations**

3. Members of the committee are asked to:
  - Consider the forward work programme for 2010/11 and suggest any changes deemed necessary.
  - Identify any additional items that members would wish to include

**David Tonks**  
**Head of Audit and Risk**  
**Ext: 4614**

Category / Item	Owner	Mar-11	Jun-11	Sep-11	Nov-11
<b>Secretariat</b>					
Minutes of last meeting	AT	✓	✓	✓	✓
Work Programme	DT	✓	✓	✓	✓
Trading activities Sub Group	AT	.	✓		✓
Member Development Programme	DT	✓	✓	✓	✓
<b>Risk Management and Internal Control</b>					
Strategic Risk Register	DT		✓		✓
Treasury Management quarterly report	NV	✓	✓	✓	✓
Ombudsman Complaints	JH	✓		✓	
Report on Insurance and Risk Activity	DT	.		✓	
Treasury Management Annual Report	NV		✓		
Treasury Management - half yearly review	DT		✓		✓
Review of the Risk Management Strategy, Policy and Programme	DT	.	✓	.	
Annual Complaints Report	JH			✓	
<b>Impact of KCCs Budget on the Risk Register</b>	AW	✓			
Annual report on 'surveillance' activities carried out by KCC	DC		.	✓	
<b>Corporate Governance</b>					
Annual review of ToR	DT			✓	
G&A Annual Report	DT		✓		
Pension Fund Governance assurance statement	NV	.	✓		
Debt Recovery	NV	.	✓	.	✓
Annual review the Council's Code of Corporate Governance	DT / GW	.	✓	.	.
Companies protocol	AW / GW	✓			
<b>Internal Audit</b>					

<b>Category / Item</b>	<b>Owner</b>	<b>Mar-11</b>	<b>Jun-11</b>	<b>Sep-11</b>	<b>Nov-11</b>
Internal Audit Progress Report	DT	✓		✓	✓
Internal Audit Annual Report	DT		✓		
CIPFA Statement on the role of the HoIA	DT	✓			
Internal Audit Benchmarking Results	DT			✓	
Internal Audit Strategy and Annual Plan	DT	✓			
Review of Terms of Reference and Charter of Internal Audit	DT		✓		
Changes to Audit Opinions	DT	✓			
<b>External Audit</b>					
External Audit Update	DT		✓	✓	✓
Proposal for tracking of External Audit and regulators recommendations	DT			✓	
External Audit Governance Report	DT		✓	✓	
External Audit Annual Audit Letter	DT				✓
Certification Work Report	DT	✓			
Effectiveness of External Audit Liaison	DT				✓
External Audit Annual Plan & Fee	DT	✓			
External Audit Pension Fund Opinion work programme	DT	✓			
External Audit Opinion work programme	DT	✓			
<b>Financial Reporting</b>					
Statement of Accounts & Annual Governance Statement	AW		✓	✓	
Revised Accounting Policies	CH	✓			
<b>Fraud</b>					
Anti-fraud and anti-corruption compliance with "Protecting the Public Purse"	DT			✓	
Review of the Anti-fraud and anti-corruption Strategy	DT	✓			
<i>Update on Irregularities</i>	DT	✓			





By: John Simmonds - Cabinet Member for Finance  
Nick Vickers - Head of Financial Services

To: Governance and Audit Committee – 16 March 2011

Subject: **TREASURY MANAGEMENT QUARTER 3 REVIEW  
2010-11**

Classification: Unrestricted

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Summary: To present the Treasury Management Quarter 3 Review.

**FOR ASSURANCE**

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**1 INTRODUCTION**

- 1.1 The Treasury Management Strategy for 2010 - 11 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year. The Code also recommends that members are informed of Treasury Management activities at least twice a year.
- 1.2 This authority is reflecting Best Practice in accordance with CIPFA's recommendations as Governance and Audit Committee now receive quarterly updates on Treasury Management and Cabinet have received Treasury reports in June and September 2010 and February 2011
- 1.3 At its meeting on 8 December 2010 the Treasury Advisory Group (TAG) members received some training from the Council's investment advisor Arlingclose and considered the Treasury Management Strategy for 2011-12 for recommendation to Cabinet. TAG members continue to receive weekly details of the KCC deposit portfolio and monthly reports.
- 1.4 This report for the third quarter to 31 December 2010:
  - Is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;
  - Presents details of capital financing, borrowing, debt rescheduling and investment transactions;
  - Reports on the risk implications of treasury decisions and transactions;

- Provides details of the estimated outturn position on treasury management transactions for 2010 – 11;
- Confirms compliance with treasury limits and Prudential Indicators.

## 2 BORROWING REQUIREMENT AND STRATEGY

	<b>Balance 01/04/10 £000s</b>	<b>Debt Maturing £000s</b>	<b>Debt Repaid £000s</b>	<b>New Borrowing £000s</b>	<b>Balance 31/12/10 £000s</b>	<b>Increase/ Decrease £000s</b>
Short Term Borrowing	0	0	0	0	0	0
Long Term Borrowing	1,042,363	46,031	40,027	90,000	1,092,336	49,974
<b>TOTAL BORROWING</b>	1,042,363	46,031	40,027	90,000	1,092,336	49,974

- 2.1 PWLB Borrowing Rates post-CSR: Announced in the Spending Review on 20<sup>th</sup> October was the instruction from HM Treasury to the PWLB to increase the interest rate on all new loans by an average of 1% above UK Government Gilts. PWLB Circular 147 released on the same day detailing the changes to the rate setting system. The new borrowing rates for fixed loans increased by approximately 0.87% across all maturities, and variable rates by 0.90%. Premature repayment rates did not benefit from the corresponding increase and the PWLB's methodology remained unchanged. HM Treasury determined that these changes ensured that the rate at which loans are made available to local authorities better reflect the availability of capital funding post-Spending Review and will encourage optimal borrowing and investment decisions.
- 2.2 During the quarter due to the rise in PWLB rates the differential between debt costs and investment earnings continued to be significant. The Council therefore maintained its strategy of funding capital expenditure from internal resources as well as consider borrowing at advantageous points in interest rate cycles.
- 2.3 During the quarter the Council did not undertake any borrowing or rescheduling of existing debt.
- 2.4 Changes in the debt portfolio over the 9 months of 2010 -11 have achieved a reduction in the overall debt cost by £4.2m whilst increasing the average life from 27.22 years to 27.8 years.

## 3 INVESTMENT STRATEGY

- 3.1 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

### 3.2 Deposits

	<b>Balance 01/04/10 £000s</b>	<b>Deposits Made £000s</b>	<b>Deposits Repaid £000s</b>	<b>Balance 31/12/10 £000s</b>	<b>Increase/ (Decrease) £000s</b>
Short Term Deposits	210,220	2,270,547	2,299,296	181,471	(28,749)
Long Term Deposits	55,000	0	25,000	30,000	(25,000)
<b>TOTAL DEPOSITS</b>	<b>265,220</b>	<b>2,270,547</b>	<b>2,324,296</b>	<b>211,471</b>	<b>(53,749)</b>

3.3 Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2010 - 11. This restricted new deposits to the Debt Management Office and with UK Banks and Building Societies systemically important to the UK banking system.

3.4 Counterparty credit quality is assessed and monitored with reference to:

- Credit Ratings (Council's minimum long-term counterparty rating of A+ across all three rating agencies, Fitch, S&P and Moody's)
- Credit Default Swaps
- Country exposure eg Sovereign support mechanisms, GDP, the country's net debt as a Percentage of GDP
- Share Price

3.5 The counterparties currently approved by Cabinet are:

- DMO
- Barclays
- HSBC
- Lloyds Banking Group
- Royal Bank of Scotland
- Nationwide

Santander UK remained suspended as a result of concerns about the creditworthiness of the Banco Santander group following the downgrading of Spain's long-term sovereign credit rating.

3.6 In June Cabinet approved an increase in duration to 1 year however during the 3 months the majority of deposits continued to be of 6 months or less duration.

3.7 Counterparty credit quality has been maintained through the nine months of 2010 -11, as can be demonstrated by the Credit Score Analysis summarised below:

Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating
31/03/2010	5.4	A+	3.8	AA-
30/06/2010	4.4	AA-	4.4	AA-
30/09/2010	4.4	AA-	4.4	AA-
31/12/2010	3.8	AA-	4.2	AA-

Scoring:

-Value weighted average reflects the credit quality of deposits according to the size of the deposit

-Time weighted average reflects the credit quality of deposits according to the maturity of the deposit

-AAA = highest credit quality = 1

-D = lowest credit quality = 15

-Aim = A+ or higher credit rating, with a score of 5 or lower, to reflect current investment approach with main focus on security

- 3.8 Average cash balances were £268m during the quarter. These included schools balances in the corporate scheme (£68.8m), KCC working capital (£60m) created by differences in income and expenditure profiles, Iceland deposits (£42m) and other reserves and funds held in trust
- 3.9 The UK Bank Rate has been maintained at 0.5% since March 2009 and short-term money market rates have remained at very low levels. New deposits have been made at an average rate of 0.67% and the Council's forecast investment income for the year has been estimated at £2.1m / 0.74% for the whole year.

### 3.10 Icelandic Deposits Update

The latest position on the Icelandic banks is:

- Heritable is in administration in the UK with Ernst & Young the appointed administrator. Heritable was a viable bank which was forced to cease trading by the Financial Services Authority when its parent Landsbanki became insolvent. The forecast recovery is 79-85%. To date we have received £9.1m or 50.1p in the £.
- Landsbanki and Glitnir are being managed through processes in Iceland under Icelandic law. Both Landsbanki and Glitnir have very substantial assets, mainly outside Iceland and they are increasing in value so there is a good prospect of recovery. Under Icelandic law depositors are preferred creditors and they should receive a full payout before any other creditors are paid. If preferred creditor status holds in Iceland we are forecast to make an 86% recovery on Landsbanki and 100% on Glitnir.

- Court hearings to secure our preferred creditor status take place in Iceland on 17-18 February on Landsbanki and 11 March on Glitnir. The court decisions are expected in two months.

This gives a projected overall recovery, with depositor priority, of around 90%.

## 5. COMPLIANCE WITH PRUDENTIAL INDICATORS

The Council can confirm that it has complied with its Prudential Indicators for 2010 - 11, which were set as part of the Council's Treasury Management Strategy Statement. Details can be found in Appendix 1.

## 6. OUTLOOK FOR QUARTER 4

At the time of writing this activity report in February 2011, the outlook for interest rates is as follows:

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun -13	Sep -13	Dec -13	Mar -14
<b>Official Bank Rate</b>													
<b>Upside Risk</b>	+0.25	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
<b>Central Case</b>	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.50	2.75	2.75	3.00	3.00	3.00
<b>Downside risk</b>	-	-	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

- The recovery in growth is likely to be slow and uneven.
- The upward revision to the Bank's inflation projection increases the risk of a rate hike sooner than forecast, but it is not a foregone conclusion given the precarious outlook for growth. Rates will rise once there is firm evidence the economy has survived the fiscal consolidation.
- Gilts will be vulnerable as investors respond to the difference between the theory and practice of the government's deficit reduction plans in the CSR.
- Consumer Price Inflation has risen to 4% reflecting sharp increases in commodity and import prices and the increase in VAT. The Bank of England's February Inflation Report's shows CPI rising further throughout 2011 with a higher inflation profile than the November report
- The underlying momentum in the economy is weak. Whilst there will be a bounce back from the 2010 Q4 fall in GDP of 0.5%, the outlook for growth remains uncertain. The strength of the recovery is likely to be tempered by the reduced purchasing power of households due to high consumer prices, the impact of the recession, and adjustment of personal balance sheets with higher savings and debt repayment.
- Consumer confidence and spending continues to be affected by modest wage increases, weak house price growth and dearth of

cheap credit. Unemployment remains near a 16 year high at just over 2.5million and is set to increase as the Public Sector shrinks.

- With the full impact of the national insurance increases, tax rises and public spending cuts yet to be felt, it is unlikely that the MPC would take any risks with economic recovery by raising interest rates soon.
- The framework announced in the Comprehensive Spending Review (CSR) to reduce the budget deficit and government debt will be put to the test; meeting the 2010 borrowing target of £149bn will be crucial to the gilt market's confidence in the credibility of the deficit reduction plans.
- The ECB has maintained rates at 1%. Whilst inflation remains high, there is a growing divergence in the business cycles and GDP outlook for the core and peripheral countries as well as the speed at which fiscal deficits and high debt levels are being addressed.
- Uncertainty surrounding Eurozone sovereign debt and the risk of contagion will remain a driver of global credit market sentiment.

## **7. TREASURY ADVISERS**

- 7.1 KCC continues to use two firms of treasury advisers; Arlingclose and Sector. Both contracts run to 31 March 2011 and the service has been retendered from 1 April 2011.

## **8. TRAINING**

- 8.1 The Director of Finance provides training to individuals and groups. KCC officers and Members have attended conferences and workshops organised by CIPFA and Arlingclose. Members have also received training from Arlingclose at TAG meetings.

## **9. SUMMARY**

- 9.1 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the third quarter of 2010 - 11. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

## **10. RECOMMENDATION**

- 10.1 Members are asked to note this report.

Alison Mings  
Treasury and Investments Manager  
7000-6294

## APPENDIX 1- PRUDENTIAL INDICATORS

### 1. Estimate of capital financing requirement (underlying need to borrow for a capital purpose)

Estimates of the Council's cumulative maximum external borrowing requirement for 2010 -11 to 2012 -13 are shown in the table below:

	<b>31/3/2010 Actual £000s</b>	<b>31/3/2011 Estimate £000s</b>	<b>31/3/2012 Estimate £000s</b>	<b>31/3/2013 Estimate £000s</b>
Capital Financing Requirement	1,250,296	1,236,211	1,376,297	1,415,220
<b>Less:</b> Existing Profile of Borrowing	1,042,363	1,092,336	1,092,336	1,092,336
<b>Less:</b> Other Long Term Liabilities	0	0	0	0
<b>Cumulative Maximum External Borrowing Requirement</b>	<b>208,000</b>	<b>143,875</b>	<b>283,961</b>	<b>322,884</b>

In the light of current commitments and planned expenditure, forecast net borrowing by the Council will not exceed the Capital Financing Requirement.

### 2. Operational Boundary for External Debt

The operational boundary for debt is determined having regard to actual levels of debt, borrowing anticipated in the capital plan, the requirements of treasury strategy and prudent requirements in relation to day to day cash flow management.

The operational boundary for debt will not be exceeded in 2010 -11

#### (a) Operational boundary for debt relating to KCC assets and activities

	<b>Prudential Indicator 2010-11 £m</b>	<b>Position as at 31.12.10 £m</b>
Borrowing	1,301	1,040
Other Long Term Liabilities	0	0
	1,301	1,040

#### (b) Operational boundary for total debt managed by KCC including that relating to Medway Council etc (pre Local Government Reorganisation)

	<b>Prudential Indicator 2010-11 £m</b>	<b>Position as at 31.12.10 £m</b>
Borrowing	1,349	1,092
Other Long Term Liabilities	0	0
	1,349	1,092

### 3. Authorised Limit for External Debt

The authorised limit includes additional allowance, over and above the operational boundary to provide for unusual cash movements. It is a statutory limit set and revised by the County Council. The revised limits for 2010 -11 are:

(a) Authorised limit for debt relating to KCC assets and activities

	£m
Borrowing	1,341
Other long term liabilities	0
	<hr/>
	1,341
	<hr/>

(b) Authorised limit for total debt managed by KCC including that relating to Medway Council etc

	£m
Borrowing	1,389
Other long term liabilities	0
	<hr/>
	1,389
	<hr/>

The additional allowance over and above the operational boundary has not needed to be utilised and external debt, has and will be maintained well within the authorised limit.

### 4. Upper Limits for Fixed Interest Rate and Variable Interest Rate Exposures

- These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of deposits.

	Limits for 2010/11 %
<b>Upper Limit for Fixed Rate Exposure</b>	100
Compliance with Limits:	Yes
<b>Upper Limit for Variable Rate Exposure</b>	50
Compliance with Limits:	Yes

### 5. Maturity Structure of Fixed Rate Borrowing

- This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.



<b>Maturity Structure of Fixed Rate Borrowing</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>	<b>Actual Fixed Rate Borrowing as at 31/12/10</b>	<b>% Fixed Rate Borrowing as at 31/12/10</b>	<b>Compliance with Set Limits?</b>
under 12 months	25	0	6,004	0.6	Yes
12 months and within 24 months	40	0	57,024	5.2	Yes
24 months and within 5 years	60	0	105,229	9.6	Yes
5 years and within 10 years	80	0	130,003	11.9	Yes
10 years and above	90	40	794,076	72.7	Yes

#### **6. Upper Limit for Principal Sums Invested for Periods Longer than 364 days**

- This indicator allows the Council to manage the risk inherent in deposits longer than 364 days.
- The limit for 2010 -11 was set at £50m.
- The Council's policy has been to keep deposit maturities to a maximum of 12 months and no deposits were made for a period greater than 364 days during this period.

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To: Governance & Audit Committee  
 Date: 16 March 2011  
 Subject: Impact of the Authority's Budget on the Risk Registers  
 By: Cabinet Member for Finance, John Simmonds  
 Acting Director of Finance, Andy Wood

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Summary: In response to a request at the December 2009 meeting of this Committee, an annual report will be made to this Committee on the impact of the budget proposals on the Risk Registers held by the Council. This report provides a brief update on this for 2011/12

## FOR ASSURANCE

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### Introduction

- 1 At the December 2009 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. This paper provides a brief update on where we are with regard to this for the 2011/12 budget.

### Background

- 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 The April 2010 report on this subject to this Committee highlighted the 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.
- 4 The report in April 2010 also made reference to the 'extremely gloomy' financial outlook, and that future years' budgets may increase the risks we as a Council will have to deal with.

- 5 We now know that we have had to find £95m of revenue budget savings for 2011/12. This equates to around 10% of our non-schools budget, and therefore presents a significant financial risk to the Council, that risk being non-delivery of those savings.
- 6 Because of the risk of non-delivery, we are developing a system of reporting progress against each line of these savings to all of the Policy Overview and Scrutiny Committees, and the Budget Informal Member Group.
- 7 The first step in that reporting is identifying the 'owner' of each saving and where the value of that saving is in excess of £0.2m, asking for a Project Initiation Document (PID) to be completed. A copy of the draft PID is attached at Appendix 1. These PIDs will be shared with POSCs as they are signed-off by the responsible officer. Future reporting will then be against those PIDs.
- 8 As well as presenting a financial risk to the Council, some of the savings present the following risks:
  - impact on the risk of us not meeting our stated objectives;
  - potential negative public perception from reductions in service levels;
  - potential impact on front-line services from savings in management structures and support services
  - failure to achieve anticipated income levels and increases in outstanding debt
- 9 These risks will identified in the risk register and assessed through impact assessment before changes are implemented.
- 10 The other possible impact on risk is if we do not properly fund our known pressures and service improvements. We have addressed this through the final approved budget via a rigorous assessment of pressures.

## **Conclusion**

- 11 In short, the biggest risk we now face that we didn't before the budget was approved, is non-delivery of the £95m savings. We have therefore begun a process that should give Members of this Committee assurance that this risk is being managed, and that corrective action will take place as and when necessary. Reporting on this will be through existing Committees and is therefore built-in to the scrutiny process.

## **Recommendations**

- 12 Members are asked to note the process being developed for managing the increased risk as a result of the approved 2011/12 Revenue Budget:

Background Documents: Governance & Audit Committee, 30 April 2010,  
Agenda item 9; Impact of the Authority's Budget on  
the Risk Registers

Officer Contact: Andy Wood, Ext 4622  
David Tonks, Ext 4614

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## Project Initiation Document

**Project Title** [must match to description on savings line in MTFP]

**Responsible Manager** [name]

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### Project Definition

See guidance

### Savings to be made over duration of project:

	BSS		CC		EE		ELS		FSC	
	£'000	FTE	£'000	FTE	£'000	FTE	£'000	FTE	£'000	FTE
2011/12										
2012/13										
Total										

### Dependencies on other projects

See guidance

### Project milestone dates

Milestone	Date

### Dependency on central functions

Number of staff likely to need to be consulted (headcount)	
Will the project require the Communication, Consultation and Community Engagement team to support the public consultation	
Will the project require changes to internal systems, procedures or IT systems	
What other central functions will you need advice and support from and when?	

### Revision History

Version	Date of Approval	Summary of Changes

Changes to this document can only be made in joint agreement by the Responsible Manager listed at the top of the form and Lizi Payne (Corporate Accountant, Corporate Finance).



By: John Simmonds, Cabinet Member for Finance  
Andy Wood, Acting Director of Finance

To: Governance and Audit Committee – 16 March 2011

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

Classification: Unrestricted

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**Summary:** The attached plan sets out the proposed work of the Audit Commission to enable them to give an opinion on the Council's 2010/11 financial statements.

## **FOR DECISION**

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### **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 proposed fee for the audit of the financial statements and value for money conclusion is set at £345,914. This is a change from the original fee proposed by the Audit Commission, and challenged by the Committee over the last two meetings. The reduction in the fee from that notified to the Committee in November 2010 is the result of a further rebate from the Audit Commission of £14,592. This is to reflect the change in the Audit Commission's approach in relation to the value for money aspect of their work.
3. At the November 2010 members will remember that it was agreed to defer the approval of the audit fee for the Value for Money element of the plan, subject to sight of the Commission's testing strategy. This is set out in the table following on from paragraph 19.
4. The report sets also sets out the results of the Audit Commission's risk assessment in relation to their opinions on the financial statements and the Council's arrangements for value for money. Paragraphs 12 through 19 and Table 1 of the report sets out the specific risks to the opinion, and the work

proposed to mitigate these. Paragraphs 20 to 22 and Table 2 set out the proposed timetable for the opinion audit, including reporting to the Committee.

### **Recommendations**

5. Members of the Committee are asked to:

- Review the outcomes of the Audit Commission's updated risk assessment and the assumptions supporting the fee, and
- Approve the audit plan and the revised fee.

**David Tonks**  
**Head of Audit and Risk**  
**Ext: 4614**

# Audit plan

**Kent County Council**

**Audit 2010/11**



**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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# Introduction

## **This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion in 2010/11.**

1 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 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

2 The Council is required to fully implement International Financial Reporting Standards (IFRS) in 2010/11. Due to the Council's size and complexity this is particularly challenging. As well as producing the 2010/11 financial statements in IFRS format, the 2009/10 accounts and opening position at 1 April 2009 need to be restated. Officers are working hard to deliver this and we are working closely with them to ensure that our audit is tailored to and supports this project.

3 The reductions in public spending mean that the Council is managing a major change in its financial structure. In this context our audit will include an assessment of the arrangements to deliver value for money, the Value for Money Conclusion. This considers two key criteria.

- The organisation has proper arrangements in place for securing financial resilience.
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

## **Responsibilities**

4 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.

5 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

6 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

# Auditors report on the financial statements

## **I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).**

**7** 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 2011.

**8** International Standards of Auditing require auditors to undertake sufficient testing to be satisfied for all material classes of transactions and balances that the following assertions are met.

Occurrence	Transactions and events that have been recorded have occurred and relate to the Council.
Completeness	All transactions and events that should have been recorded have been recorded.
Accuracy	Amounts and other information relating to recorded transactions and events have been recorded appropriately.
Cut off	Transactions and events have been recorded in the correct accounting period.
Classification	Transactions and events have been appropriately presented and categorised in the proper accounts.
Existence	Assets and liabilities exist.
Rights and obligations	The Council holds or controls the rights to assets and liabilities are the obligations of the Council.
Valuation and allocation	Assets and liabilities are included at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.

## **Materiality**

**9** I apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion. Materiality is defined in auditing standards as:

‘information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement.’

# Identifying opinion audit risks

**10** I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit's work; and
- assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

**11** This work is in progress. I have identified and documented the controls operating in 20 financial and information systems that contribute to the production of the annual statement of accounts. For one system, fostering care, I could not identify any auditable controls to rely upon and will devise an alternative testing approach.

## Risk assessment

**12** As part of my risk assessment, I am required to seek the views of the members of the Governance and Audit Committee as to whether they :

- have knowledge of any actual, suspected or alleged frauds affecting the Council;
- if they have been alerted to any non compliance with laws and regulations; and
- whether members are aware of any significant risks facing the Council which might have an effect on the 2010/11 financial statements, and if so, the likelihood of those risks materialising.

**13** I also seek an update from the Governance and Audit Committee as to how it :

- exercises oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control. Management's processes may include:
  - undertaking an assessment of the risk the financial statements may be materially misstated due to fraud;
  - identifying and responding to risks of fraud in the organisation;
  - communication to employees of views on business practice and ethical behaviour; and
  - communication to the committee on the processes for identifying and responding to fraud.
- gains assurance that all relevant laws and regulations have been complied with.



Please discuss the current arrangements at the March 2011 Governance & Audit Committee and provide a formal response to Elizabeth Robinson (erobinson@audit-commission.gov.uk ) by letter or email by 31 March 2010.

# Identification of specific risks

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

Table 1: **Audit risks**

Specific opinion risks identified

Risk area	Audit response
<p><b>International financial reporting standards:</b></p> <p>The financial statements will have to reflect for the first time the requirements of International financial reporting standards. This is a significant risk as the changes to reporting standards affect all main statements. This is a major workstream for the Finance Department at a time when its capacity is stretched.</p>	<p>I will consider the work the Council has performed to date and will review the accounting treatment and revised accounting policies for the areas affected by IFRS, including restated 2009/10 balances.</p>
<p><b>Accounting for leases</b></p> <p>The definition of leases is wider under IFRS and many more arrangements may conceivably be recognised as and have to be accounted for as leases.</p>	<p>The Council has a high volume and value of leases. Accounting for leases under IFRS is judgemental, and requires the agreement and then consistent application of the Council's accounting policies. I will assess the controls in place to identify and value lease arrangements.</p>
<p><b>Public Finance Initiative (PFI) accounting:</b></p> <p>Three PFI schools became operational during the year. The Council has to review the schemes and assess whether the assets are brought on to the Balance Sheet with an appropriate finance liability.</p> <p>I reported in the 2009/10 annual governance report that there was an uncertainty over the valuation of a PFI school. The Council has to value all the PFI schools, including the three new build schools if on Balance Sheet, in 2010/11.</p> <p>PFI accounting is a significant risk.</p>	<p>I will review the working papers prepared by officers to support the accounting treatments for the new PFI schools. I will test review the reasonableness of the valuation method used by the valuer.</p>
<p><b>Restructuring:</b></p> <p>The Council is currently undertaking a large</p>	<p>I will review the accounting entries in the</p>

Risk area	Audit response
<p>restructuring exercise of its directorates and central departments. This will involve redundancies and restructure costs that will need to be accounted for in 2010/11 financial statements. These are likely to be material estimates.</p>	<p>financial statements for the restructuring programme, including the review of the reasonableness of any provisions for redundancies or restructure costs.</p>
<p><b>Pension fund bank account:</b></p> <p>As of 1 April 2011 the County Council and Pension Fund will have separate bank accounts. The Council transferred the cash held on behalf of the Pension Fund on 1 July 2010. There is a risk that the Council fails to correctly separate all income or expenditure.</p>	<p>I will review the transfer process completed during the year as part of documenting the bank system. I will test the year end bank account reconciliation.</p>
<p><b>Actuary's assumptions:</b></p> <p>Barnett Waddingham is carrying out a full triennial valuation as at 1 April 2010. I am aware that different assumptions will be used from the previous actuarial valuation which may give rise to a material change to the Pension Fund's liabilities.</p>	<p>I will review and test the reasonableness of the assumptions made by the actuary in the triennial valuation. I will review the note in the financial statements and annual report to ensure the guidance is followed.</p>
<p><b>Foster care system:</b></p> <p>As part of documenting the material financial systems I identify key controls to gain assurance over the system. I was unable to identify key controls in the foster care system. The new manager is aware of the risks arising from a weak control environment and is starting to introduce controls in the system.</p>	<p>I will undertake substantive testing of the expenditure in the financial statements derived from the foster care system.</p>
<p><b>Icelandic bank deposits:</b></p> <p>The Council must write out the balance of the impairment as changes to accounting standards remove entries in the adjustment account. This is a sensitive issue for the readers of the accounts. I am expecting further guidance in a LAAP Bulletin before the financial statements audit.</p>	<p>I will review the accounting entries in the financial statements to ensure accounting standards are met.</p>
<p><b>Related Party Transactions</b></p> <p>'Clarity' International Standards of Auditing have increased the audit work required on related parties and in particular the investigation of management controls.</p>	<p>I will review management controls and test the completeness and accuracy of disclosed related party transactions.</p>

# Testing strategy

**On the basis of risks identified above I 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.**

**14** I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

**15** Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- Review of accounting policies.
- Bank reconciliation.
- Investments – ownership.
- Year-end feeder system reconciliations.
- Directorate packs.

**16** Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I expect to be able to use the results of the following pieces of work.

- General Ledger

**17** I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of experts in the following areas:

Management's experts

- Property valuations, including componentisation - Mouchel Parkman
- Actuarial valuations - Barnett Waddingham

Auditor's experts

- Property valuations - Gerard Eve
- Actuarial valuations - PriceWaterhouseCoopers (PWC)

I do not plan to rely on the work of other auditors for the 2010/11 audit opinion.

# Value for money conclusion

## I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

18 This is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

19 I have completed a risk assessment and plan to undertake the following work:

Risk area	Audit response
<p><b>Senior management restructure</b></p> <p>The Council's Change to Keep Succeeding proposals were approved by the Council on 16 December and will be implemented for the 2011/12 financial year.</p> <p>Significant changes to the management team may impact on the leadership team's collective knowledge, experience and skills and may have an impact on business continuity and capacity. Strong transitional arrangements are particularly important at a time when the Council has a particularly challenging agenda and as a result the Council has established project management arrangements, including risk management arrangements to mitigate against the risk identified.</p>	<p>I will :</p> <ul style="list-style-type: none"><li>- monitor the effectiveness of the risk management arrangements;</li><li>- review a sample of redundancies and any compromise agreements to determine the value for money;</li><li>- review the financial savings emerging from the restructuring;</li><li>- review the remapping of directorates budget.</li></ul>

Risk area	Audit response
<p><b>Financial challenges</b></p> <p>Councils are facing significant financial challenges. It has identified savings of £95 million in 2011/12 and £65 million the following year. Although the Council has an excellent history of delivering against its efficiency targets, this was of a different scale to the savings now required. The Council has identified that in 2011/12 this will require efficiency savings of £39 million, policy changes of £35 million, use one-off funds of £15 million and increased income by £6 million.</p> <p>The Council's robust financial management and budgetary control arrangements may no longer be sufficient to ensure that these savings are delivered.</p>	<p>I will :</p> <ul style="list-style-type: none"> <li>- monitor the progress the Council makes against its savings target;</li> <li>- review the project management arrangements to monitor the savings plan and manage risks at a corporate level and consider the progress against milestones for a sample of individual schemes;</li> <li>- test the assumptions behind a selection of savings targets.</li> </ul>

## Key milestones and deadlines

**The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011. As in previous years, I am planning to issue the opinion by 31 July 2011.**

**20** The key stages in producing and auditing the financial statements are in Table 2.

**21** I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

**22** Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 2: **Proposed timetable**

Activity	Date
Control and early substantive testing	April 2011
Receipt of accounts	10 June 2011
Sending audit working papers to the auditor	13 June 2011
Start of detailed testing	13 June 2011
Progress meetings	Weekly
Present report to those charged with governance at the audit committee	30 June 2011 (interim) September 2011 (final - if required)
Issue opinion and value for money conclusion	By 31 July 2011

# Fee for the audit

## **The net fee payable by the Council in 2010-11 is £345,914.**

**23** In April 2010, I wrote to the Council setting out a fee of £385,000, some 7.7 per cent below the scale fee.

**24** The Audit Commission in its role of managing the market for audit fees, proposed a rebate to all councils to mitigate the cost of the introduction of IFRS. The rebate for Kent CC is £24,494.

**25** On 9 August, the Audit Commission (as the regulator) wrote to all councils about its proposed new arrangements for local value for money audit work. In recognition of the reduced work by auditors under the new arrangements it proposed a fee rebate. Following consultation, this has now been confirmed. The further rebate for Kent CC is £14,592.

**26** In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit;
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on all material systems, as agreed during the year, and this is available for our review by 30 April 2011.

**27** Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Acting Director of Finance and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

**28** Further information on the basis for the fee is set out in Appendix 1.



# The audit team

**Table 3 shows the key members of the audit team for the 2010/11 audit.**

Table 3: **Audit team**

Name	Contact details	Responsibilities
Darren Wells District Auditor	<a href="mailto:d-wells@audit-commission.gov.uk">d-wells@audit-commission.gov.uk</a> 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.
Emily Hill Senior Audit Manager	<a href="mailto:e-hill@audit-commission.gov.uk">e-hill@audit-commission.gov.uk</a> 0844 798	Manages and coordinates the delivery of the VFM conclusion.
Elizabeth Olive Audit Manager	<a href="mailto:e-olive@audit-commission.gov.uk">e-olive@audit-commission.gov.uk</a> 0844 798 1377	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Jeremy Jacobs Team Leader	<a href="mailto:j-jacobs@audit-commission.gov.uk">j-jacobs@audit-commission.gov.uk</a>	Key point of contact for Chief Accountant.

## Independence and objectivity

**29** I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

**30** 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.

## Meetings

**31** The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

## Quality of service

**32** I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

**33** If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

## Planned outputs

**34** My team will discuss and agree reports with the right officers before issuing them to the Governance and Audit Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
Annual governance report	30 June 2011 (interim) September 2011 (final - if required)
Auditor's report giving an opinion on the financial statements	July 2011
Final accounts memorandum - if required	August 2011
Annual audit letter	29 November 2011

# Appendix 1 Basis for fee

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.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my 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

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 2009/10;
- the fee for the value for money conclusion is the same as for 2009/10
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit;
- you provide:
  - good quality working papers and records to support the financial statements by 13 June 2011;
  - information asked for within agreed timescales;
  - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

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 Independence and objectivity

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).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

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.

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.

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.

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 seven years, with additional safeguards in the last 2 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.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

## Appendix 3 Working together

### Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings**

Council officers	Audit Commission staff	Timing	Purpose
Acting Director of Finance	DA, SAM and AM	Quarterly	General update plus: March - audit plan July - accounts progress September - annual governance report
Chief Accountant	AM and Team Leader (TL)	Quarterly	Update on audit issues
Finance closedown meetings	TL	Monthly from November to May	Progress against closedown timetable
Governance and Audit Committee	DA and AM, with TL as appropriate	16 March 2011 30 June 2011 14 September 2011 29 November 2011	Formal reporting of: March - Audit Plan June - Annual governance report November - Annual audit letter Other issues as appropriate
Internal Audit	AM and Team Leader (TL)	Quarterly	Update on audit issues

### Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

## Appendix 4 Glossary

### **Annual audit letter**

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

### **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

### **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

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The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

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Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

### **Auditor(s)**

Auditors appointed by the Audit Commission.

### **Code (the)**

The Code of Audit Practice.

### **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

## **Ethical Standards**

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

## **Internal control**

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality (and significance)**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## **Members**

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

## **Remuneration report**

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.



## **Annual Governance Statement**

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA.

## **Those charged with governance**

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements.

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

## **Whole of Government Accounts**

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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By: John Simmonds Cabinet Member for Finance  
Andy wood, Acting Director of Finance

To: Governance and Audit Committee – 16 March 2011

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

Classification: Unrestricted

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**Summary:** The attached plan sets out the proposed work of the Audit Commission to enable them to give an opinion on the Superannuation Fund's 20010/11 financial statements.

## **FOR DECISION**

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### **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, and the proposed fee
  - 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. The fee for the audit, notified to the Council in June 2010 is £50,000 (2009/2010 - £64,250).
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 audit opinion, and the work proposed to mitigate these. Paragraphs 19 to 21 and Table 2 set out the proposed timetable for the opinion audit, including reporting to the Committee.
4. The Audit Commission's plan will also be shared with the Superannuation Fund Committee.

## **Recommendations**

5. Members of the Committee are asked to:

- Comment on the outcomes of the Audit Commission's updated risk assessment and review of the assumptions supporting the fee.
- Approve the Audit Plan for the Superannuation Fund.

**David Tonks**

**Head of Audit and Risk**

**Ext: 4614**



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# Audit opinion

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# plan

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**Kent Pension Fund**

**Audit 2010/11**

**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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# Introduction

## **This plan sets out the audit work that I propose to undertake for the audit of the 2010/11 financial statements.**

**1** The plan is based on the Audit Commission's risk-based approach to audit planning, which assesses:

- current national risks relevant to your local circumstances; and
- your local risks.

**2** I will discuss and agree this plan and any reports arising from the audit, with the Superannuation Fund Committee. However, as the pension fund accounts remain part of the financial statements of Kent County Council as a whole, and overall responsibility lies with those charged with governance, the Governance and Audit Committee, they will retain ultimate responsibility for receiving, considering and agreeing the audit plans, as well as receiving and considering any reports arising from the audit.

## **Responsibilities**

**3** 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.

**4** The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

**5** I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

**6** Specifically, the work of auditors on pension fund accounts is defined by the Auditing Practices Board practice note 15 on the audit of pension fund accounts.

## Fee for the audit

### **The indicative fee for the audit is £50,000.**

7 The fee for the audit is £50,000, as indicated in my letter of 7 June 2010 and approved by the Governance and Audit Committee at the meeting of 30 June 2010.

8 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit; and
- Internal Audit undertakes appropriate work as agreed for the pension fund material systems and this is available for review by 30 April 2011.

9 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Acting Director of Finance and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

10 Further information on the basis for the fee is set out in appendix 1.

# Auditors report on the financial statements

## **I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) 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 Kent Pension Fund as at 31 March 2011.

**12** I am also required to review the pension fund annual report as per the LGPS regulations 1997.

### **Materiality**

**13** I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

### **Identifying opinion audit risks**

**14** I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Pension Fund, including assessing your own risk management arrangements;
- considering the financial performance of the Pension Fund;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Pension Fund information systems.

# Identification of specific risks

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

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
<p><b>International Financial Reporting Standards</b></p> <p>The pension fund statements will have to reflect for the first time the requirements of International financial reporting standards.</p>	<p>I will consider the work the Authority has performed to date and will review the accounting treatment and revised accounting policies for the areas affected by IFRS, including restated 2009/10 balances.</p>
<p><b>Pension fund bank account</b></p> <p>As of 1 April 2011 the pension fund has to have a separate bank account from the County Council to record all of its income and expenditure. The Council transferred the cash held on behalf of the Pension Fund on 1 July 2010. There is a risk that the Fund fails to recognise income or expenditure or double count transactions.</p>	<p>I will review the transfer process completed during the year as part of documenting the bank system. I will test the year end bank account reconciliation.</p>
<p><b>Actuary's assumptions</b></p> <p>Barnett Waddingham is carrying out a full triennial valuation as at 1 April 2010. We are aware that different assumptions will be used from the previous actuarial valuation which may give rise to a material change to the Pension Fund's liabilities.</p>	<p>I will review and test the reasonableness of the assumptions made by the actuary in the triennial valuation. I will review the note in the financial statements and annual report to ensure the guidance is followed.</p>
<p><b>Valuation of freehold property</b></p> <p>The accounting for freehold property is a material accounting estimate. The portfolio is managed by DTZ and was valued by Colliers CRE at 31 March 2010 at £168 million.</p>	<p>I will review the basis of the valuation and undertake audit procedures to confirm that they are reasonable.</p>

## Testing strategy

**On the basis of risks identified above I 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.**

**15** I can carry out my testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

**16** Wherever possible, I complete some substantive testing earlier in the year before the financial statements are available for audit. I identified the following areas where substantive testing could be carried out early.

- Review of accounting policies.
- Bank reconciliation.
- Contributions.
- Investments – ownership.
- Year-end feeder system reconciliations.

However, following discussions with officers, I do not plan to carry out any early testing in 2010/11. The capacity of officers preparing the Pension Fund financial statements is stretched and it has been agreed that additional audit procedures during the closedown period would not be helpful to them.

**17** Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I expect to be able to use the results of the following pieces of work.

- Pensions investments.

**18** I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of experts in the following areas.

- Management's expert: Valuation of freehold property portfolio - Colliers CRE.
- Audit Commission expert: Asset valuation of freehold property portfolio - Gerard Eve.

There is no requirement to rely on the work of other auditors for the audit opinion.

## Key milestones and deadlines

**The Pension Fund is required to prepare the financial statements by 30 June 2011. I am statutorily required to complete the audit and issue the opinion by 30 September 2011. As in previous years, I am planning to issue the opinion by 31 July 2011.**

**19** The key stages in producing and auditing the financial statements are in table 2.

**20** I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

**21** Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

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Table 2: **Proposed timetable**

<b>Activity</b>	<b>Date</b>
Control and early substantive testing	April 2011
Receipt of accounts	10 June 2011
Sending audit working papers to the auditor	13 June 2011
Start of detailed testing	13 June 2011
Progress meetings	Weekly
Present report to those charged with governance at the audit committee	30 June 2011
Issue opinion	By 31 July 2011

## The audit team

**Table 3 shows the key members of the audit team for the 2010/11 audit.**

Table 3: **Audit team**

Name	Contact details	Responsibilities
Darren Wells District Auditor	<a href="mailto:d-wells@audit-commission.gov.uk">d-wells@audit-commission.gov.uk</a> 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.
Elizabeth Olive Audit Manager	<a href="mailto:e-olive@audit-commission.gov.uk">e-olive@audit-commission.gov.uk</a> 0844 798 1377	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.

### Independence and objectivity

**22** I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

**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 2.

### Meetings

**24** The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in appendix 3.

### Quality of service

**25** I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and to do what he can to resolve the position.



26 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

## Planned outputs

27 My team will discuss and agree reports with the right officers before issuing them to the Governance and Audit Committee and Superannuation Fund Panel.

Table 4: **Planned outputs**

Planned output	Indicative date to Governance and Audit Committee
Opinion audit plan	16 March 2011
Annual governance report	30 June 2011 (interim) September 2011 (final - if required)
Auditor's report giving an opinion on the financial statements	July 2011

# Appendix 1 Basis for fee

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.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Pension Fund with reference to the following.

- My cumulative knowledge of the Pension Fund:
  - planning guidance issued by the Audit Commission; and
  - the specific results of previous and ongoing audit work.
- Interviews with Pension Fund officers.
- Liaison with Internal Audit.

## Assumptions

In setting the fee, I have assumed the following.

- The level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10.
- You will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards.
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit.
- You provide:
  - good quality working papers and records to support the financial statements by 13 June 2011;
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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 of Kent County Council. Issues will also be raised with members of the Superannuation Fund Panel. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

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- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two 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.

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The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings**

Council officers	Audit Commission staff	Timing	Purpose
Head of Financial Services	Audit Manager (AM) and Team Leader (TL)	March, June, September	General update plus: <ul style="list-style-type: none"> <li>■ March - opinion audit plan and fee letter; and</li> <li>■ June - accounts progress and annual governance report</li> </ul>
Treasury & Investments Manager	AM and TL	Quarterly	Update on audit issues.
Finance closedown meetings	KCC TL	Monthly from November to May	Progress against closedown plan.
Governance and Audit Committee	DA and AM, with TL as appropriate	16 March 2011 30 June 2011 14 September 2011 29 November 2011	Formal reporting of: <ul style="list-style-type: none"> <li>■ Audit Plan;</li> <li>■ Annual governance report; and</li> <li>■ other issues as appropriate.</li> </ul>
Superannuation Fund Committee	DA and AM, with TL as appropriate	4 March 2011 20 May 2011 1 July 2011 2 September 2011 18 November 2011	Formal reporting of: <ul style="list-style-type: none"> <li>■ Audit Plan;</li> <li>■ Annual governance report; and</li> <li>■ other issues as appropriate.</li> </ul>

## **Sustainability**

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
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Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

## **Internal control**

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality (and significance)**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

## **Those charged with governance**

Those charged with governance are defined in auditing standards as ‘those persons entrusted with the supervision, control and direction of an entity’.



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March 2011

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By: Cabinet Member for Finance – John Simmonds  
Acting Director of Finance – Andy Wood

To: Governance and Audit Committee – 16 March 2011

Subject: Revised Accounting Policies

Classification: Unrestricted

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Summary: This report asks Members to approve the revised accounting policies.

## FOR DECISION

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1. For the accounting year 2010/11 our accounts need to be prepared on an International Financial Reporting Standards (IFRS) basis.
2. The CIPFA Code of Practice requires authorities to follow International Accounting Standard 8 (IAS 8) - *Accounting Policies, Changes in Accounting Estimates and Errors*. Accounting policies are defined as "... the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements".
3. As a result of moving to IFRS, the majority of our accounting policies have had to be rewritten. In the majority of circumstances this is not a fundamental change. However, they are more detailed than in previous years and aim to give the reader a greater understanding into the principles and practices that have been adopted to produce the figures in the financial statements.
4. **Recommendation**  
As these accounting policies are generally standard for all authorities and are derived from the Code of Practice Guidance Notes prepared by the Chartered Institute of Public Finance Accountants, officers recommend that Members approve the suitability of the accounting policies as presented.

**Andy Wood**  
**Acting Director of Finance**  
**Ext: 4622**

**Cath Head**  
**Chief Accountant**  
**Ext: 1135**

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## Accounting Policies

### General

The Authority is required to prepare a Statement of Accounts by the Accounts and Audit Regulations 2003 which require the accounts to be prepared in accordance with proper accounting practices. The Accounts of Kent County Council have been compiled in accordance with the Code of Practice on Local Authority Accounting in the UK 2010-11 supported by International Financial Reporting Standards. These accounts are prepared in accordance with the historical cost convention, modified for the valuation of certain categories of non current assets and financial instruments. They are also prepared on a going concern basis.

### Accruals of Income and Expenditure

The Authority's Accounts are kept on an accruals basis, in accordance with the Code of Practice.

In order to account for expenditure and income attributable to the financial year in respect of goods and services received or rendered, amounts are included in the Accounts based on actual invoices received or raised after the end of the financial year. Where actual amounts are not known estimates are included based on a professional assessment of the value of goods and services received or rendered, calculated using best available information regarding the prices or rates applicable.

Where revenue and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

### Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in **3 months** or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

### Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

### Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### Employee Benefits

#### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (eg cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

#### Post Employment Benefits

The Council participates in two different pension schemes. Both schemes provide members with defined benefits (retirement lump sums and pensions), related to pay and service. The schemes are as follows:

##### - Teachers

The Authority contributes to the Teachers' Pension Scheme at rates set by the scheme actuary and advised by the Scheme Administrator. The scheme pays benefits on the basis of pre-retirement salaries of teaching staff. While the scheme is of the Defined Benefit type, it is accounted for as a Defined Contribution Scheme and no liability for future payments of benefits is recognised in the Balance Sheet.

##### - Other employees

The liabilities of the Kent County Council pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

## Accounting Policies

The assets of Kent County Council pension fund attributable to the Authority are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

The change in the net pensions liability is analysed into seven components:

– current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

– past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

– interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

– expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

– gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

– actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve

– contributions paid to the Kent County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### Financial Instruments

#### Financial liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

#### Financial assets

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Authority has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.



## **Accounting Policies**

### **Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line or Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

### **Intangible Assets**

Assets that do not result in the creation of a tangible asset, (which is an asset that has physical substance) but are identifiable and are controlled by the Council, e.g. software licences, are classified as intangible assets. This expenditure is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the life of the asset. For software licences this is normally between 3 to 5 years.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

### **Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **JANE (Joint Arrangement Not an Entity)**

The proportion of transactions and balances of JANES that relate to the Authority are included in the Authority's single entity accounts.

### Leasing

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### The Authority as Lessee

#### Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### The Authority as Lessor

#### Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

## Accounting Policies

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### Support service and overheads

The cost of support services and overheads are allocated to services on the following basis in accordance with CIPFA's Best Value Accounting Code of Practice 2010/11 (BVACOP):

The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

### Property, Plant and Equipment

All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment above our de minimus of £10k (£2k in schools) is capitalised on an accruals basis. In this context, enhancement means work that has substantially increased the value or use of the assets. Work that has not been completed by the end of the year is carried forward as "assets under construction".

#### Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

## Accounting Policies

The Authority has a policy in place to revalue 20% of its assets each year. All assets will therefore be revalued at least every five years. Assets will also be revalued following significant works occurring on that asset or some event that may impact on the value of that asset, such as a significant downturn in economic conditions. Revaluation gains are written to the Revaluation Reserve and revaluation losses will be written off against any balance on the Revaluation Reserve for that asset or to the Comprehensive Income and Expenditure Statement where no revaluation gain exists in the reserve for that asset. These amounts are then written out through the Movement in Reserves Statement so that there is no impact on Council Tax.

### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.

Where impairment losses are identified, they are accounted for by:

- writing down the balance on the Revaluation Reserve for that asset up to the accumulated gains
- writing down the relevant service line in the Comprehensive Income and Expenditure Statement where there is no balance or insufficient balance on the Revaluation Reserve

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

Depreciation is calculated on a straight-line basis over each asset's useful economic life and is charged to the relevant service revenue account in the year following completion of the asset.

The periods over which assets are depreciated are as follows:

Land	- nil
Buildings	- useful life as determined by the valuer
Vehicles, plant and equipment	- 3-15 years
Roads & other highways infrastructure	- 20 years
Community assets	- nil
Assets under construction	- nil
Investment properties, Assets Held for Sale	- nil

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Property will be split into five components:

- Land
- Structure
- Mechanical and Electrical
- Fixtures and Furnishings
- Temporary Buildings

These components are a significant value of the asset as a whole and have significantly different useful lives.

In determining the extent to which we apply componentisation we have taken into consideration the material impact of not componentising assets within individual asset classes below a certain threshold. More detail on this can be found under the estimation techniques note on page x.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## Accounting Policies

### Disposals and Non-current Assets Held for Sale

Assets are generally defined as 'held for sale' if their carrying amount is going to be recovered principally through a sale transaction rather than through continued use. This excludes from consideration any assets that are going to be abandoned or scrapped at the end of their useful lives. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

### Gains and Losses on Disposal of Non Current Assets

When an asset is disposed of or decommissioned, the difference between the capital receipt from the sale and the carrying amount of the asset in the Balance Sheet, after identified costs have been removed, is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in reserves Statement.

### Capital receipts

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. Conditional receipts are not included in these figures until it is prudent to do so.

### PFI Accounting Policy

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets, written down by any capital contributions.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Authority.

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator
- lifecycle replacement costs – recognised as additions to Property, Plant and Equipment

### Provisions, Contingent Liabilities and Contingent Assets

#### Provisions

It is the policy of Kent County Council to make provisions in the Accounts where there is a legal or constructive obligation to make a payment but the amount or timing of the payment is uncertain. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. The most significant provision made is for insurance claims and details of the Insurance Fund can be found on page x of the Accounts. In addition, provision is made for outstanding income where there is doubt as to whether it will be realised.

#### Contingent Liabilities

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

#### Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

#### Reserves

The Authority holds general fund reserves as a consequence of income exceeding expenditure, budgeted contributions to reserves or where money has been earmarked for a specific purpose. These reserves are set at a level appropriate to the size of the budget and the level of assessed risk.

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority. Details of the Authority's reserves are shown in the notes to the Accounts on pages x-x.

#### Revenue expenditure funded from capital under statute

Revenue expenditure funded from capital under statute represents expenditure which may be properly capitalised, but does not result in the creation of a non-current asset. The expenditure has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Capital expenditure on assets that do not belong to the council such as Voluntary Aided schools and Academies are charged here and are written out in the year. These charges are reversed out to the Capital Adjustment Account through the Movement in Reserves Statement to mitigate any impact on council tax.

#### Stocks and stores

Stock is valued at the lower of cost or net realisable value. Spending on consumable items is accounted for in the year of purchase.

## **Accounting for Value Added Tax**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs except where it is not recoverable, e.g. on the purchase of motor cars where there is an element of private use by staff. VAT receivable is excluded from income.

## **PFI Accounting Policy**

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as in most cases ownership of the fixed assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the fixed assets used under the contracts on the Balance Sheet.

The original recognition of these fixed assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets, written down by any capital contributions.

Fixed assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

- fair value of the services received during the year – debited to the relevant service in the Income and Expenditure Account
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Income and Expenditure Account
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to Interest Payable and Similar Charges in the Income and Expenditure Account
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator
- lifecycle replacement costs – recognised as fixed assets on the Balance Sheet

## **Collection Fund Accounting Policy**

To reflect that billing authorities act as agents for major preceptors in collecting their share of Council Tax, Council Tax transactions and balances will be allocated between billing authorities and major preceptors. Thus, the risks and rewards that the amount of Council Tax collected could vary from that predicted will be shared proportionately by the billing authorities and major preceptors.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

A debtor/creditor position between billing authorities and major preceptors is required to be recognised for the cash collected by the billing authority from Council Tax debtors that belongs proportionately to the billing authority and the major preceptors. This is because the net cash paid to each major preceptor in the year will not be its share of cash collected from Council Taxpayers. The effect of any bad debts written off or movement in the impairment provision are also shared proportionately.

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By: Cabinet Member for Finance – John Simmonds  
Roger Gough, Cabinet Member for Corporate Support  
Services & Performance Management  
Acting Director of Finance – Andy Wood  
Director of Law and Governance – Geoff Wild

To: Governance and Audit Committee – 16 March 2011

Subject: Company Protocol

Classification: Unrestricted

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Summary: This report asks Members to approve the Company Protocol.

## **FOR DECISION**

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### **Introduction**

1. Given the existence and likely future increase in the number and variety of company interests that are held by the Council, there is a need to introduce a Protocol, in the form of a framework of rules, governing how KCC-owned companies are to operate.
2. KCC currently has 20 companies as shown in **Appendix A**, although 5 of these are dormant at present. Whilst there is no suggestion that these have been established incorrectly, it is thought appropriate that such entities are brought together in governance terms to ensure best practice across the council.
3. This report went to CMT on the 11 January, Cabinet on the 2 February and Cabinet Scrutiny on the 9 February.

### **Recommendation:**

4. Members are asked to approve this protocol.

**Andy Wood**  
**Acting Director of Finance**  
**Ext: 4622**

**Geoff Wild**  
**Director of Law and Governance**  
**Ext: 4302**

**Cath Head**  
**Chief Accountant**  
**Ext: 1135**

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Co No	Company/Trust	Division	Status	Registered Office	Type - CLG (with no share capital)	Type - CLS	Date of Incorporation [Nb: *Trading Order issued in July 2004]	Share Capital	Directors	C Secretary	Board members	Contact	Comments	Last Accounts	Last Returns	Co Search done
<b>Active companies &lt; 50%</b>																
4	02608373	Association of Tourist Attractions in Kent	R&ED	Active - trading	Ridge Cottage, Speldhurst, Kent, TN3 0LE	Private, Ltd by Guarantee, no share capital	07/05/91		F Warrington - used to be director but resigned				Networking purposes only	31/03/2009 (TOTAL EXEMPTION SMALL)	31/05/11	✓
5	03068263	Groundwork Kent and Medway		Active	48 Canterbury St, Gillingham, Kent, ME7 5UN	Private, Ltd by Guarantee, no share capital, S30 Cos Act	09/06/95	0 No					KCC officer attends for networking purposes only	31/03/2009 (GROUP)	09/06/10	✓
6	03114198	Aylesham and district Community Workshop Trust	R&ED	Active	Ackholt Road, Aylesham, Canterbury, Kent, CT3 3AJ	Private, Ltd by Guarantee, no share capital, S30 Cos Act	16/10/95	0 No					SEEDA heavily involved, KCC owns property rented to the Trust at a peppercorn rent.	31/03/2009 (FULL)	14/09/10	✓
8	03294664	The Individual Learning Co Ltd		Active	37 St Margarets St, Canterbury, Kent, CT1 2TU	Private, Ltd by Guarantee, no share capital	19/12/96	0						31/03/2009 (TOTAL EXEMPTION SMALL)	19/12/09	✓
9	3284438	The North Kent Architecture Centre Ltd	R&ED	Active	The Historic Dockyard, Main Gate Rd, Chatham, Kent ME4 4TZ	Private, Ltd by Guarantee, no share capital				Mike Bodkin (officer)	Gillian.Willav oys@kentarc hitecture.co.uk		Other guarantors are MedwayC, UoGreenwich & Chatham Historic Dockyard Trust.	31/03/09	27/11/09	✓
12	04400592	Kent Tourism Alliance Ltd became Visit Kent Ltd from 21.3.08	R&ED	Active	3 The Precincts, Canterbury, Kent, CT1 2EE	Private, Ltd by Guarantee, no share capital	21/03/02		Kevin Lynes KCC member, Theresa Bruton KCC officer, Nigel Bunting Shepherd Neame Ltd, Michael Bedingfield Tourism South East, Colin Carmichael Canterbury CC, Amanda Cottrell Chairman, Simon Curtis Medway Council, Juliana Delaney Continuum Group, Bill Ferris Chatham Historic Dockyard, Robin Hales Sevenoaks DC, Sandra Matthew-Marsh CE, John Meardon Caanterbury Cathedral				To carry on busi and activities as may promote, market, advertise and develop nationally and internationally the tourist industry in the county of Kent and all bodies, entities, persons associated and involved therein: etc	31/03/2009 (FULL)	21/03/10	✓

Co Search done  
KCC Control 100% share capital  
Influence >= 20% voting rights  
KCC has no control or influence  
Unknown

03230721	Locate in Kent Ltd (as amended on 5/5/2000)	R&ED	*Active - trading on commercial basis	35 Kings Hill Avenue, Kings Hill, West Malling, Kent, ME19 4AQ	Private, Ltd by Guarantee, no share capital		29/07/96	£0 - limited liability up to £1 per member towards asset of co in event of co winding down. Three equal shareholders - the Chairman, the Kent Developers Group and Kent County Council. Liability £1 per member	Alex King	S Draper	Sir Brandon Gough Chairman Paul Wookey CEO Locate in Kent County Council Barbara Cooper Kent County Council Kevin Lynes Kent County Council David C Brooks-Wilson Noble-Wilson Ltd Andrew Blevins Liberty Property Trust UK	Paul Wookey 01732-520700	Locate in Kent was formed in 1997, as a subsidiary company of the Kent Training and Enterprise Council. It became independent of the Kent Training and Enterprise Council on 1 April 2000 at which time its membership structure changed to three equal shareholders - the Chairman, the Kent Developers Group and Kent County Council.	31/03/2010 (SMALL) draft 31/3/05 showed res of £132k(audited) dir fees charged	29/07/10
05259365	Trading Stds South East Ltd		Active	Mid Surrey Area Office, Bay Tree Avenue, Kingston Rd, Leatherhead, Surrey, KT22 7SY	Private, Ltd by Guarantee, no share capital		*14/10/2004	0 - all members contributes to assets of the Co.19 SE Authorities						31/01/2009	14/10/2009
03600723	Business Support Kent Community Interest		Active	85 High Street Chatham, Kent, ME4 4EE	Private Ltd Co. Community Interest Company		12/12/94	No						31/03/2009 (FULL)	12/12/09
04410176	East Kent Spatial Development Company	R&ED	Active	Kent Innovation Centre, Broadstairs	Company Limited by guarantee				D Tucker, V Carter, P Cudsin, C Moore, K Harvey (SEEDA), D Ashworth HCA, K Lynes KCC, R Latchford TDC. D Spalding CEO	D Tucker (SEEDA)	Member Organisations: SEEDA, KCC TDC,DDC SDC CCC HCA			31/03/10	05/04/10

Active > 50% control

05242899	Kent County Trading (KCT) Ltd	Commercial Services	Active - holding co	Commercial Services, Gibson Drive, Kings Hill, West Malling ME19 4QG	Private Ltd Co		*27/09/2004	£2 - wholly owned by KCC	Clr Mike Snelling		Clr Mike Snelling			31/03/09	27/09/09
05242900	Kent Top Temps Ltd - [Kent Temps Ltd to 14/12/04]	Commercial Services	*Active - trading on commercial basis - started 4th April 2005 Subsidiary co. of KCC owned Co.	Commercial Services, Gibson Drive, Kings Hill, West Malling ME19 4QG	Private Ltd Co		*27/09/2004	£1000 divided into 1000 shares of £1 each; **Issued 2 shares - wholly owned by KCT?? Share trfd fr Duport.	min-1; Kevin Harlock, Laurence Faulkner, M Snelling	Laurence Faulkner	Laurence Faulkner, Michael Victor Snelling	Laurence Faulkner; KG Phillips, LS(x4393) DX No 123693?	Co set up by Duport Associates Ltd, whose cos **Duport Secretary Ltd and Duport Director Ltd were the first director, secretary and also the shareholders (1 share each); resignation fr dir and sec sighted <b>BUT NOT SHARE TRANSFERS</b>	31/03/09	27/09/09

7  
13  
16

Page 96



✓ ✓  
✓ ✓  
✓ ✓

14	05505567	Produced in Kent (PINK) Ltd	R&ED	KCC and Hadlow College have equal voting powers	Bourne Grange Stables, Tonbridge rd, Hadlow, Kent TN11 OAU		Not for profit Private Company Limited by guarantee	*12/07/2005		Julian Barnes, Stephen Clarke, Paul Hannah, William Opie, Timothy Piper, Michael Solomon, Andrew Wickham	Stephanie Durling (officer)	Andrew Wickham (KCC) Paul Hannah (Hadlow College)		Provides for any liabilities to be agreed in the same ratios as the funding is provided i.e. 150:50 = 3:1	31/03/2009	12/07/10	
	07320291	Kent Cultural Trading Limited	Lib and Arch	Active	Lib and Arcives Springfield			20/07/10		Des Crilley, Lesley Spencer and Mike Hill							
	05858178	Kent County Facilities Ltd	Commercial services	Active	Commercial services			26/06/06							31/03/09	26/06/10	
<b>Dormant companies</b>																	
2	02341975	Kent Training Centres Ltd	Legal & Democratic Services	Active - dormant (co registered to protect name)	KCC Regeneration & Projects Division, Invicta House, Kent, ME14 1XX	Private, Ltd by Guarantee, no share capital		01/02/89	£0	Sue Maglona Stoneham	Nana Bowen (officer)				30/09/2009 (DORMANT)	15/07/10	
15	02965139	Kentish Fayre Ltd	R&ED	Active - dormant (co registered to protect name)	Strategic Planning Directorate, Economy & Environment Division, Invicta House, Kent, ME14 1XX	Private, Ltd by Guarantee, no share capital	Private Ltd Co	05/09/94	Authorised SC £100 Ord shs - Issued - 2 @ £1 shs to Econ Dev Unit, KCC	All directors resigned beginning of April - current dir is A King, Julie Monkman (officer)	Stephanie Durling (officer)	Alex King		sp Novella has Memorandum and Articles	30/09/2009 (DORMANT)	05/09/09	
20	4447738	Invicta Innovations Ltd	Legal & Democratic Services	Dormant	c/o Regeneration and Economy KCC, Invicta House, ME14 1XX		Private Ltd Co	27/05/02	3 @ £1 held by R Neame	Robert H B Neame				SP has Co on file:	31/3/2009 (Dormant)	03/09/10	
	05858177	Kent County Supplies Ltd	Commercial services	Active Dormant	Commercial services			26/06/06							31/03/09	26/06/10	
		Kent Access Ltd	Legal & Democratic Services	Active Dormant (co-registered to protect name)		Company Limited by guarantee		2 @ £1			Nana Bowen (officer)						

✓  
✓  
✓  
✓  
x

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By: John Simmonds, Cabinet member for Finance  
 Andy Wood, Acting Director of Finance

To: Governance and Audit Committee –11 March 2011

Subject: **Approval of Anti-fraud and Corruption Strategy**

Classification: Unrestricted

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**Summary:** This paper presents the updated Anti-fraud and Corruption Strategy for approval.

## **FOR DECISION**

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### **Introduction and background**

1. Local authorities should operate in environments that do not tolerate fraud or corruption. To achieve this, all members and managers, supported by Internal Audit and Personnel & Development, must promote a culture in which employees believe that dishonest acts will be detected and investigated.
2. It is vital to ensure that members and staff at all levels are fully aware of their responsibilities and how to discharge them. The Anti-fraud and Corruption Strategy attached to this report updates the original strategy paper dated 29 July 2005 and subsequent update in March 2009, providing a further step towards achieving an effective counter-fraud culture in KCC. This is accordance with best practice issued by CIPFA.

### **The Anti-fraud and Corruption Strategy Document**

3. The document details the Council's counter-fraud strategy. It outlines:
  - The Council's commitment to maintaining an anti-fraud and anticorruption culture, and the respective roles of individuals within this;
  - The mechanisms in place corporately to prevent, detect and investigate fraudulent, corrupt and money-laundering activities;
  - Procedures and avenues to pursue for further guidance
4. The Strategy incorporates a Fraud Response Plan, and is supported by other policies and procedures that are relevant to specific groups of employees, namely:
  - Whistleblowing Procedure
  - Money Laundering Policy and Guidance Note

### **Irregularity Investigation Procedures**

5. The training programme for officers and Members will be relaunched in the new financial year when dedicated anti-fraud resources are secured in internal Audit. This training will explain the Strategy and advise on its implementation. In addition, the Strategy will be annually reviewed to ensure its effectiveness. Once approved arrangements will be made to raise awareness of the strategy both to

staff and members via Knet and Internal Audit's 'newsletter and the Council's suppliers and contractors via the KCC website.

**Recommendations**

6. Members are asked to endorse the promotion of a counter-fraud culture within the Council, and approve the Anti-Fraud Strategy attached.

**David Tonks**  
**Head of Audit and Risk**  
**Ext: 4614**





**Anti Fraud and Corruption Strategy  
(incorporating Fraud Response Plan)**

Document Detail	
Version	2.0
Effective from	April 2011
Review date	No later than April 2011
Owner	Corporate Director of Finance
Prepared by	Senior Audit Manager
Approved by, date	Governance and Audit Committee, March 2011
Superseded documents	Anti Fraud and Corruption Strategy
Scope	Council wide
Applicability	Mandatory

Change History		
Date	Change details	Approved by

# Anti Fraud and Corruption Strategy

## Introduction

1. Kent County Council is one of the county's largest organisations employing over 45,000 people with gross expenditure of over £2.3bn. In delivering its objectives, the Council maintains a zero tolerance approach towards fraud and corruption whether this is from external sources (the public, clients, contractors, suppliers, partners or other bodies) or from internal sources (Members and employees, including temporary and agency staff).
2. The purpose of this strategy is to set out the Council's commitment to the highest standards of probity in the delivery of its services, ensuring proper stewardship of its funds and assets. This strategy promotes the:-
  - Prevention and detection of fraud and corruption;
  - The reporting of any potential fraud and corruption, and
  - Framework for Investigations.

## Culture

3. Kent County Council wishes to promote a culture of honesty and opposition to fraud and corruption it will ensure probity in local administration and governance and expects:-
  - Members and staff to lead through example by acting with integrity at all times and ensuring adherence to legal requirements, policies and procedures, rules and good practice.
  - All individuals and organisations (eg suppliers, contactors and service providers) with whom it comes into contact will act with integrity in all dealings with the Council.
  - Members, staff, bodies and organisations external to the Council, to report suspected fraud, corruption or other irregularity to the Head of Audit and Risk in accordance with the Council's Financial Regulations, and Fraud Response Plan for Managers (Appendix A).
  - Senior managers to deal promptly and firmly with those who defraud, or seek to defraud the Council, or who are corrupt. The Council will always be robust in dealing with financial malpractice or those who breach statutory and legal obligations and its code of conduct.

## Roles and Responsibilities

### The Role of Elected Members

4. As elected representatives, all Members of Kent County Council have a duty to act in the public interest and to do whatever they can to ensure that the Council uses its resources in accordance with statute.
5. This is achieved through members operating within the Constitution which includes the Code of Member Conduct, Financial Regulations and Spending the Council's Money

## **The Role of Employees**

6. Kent County Council expects its employees to be alert to the possibility of fraud and corruption and to report any suspected irregularities to the Head of Audit and Risk.
7. Employees are expected to comply with the Officers Code of Conduct (which can be found in the Constitution) and the Council's policies and procedures.
8. Employees are responsible for complying with Kent County Council's policies and procedures and it is their responsibility to ensure that they are aware of them. Where employees are also members of professional bodies they should also follow the standards of conduct laid down by them.
9. Employees should follow instructions given to them by management. They are under a statutory duty to properly account for and safeguard the money and assets under their control/charge?
10. Employees are required to provide a written declaration of any financial and non-financial interests or commitments, which may conflict with KCC's interests. KCC Financial Regulations specify that employees who have a direct or indirect financial interest in a contract shall not be supplied with, or given access to any tender documents, contracts or other information relating to them, without the authority of the senior manager.
11. Failure to disclose an interest or the acceptance of an inappropriate reward may result in disciplinary action or criminal liability. Staff must also ensure that they make appropriate disclosure of gifts and hospitality.
12. Managers at all levels are responsible for the communication and implementation of this strategy in their own work area.
13. Managers are expected to create an environment in which their staff feel able to approach them with any concerns that they may have about suspected irregularities.

## **Kent County Council's Commitment**

14. Theft, fraud and corruption are serious offences against the Council and employees and Members will face disciplinary action if there is evidence that they have been involved in these activities. Where criminal action is suspected this will be referred to the police.
15. In all cases where the Council has suffered a financial loss, appropriate action will be taken to recover the loss.
16. In order to make employees, Members, the public and other organisations aware of the Council's continued commitment for taking action on fraud and corruption, details of completed investigations, including sanctions made will be publicised where it is deemed appropriate. Updates on this strategy will be publicised.

## **Prevention**

17. A key measure to preventing fraud and corruption is to carry out rigorous pre employment checks to establish the previous record and history of potential employees in terms of their integrity and propriety. This includes:-
  - obtaining suitable and relevant references;
  - checking gaps in employment history,
  - checking qualifications;

- checks by the Criminal Records Bureau.
18. The recruitment of temporary, permanent employees and agency staff is treated the same.
  19. The primary responsibility for the prevention and detection of fraud is with management. They must ensure that they have the appropriate internal controls in place, that they are operating as expected and being complied with. They must ensure that adequate levels of internal checks are included in working practices, particularly financial. It is important that duties are organised in such a way that no one person can carry out a complete transaction without some form of checking or intervention process being built into the system.
  20. Internal Audit is responsible for the independent appraisal of controls and for assisting managers in the investigations of irregularities, including allegations of fraud or corruption.
  21. Internal Audit includes pro active fraud work in its annual audit plan, identifying potential areas where frauds could take place and checking for fraudulent activity.
  22. The Council is committed to working and co-operating with other organisations to prevent organised fraud and corruption. Wherever possible the Council will assist and exchange information with other appropriate bodies to facilitate the investigation of and to combat fraud. Kent County Council's Internal Audit Section will facilitate the exchange of information.
  23. Kent County Council participates in the National Fraud Initiative (NFI). This requires public bodies to submit a number of data sets (currently to the Audit Commission) for example payroll, pension, and accounts payable (but not limited to these) which is then matched to data held by other public bodies. Any positive matches (eg an employee on the payroll in receipt of housing benefit) are investigated.

### **Detection and Investigation**

24. Any suspected fraud, corruption or other irregularity should be reported to the Head of Audit and Risk. The Head of Audit and Risk will decide on the appropriate course of action to ensure that any investigation is carried out in accordance with best practice; and to ensure that any investigation does not jeopardise any potential disciplinary action or criminal investigation.

#### *Action could include:-*

- Investigation carried out by Internal Audit Staff;
  - Joint investigation with Internal Audit and relevant directorate management;
  - Directorate staff carry out investigation and Internal Audit provide advice and guidance;
  - Police referral.
25. The Council's Whistleblowing procedure is intended to encourage and enable staff and organisations or individuals to raise serious concerns. Whilst employees are afforded certain rights and protection through legislation enacted under the Public Interest Disclosure Act 1998, the Council will do its best but cannot guarantee to protect the identity of an individual who raises a concern but does not want their name to be disclosed.

## **Training and Awareness**

26. The success of the Anti Fraud and Corruption Strategy is dependent on risk awareness, the effectiveness of training, including induction and the responsiveness of staff throughout the Council.
27. The Council will provide induction and ongoing training to staff, particularly those involved in financial processes and systems to ensure that their duties and responsibilities are regularly highlighted and reinforced.
28. The responsibility of investigating potential fraud, corruption and other irregularities within KCC lies mainly (although not exclusively) with the Internal Audit Section. Staff involved in this work will therefore be appropriately trained, and this will be reflected in training plans.
29. Internal Audit will report the outcomes of completed investigations including any sanctions carried out to the Governance and Audit Committee. Internal Audit will provide fraud awareness training on request and will publish its regular newsletter (Risky Business) to raise awareness.

## **Conclusion**

30. Kent County Council will maintain place systems and procedures to assist in the prevention, detection and investigation of fraud. This strategy will be reviewed annually and is available on the Council's Intranet (Knet).

## **Fraud Response Plan**

### **Introduction**

This Fraud Response Plan forms part of the Council's overall Anti-Fraud Strategy and covers the Council's response to suspected or apparent irregularities affecting resources belonging to or administered by the Council, or fraud perpetrated by contractors and suppliers against the Council.

It is important that Managers know what to do in the event of fraud, so that they can act without delay. The Fraud Response Plan for Managers provides such guidance to ensure effective and timely action is taken. Other documents that should be referred to when reading the Plan include:

- Officers' Code of Conduct (available on KNet as part of the KCC Constitution)
- Disciplinary procedure } (both available
- Financial Regulations } on KNet)

### **Objective of the Fraud Response Plan**

To ensure that prompt and effective action can be taken to:

- prevent losses of funds of other assets where fraud has occurred and to maximise recovery of losses
- identify the perpetrator and maximise the success of any disciplinary or legal action taken
- reduce adverse impacts on the business of the Council
- minimise the occurrence of fraud by taking prompt action at the first sign of a problem
- minimise any adverse publicity for the organisation suffered as a result of fraud
- identify any lessons which can be acted upon in managing fraud in the future

### **The Manager's Role in Acting on Reported Suspected Fraud**

Where it is appropriate to do so (where this can be done without alerting the perpetrator to the investigation, or staff involved have sufficient experience to do so without compromising any potential disciplinary or criminal investigation) initial enquiries may be made to determine if there actually does appear to be an irregularity.

The purpose of the initial enquiry is to confirm or repudiate the suspicions that have arisen so that, if necessary, further investigation may be instigated.

During the initial enquiry, managers should:

- determine the factors that gave rise to the suspicion

- examine factors to determine whether a genuine mistake has been made or whether any irregularity has occurred (i.e. any incident or action that is not part of normal operation of the system or the expected course of events )
- where necessary, carry out discreet enquiries with staff and / or review documents.

If the results of the initial inquiry indicate that a more detailed investigation should be undertaken, managers should contact the Internal Audit Section.

Managers must inform Internal Audit of:

- all the evidence that they have gathered.
- the actions they have taken with regard to the employee (e.g. suspension or redeployment) or any other action taken to prevent further loss.

Internal Audit should be informed as soon as possible of all suspected or discovered fraud or corruption, in order that they may offer advice on any specific course of action that may be necessary.

Depending on the size of the fraud or the circumstances of its perpetration, the Senior Audit Manager will consider whether Internal Audit staff should undertake the investigation. If appropriate, advice and guidance will be provided to enable an investigation to be undertaken by the manager's own staff.

Internal Audit will review the outcome of the investigation (irrespective of whether undertaken by its own staff or directorate staff), to ensure that appropriate action is taken to help disclose similar frauds and make recommendations to strengthen control systems.

Senior managers are responsible for following up any allegation of fraud or corruption that they receive. They must also have regard to the above.

The respective Investigating Officer (either from the directorate or from Internal Audit) will:

- Deal promptly with the matter
- Record all evidence that has been received
- Ensure that evidence is sound and adequately supported
- Make secure all of the evidence that has been collected
- Where appropriate, contact other agencies
- When appropriate, arrange for the notification of the Council's insurers
- Report to senior management, and where appropriate, recommend that management take disciplinary action in accordance with the Council's Disciplinary Procedures.

Where circumstances merit, close liaison will take place between the Investigating Officer, the respective Directorate Resource Co-ordinator and Human Resources Advisor as appropriate.

### **Evidence**

The best form of evidence is original documentation. Where it is not possible to obtain originals, for whatever reason, a copy will normally suffice. The copy should be clearly endorsed as a copy and if possible certified as a true copy of the original. This should preferably be certified by the person who took the copy from the original source document.

### **Interviews**

Managers should not conduct any interviews with any suspect or potential witness without seeking advice beforehand from Internal Audit.

The matters under investigation may constitute criminal acts, and consequently any interview of potential suspects must be conducted and recorded under specific guidelines as detailed in the Police and Criminal Evidence Act 1984 (PACE). Criminal proceedings may be compromised by conducting interviews outside of the scope of PACE.

Normal practice will be that Internal Audit staff conduct and/or control any interview.

### **Police Liaison and Prosecution**

Where there is evidence that a criminal act has taken place, any necessary Police liaison will be undertaken by Internal Audit staff.

A decision to prosecute as a result of the outcome of any investigation will not be made without:

- a full review of the case in consultation with the Senior Audit Manager, Legal Services and the Police or other Authority, as appropriate.
- the authority of the Director of Finance, the relevant Managing Director or suitably delegated person or board.

### **Definitions**

#### *Fraud*

The intentional distortion of financial statements or other records by person or persons internal/external to the Authority which is carried out to conceal the misappropriation of assets or otherwise for gain.

Some potential indicators of fraudulent activity are (but be aware that not all circumstances where these signs are exhibited will necessarily constitute fraud, nor is this an exhaustive list):

- Employees who never take leave



- Employees who work outside normal working hours for no obvious reason
- Employees with serious personal financial problems
- Employees whose lifestyle is disproportionate to their income
- Unusual concerns about visits by senior managers and auditors
- Employees who often break rules or fail to comply with procedures
- Complaints about members of staff from customers or other employees
- Lack of effective internal control
- Undocumented activities
- Unexplained falls in income levels or increases in expenses
- Deliveries to other than official Council buildings
- General disregard by management and employees towards security

### *Corruption*

The offering, giving, soliciting or acceptance of an inducement or reward, which may influence the action

of any person (e.g. may occur in connection with contracts or consultancy engagements).

Malpractice and wrongdoing is something which is unlawful, or against the Council's Standing Orders or policies and is not in accordance with established standards of practice, or amounts to improper conduct by an employee.

Potential examples would be:

- Breaches of statutory codes of practice
- Breaches of, or failure to, implement or comply with any policy determined by the Council or any of its Committees
- Actions which are likely to cause physical danger to persons, or give rise to a significant damage to property
- Failure to take reasonable steps to report and rectify any situation which is likely to give rise to a significant avoidable cost, or loss of income, to the Council or would otherwise seriously prejudice the Council
- Abuse of power, or the use of the Council's powers and authority for any unauthorised or ulterior purpose
- Unfair discrimination in the Council's employment or services
- Dangerous procedures risking health and safety

- Other unethical conduct

The Council's Whistleblowing Procedure (also known as the Confidential Disclosure Policy, see Section II) provides avenues for those raising concerns and is intended to safeguard:

- Confidentiality
- Anonymity, if this is what the provider seeks
- Untrue Allegations
- Against harassment and bullying

Managers have additional responsibilities with regard to concerns raised by staff under the Whistleblowing Procedure, with particular regard to protecting the member of staff's identity, welfare and anonymity.

### **Raising Concerns**

Employees (including Managers) wishing to raise concerns should refer to the Council's Whistleblowing Procedure. A copy of the Procedure can be obtained from KNet or Personnel & Development, or via a Trade Union Representative.

Suspected or apparent financial irregularities must be brought to the attention of the Senior Audit Manager in accordance with Financial Regulations. Where the irregularities relate to an elected Member, there should be an immediate notification to the Chief Executive or the Monitoring Officer.

If a member of the public suspects fraud or corruption they should contact the Chief Executive, Director of Finance or Senior Audit Manager in the first instance. They may also contact the Council's External

Auditor, who may be contacted in confidence via the Council's main telephone switchboard.

The Council's Internal Audit Section can be contacted by telephone on 7000 4636 / 01622 694636 or by mail to [internal.audit@kent.gov.uk](mailto:internal.audit@kent.gov.uk)

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

To: Governance and Audit Committee – 16 March 2011

Subject: **CIPFA STATEMENT ON THE ROLE OF THE HEAD OF INTERNAL AUDIT IN PUBLIC SERVICE ORGANISATIONS**

Classification: Unrestricted

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Summary: In May 2010 CIPFA began consultation on its Statement on the role of the Head of Internal Audit in public service organisations. This paper provides an update for the Committee and provides an initial assessment as to compliance against the governance requirements of the document.

## **FOR ASSURANCE**

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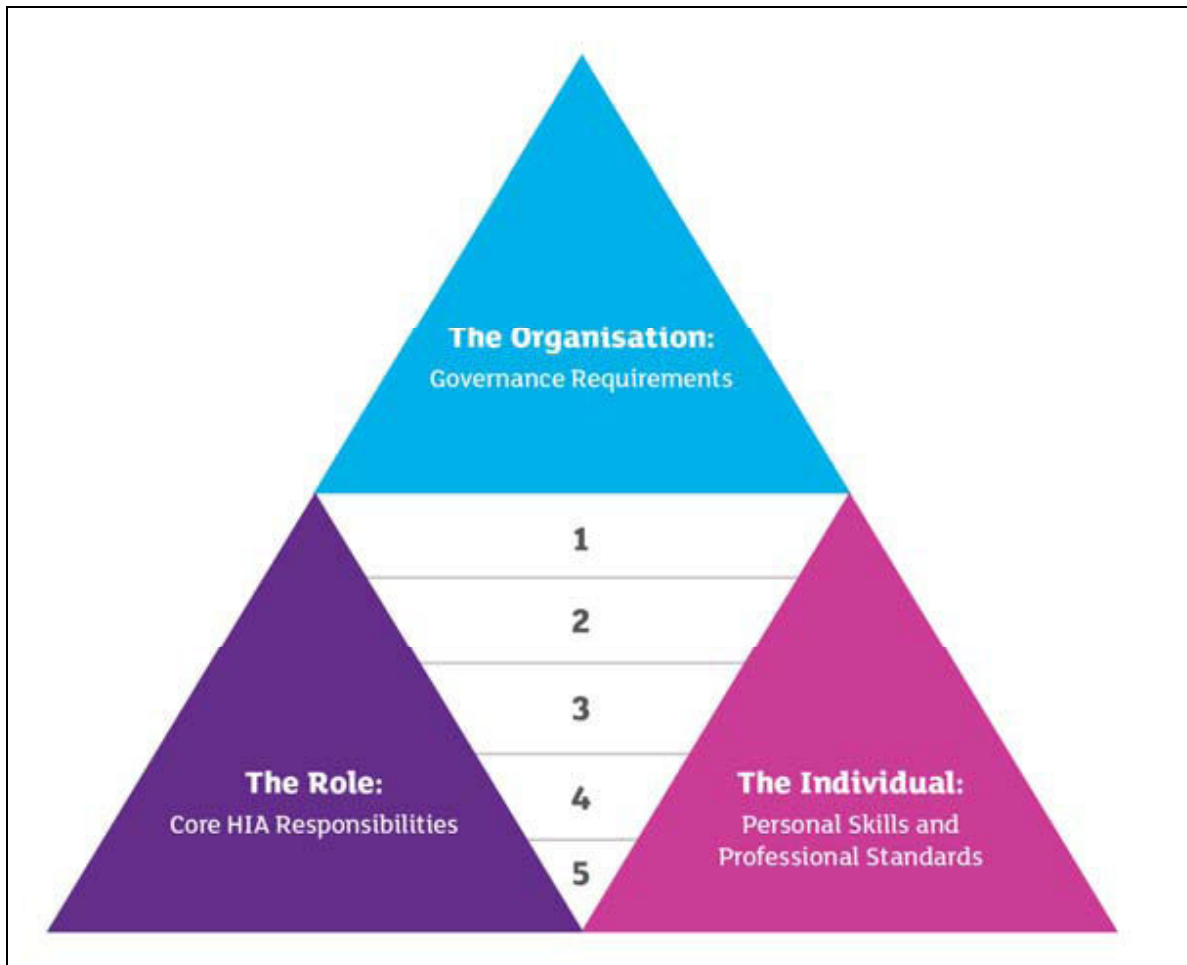
### **Introduction and background**

1. In May CIPFA published its consultation on its Statement on the role of the Head of Internal Audit (HIA) in public service organisations, and in November 2010 published the final version. The statement sets out best practice for HIAs to aspire to and for Audit Committees and others to measure internal audit against. As well as articulating the core responsibilities of the HIA, the statement also identifies the personal and professional skills needed by such an individual.
2. During the consultation CIPFA recognised that it needed a local government specific Statement to reflect the statutory responsibility of the Chief Financial Officer and others. A draft for this statement was published in December 2010, and was subject to consultation until 19<sup>th</sup> January 2011.

### **Overview of the Statements**

3. Both versions of the Statement set out the five principles that define the core activities and behaviours that belong to the role of the HIA in public service organisations, and the organisational arrangements needed to support them. For each principle the Statements set out the governance arrangements required within an organisation to ensure that HIAs are able to operate effectively and perform their core duties. The Statements also sets out the core responsibilities of the HIA.
4. The framework, shown in diagram 1 below, follows that used previously in the Statement on the Role of the Chief Financial Officer.

**Diagram 1:**



*Source: CIPFA*

5. The statement recognises that the Head of Internal Audit will play a critical role in delivering the organisation's strategic objectives by:
  - championing best practice in governance and management, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and
  - giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.
6. To perform this role the Head of Internal Audit:
  - must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;
  - must lead and direct an internal audit service that is resourced to be fit for purpose; and
  - must be professionally qualified and suitably experienced.
7. These are the five principles at the heart of the framework proposed by CIPFA.

## **Demonstrating compliance**

8. The Statements support CIPFA's work to strengthen governance, risk management and internal audit across public services. It is intended to allow the "Leadership Team" of a public service organisation to benchmark its existing arrangements against a defined framework. As expected CIPFA will require that the Council should report publically on compliance against the statement to demonstrate their commitment to good practice.

## **Initial view of compliance**

9. A detailed review against the governance requirements of the draft Local Government statement has been completed and is attached at annex 1. Compliance is achieved in most areas, with the only exceptions being:
  - There is no mechanism in place to ensure that the Head of Audit and Risk is consulted on all proposed major projects, programmes and policy initiatives.
  - Responsibilities for drawing up and reviewing key corporate strategies, statements and policies do not currently include the Head of Audit and Risk.
  - The terms of reference for internal audit have not been agreed with CMT.
  - The Head of Audit and Risk prepares the draft annual governance statement.
  - The basis on which the Head of Audit and Risk can give assurances to other organisations and the basis on which the Head of Audit and Risk can place reliance on assurances from others has not been documented or agreed.
  - The Head of Audit and Risk 's responsibilities relating to partners including joint ventures and outsourced and shared services have not been documented or agreed.
10. It is not anticipated that the final version of the Local Government statement will differ greatly from the consultation draft. However the compliance position will be update once the final version has been published.
11. These issues will be considered for disclosure as part of the Annual Governance Statement, although none are considered significant failures of the role. As the Council's Code of Corporate Governance and supporting documentation is refreshed, suitable procedures will be introduced.

## **Recommendations**

12. Members are asked to:
  - note the publication of the Statement on the role of the Head of Internal Audit in public service organisations, and that a Local Government version is being developed, and;
  - note the current compliance position.

**David Tonks**  
**Head of Audit and Risk**  
**Ext: 4614**

Background Papers  
CIPFA Statement on the role of the Head of Internal Audit in public service organisations

Governance requirement	KCC status
Principle 1	
Set out the HIA's role in good governance and how this fits with the role of others, in particular the CFO, the Monitoring Officer and the Head of Paid Service.	Arrangements are in place
Ensure that the importance of good governance is stressed to all in the authority, through policies, procedures and training.	Arrangements are in place
Ensure that the HIA is consulted on all proposed major projects, programmes and policy initiatives.	There is no mechanism in place for this to happen. Consultation is by invitation.
Require staff to report suspected or detected fraud, corruption or impropriety to the HIA.	Arrangements are in place
Principle 2	
Set out the responsibilities of the HIA, which should not include the management of operational areas.	Arrangements are in place
Ensure that internal audit is independent of external audit	Arrangements are in place
Where the HIA does have operational responsibilities the HIA's line manager and the Audit Committee should specifically approve the IA strategy for these and associated plans and reports and ensure the work is independently managed.	Arrangements are in place
Establish clear lines of responsibility for those with an interest in governance (eg Head of Paid Service, Monitoring Officer, Head of Paid Service, Audit Committee, Members). This covers responsibilities for drawing up and reviewing key corporate strategies, statements and policies	Lines of responsibility are in place. Responsibilities for drawing up and reviewing key corporate strategies, statements and policies do not currently include the Head of Audit and Risk

Governance requirement	KCC status
Establish clear lines of reporting to the Leadership Team and to the Audit Committee where the HIA has significant concerns.	Arrangements are in place
Agree the terms of reference for internal audit with the HIA, the Audit Committee and the CFO, as well as with the Leadership Team.	Terms of reference for internal audit have been agreed with the HIA, the Audit Committee and the CFO, but not the Leadership Team.
Set out the basis on which the HIA can give assurances to other organisations and the basis on which the HIA can place reliance on assurances from others.	No arrangements in place
Ensure that comprehensive governance arrangements are in place, with supporting documents covering eg risk management, corporate planning, anti fraud and corruption and whistleblowing	Arrangement are in place and will be enhanced with new SORPs
Ensure that the annual internal audit opinion and report are issued in the name of the HIA.	Arrangements are in place
Include awareness of governance in the competencies required by members of the Leadership Team	Arrangements are in place (TBC)
Set out the framework of assurance that supports the annual governance statement and identify internal audit's role within it. The HIA should not be responsible for preparing the report.	Arrangements are in place although the Head of Audit and Risk does prepare the draft report.
Ensure that the internal audit strategy is approved by the Audit Committee and endorsed by the Leadership Team	Arrangements are in place
<b>Principle 3</b>	
Designate a named individual as HIA in line with the principles in this Statement. The individual could be someone from another organisation where internal audit is contracted out or shared. Where	Arrangements are in place

Governance requirement	KCC status
this is the case then the roles of the HIA and the client manager must be clearly set out in the contract or agreement	
Ensure that where the HIA is an employee that they are sufficiently senior and independent within the authority's structure to allow them to carry out their role effectively and be able to provide credibly constructive challenge to the Management Team.	Arrangements are in place
Ensure that where the HIA is an employee the HIA is line managed by a member of the Management Team. Where the HIA is not an employee then the reporting line must be clearly set out in the contract or agreement with the internal audit supplier.	Arrangements are in place
Establish an Audit Committee in line with guidance and good practice.	Arrangements are in place
Set out the HIA's relationship with the Audit Committee and its Chair.	Arrangements are in place
<p>Ensure that the authority's governance arrangements allow the HIA:</p> <ul style="list-style-type: none"> <li>• to bring influence to bear on material decisions reflecting governance</li> <li>• direct access to the Chief Executive, other Leadership Team members, the Audit Committee and external audit</li> <li>• to attend meetings of the Leadership Team and Management Team where the HIA considers this to be appropriate.</li> </ul>	Arrangements are in place
Set out unfettered rights of access for internal audit to all papers and all people in the organisation, as well as appropriate access in (significant) partner organisations.	Arrangements are in place



Governance requirement	KCC status
Set out the HIA's responsibilities relating to partners including joint ventures and outsourced and shared services.	No arrangements in place
<b>Principle 4</b>	
Provide the HIA with the resources, expertise and systems necessary to perform their role effectively.	Arrangements are in place
Ensure that the Audit Committee sets out a performance framework for the HIA and their team and assesses performance and takes action as appropriate.	Arrangements are in place
Ensure that there is a regular external review of internal audit quality.	Arrangements are in place
Ensure that where the HIA is from another organisation that they do not also provide the external audit service	N/A
<b>Principle 5</b>	
Appoint a professionally qualified HIA whose core responsibilities include those set out under the other principles in this Statement and ensure that these are properly understood throughout the organisation.	Arrangements are in place
Ensure that the HIA has the skills, knowledge, experience and resources to perform effectively in his or her role.	Arrangements are in place

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By: David Tonks, Head of Audit and Risk  
 To: Governance and Audit Committee – 11 March 2011  
 Subject: **Internal Audit Strategy and Annual Audit Plan**  
 Classification: Unrestricted

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**Summary:** This report details the Internal Audit Strategy and Annual Plan for 2011/12.

## FOR DECISION

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### Introduction and background

1. This report sets out the Internal Audit Strategy and proposed supporting annual work programme for Internal Audit for 2011/12. 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
  - Following up the implementation of agreed recommendations
  - 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** – setting out the core systems audit work, the review of policies and other authority wide issues relating to governance.
  - **Fraud work** – including pro active fraud work, the review of strategies and policies to prevent fraud and corruption, raising fraud awareness, liaison on the National Fraud Initiative (NFI) and reactive fraud work (i.e. investigations of potential irregularities).
  - **Other productive work** – such as advice and information, general liaison, and following up the implementation of recommendations made.

### Development of the Audit Plan

4. Normally the Internal Audit Plan would be developed through a risk based planning process that incorporates 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, and;
  - 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. However, for 2011/2012 the Council will be in a state of change, and the key audit risk is considered to be providing assurance on the system of internal control. The Audit Strategy and Plan therefore reflects this priority and provides greater emphasis on core systems work, policies and anti-fraud activity.

### **Staff**

6. The plan is resourced by calculating the number of days available per member of staff in the Internal Audit Section.
7. The Internal Audit "establishment" is still in development, although it is expected to be about 13.6 FTE. For the 2010/11 audit year the actual number full time equivalent will be closer to 12 FTEs due to training commitments and inevitable vacancies during recruitment processes. As for 2010/11 275 days of ICT audit work and 15 days advice and information will be provided by Deloitte LLP.
8. During 2011/12 the approach to the internal audit of Kent Commercial Services (KCS) will also be amended. Due to the quasi-commercial nature of KCS (and the higher level of inherent risk its activity give rise to) a dedicated audit resource of approximately 2 FTEs will be created. This team will complete audits in Commercial Services but will remain professionally accountable to the Head of Audit and Risk, who would retain the direction for the audit programme.

### **Schools Compliance**

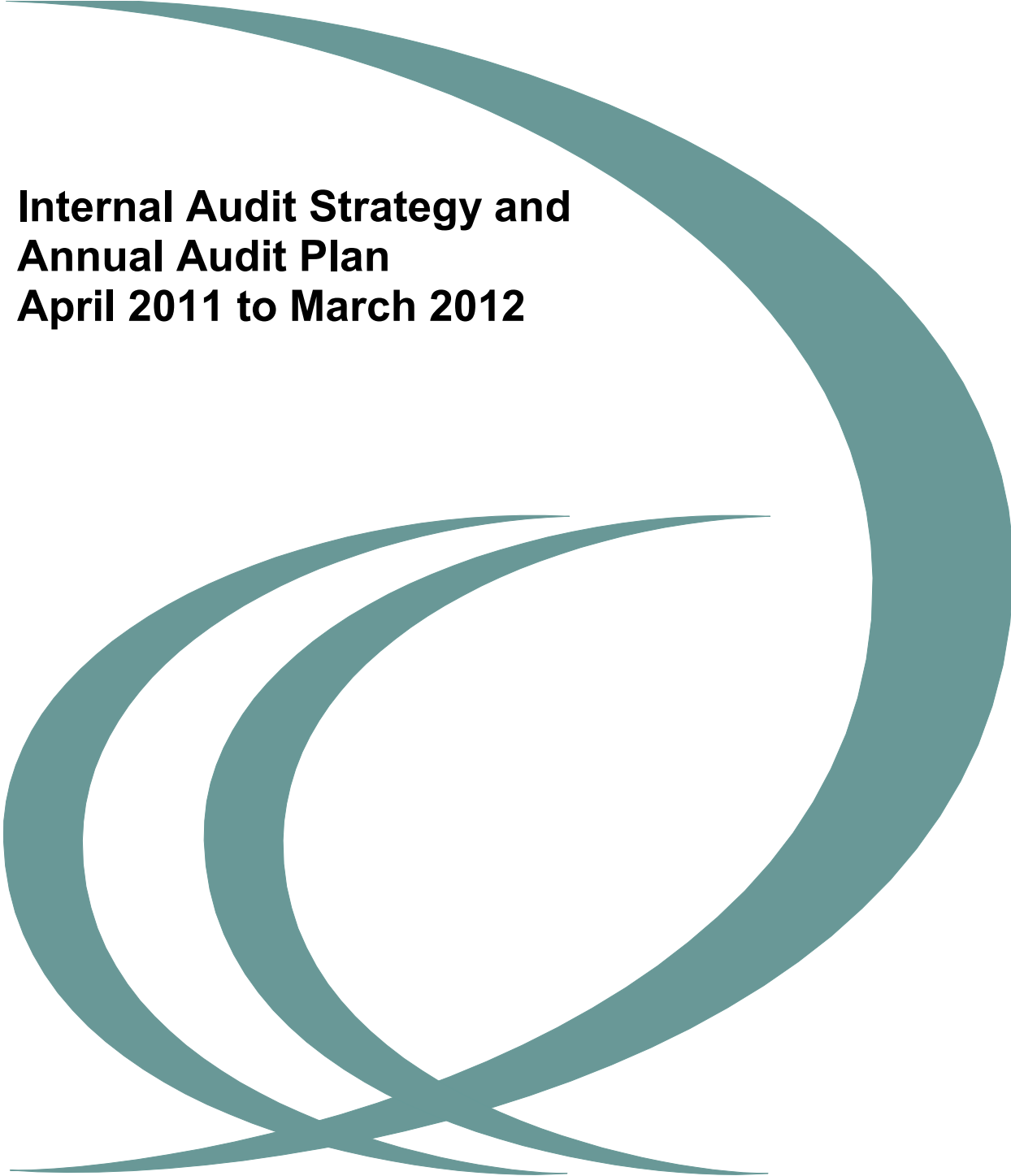
9. In many County Councils schools compliance services fall within the programme of Internal Audit. Members are reminded that in Kent this service is currently provided by the Children, Families and Education Financial Compliance Unit. This team assess the Financial Management Standard in Schools (FMSiS) and also carry out compliance visits to schools which cover a number of areas including, finance, Health & Safety and pre employment checks.

### **Recommendations**

10. Members are asked to agree the proposed Internal Audit Strategy and Annual Plan for 2011/12, recommending changes and additions as necessary.

**David Tonks**  
**Head of Audit and Risk**  
**Ext: 4614**

**Internal Audit Strategy and  
Annual Audit Plan  
April 2011 to March 2012**



## Internal Audit Strategy

### **Introduction**

The CiPFA<sup>1</sup> 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.”

For the purpose of this strategy the Terms of Reference of the Kent Audit service are specified within its Audit Manual and Internal Audit Charter, which have been approved by the Governance and Audit Committee.

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*”.

### **Annual Opinion to support the Annual Governance Statement**

The dynamic external environment of the public sector, and the internal responses to this, means that the audit risk universe has become too complex to successfully provide an annual plan that can be set for a whole year ahead. For 2011/12 only the audit strategy and plan will therefore be based on ensuring that the foundations of sound internal control remain in place throughout this period of change.

The Head of Audit and Risk will still provide the accounting officer with an opinion on the overall adequacy and effectiveness of the Council’s governance processes, risk management, and internal control, collectively referred to as “the system of internal control”. Where any potential limitations on this opinion come to light during the year they will initially be discussed with Corporate Management Team and reported to the Governance and Audit Committee.

### **Governance**

Each year Internal Audit normally assesses the Council’s governance arrangements by comparison with the principles described in the CIPFA SOLACE Governance Framework (Delivering Good Governance in Local Government, 2007). For 2011/2012 additional work will be completed in relation to emerging governance arrangements as the Council implements the second phase of its restructure. This will include, with the agreement of Corporate Management Team, a mid-year Annual Governance Statement exercise which will then be audited. The output from this process will be added to the assurances available to the Managing Director and Leader at the year end.

### **Risk Management**

Internal Audit will assess the Council’s risk management arrangements, including the risk management strategy, documentation and guidance, risk registers, risk reports and minutes of meetings for key decisions. To avoid conflicts of interest and maintain

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<sup>1</sup> Chartered Institute of Public Finance and Accountancy

professional independence and objectivity, this work will not be reported via the Head of Audit and risk, but will be reported directly to the Corporate Director of Finance.

## **Internal Control**

Our annual programme of work, undertaken to provide assurance to management and the Council on the operation of the internal control environment usually forms the significant part of the evidence for the opinion. As set out above, the adequacy and outcomes of the Council's risk management framework will be assessed annually. Previous assessments of risk management have shown that the framework can be relied upon to identify the significant local and national risks faced by the Council, and the directorate and strategic risk registers have previously been used to inform and guide the Internal Audit plan.

As set out above 2011/12 will be a year of significant change for the Council, including the restructure and proposed centralisation of support services and a further reduction in the budget. The Internal Audit plan has therefore been developed to take these changes into account. As well as the work on governance and risk management we will assess the adequacy of the core aspects of internal control, including the key authority-wide financial systems and compliance with KCC's policies. This work may be supplemented by audits and reviews commissioned in response to emerging or urgent issues, such as those set out at table 4 below) and risks that are identified by senior officers and for which assurance is required. Depending on the timing of when these issues are identified they will be added in year and we have therefore retained a contingency of our available audit days to be used to provide this work. This will also include an advisory role for new and/or developing systems and processes where appropriate.

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.

## ***Following up the implementation of agreed recommendations***

At the end of the fieldwork for each audit, a draft report is produced which will include recommendations (where relevant) where improvements in, or the application of controls are required. A priority rating will be applied to each recommendation as follows, high, medium or low. For high priority recommendations, immediate management action is required and we will follow up all of the high priority recommendations. For medium priority recommendations will seek assurance from the accountable manager that the required action has been implemented and may follow up a sample. We will not actively follow up low priority recommendations. Where agreed recommendations with a high priority rating have not been implemented in the agreed timescale, the accountable manager will be required to explain the reason to the Governance and Audit Committee.

Each audit is given an assurance, full, substantial, limited or none. We will follow up all audits, usually within six months of the original final report being issued, where limited or no assurance has been given

## ***How the service will be provided***

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. The contract for this work is due to be retendered during 2011/12. 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 be

provided from a variety of sources, including internal key performance indicators, external benchmarking comparisons, quality reviews and satisfaction surveys from clients and feedback from the external auditors.

During 2011/12 there will a change to the way in which the internal audit of Kent Commercial Services (KCS) is delivered. It has been agreed that, due to the quasi-commercial nature of KCS, and the higher level of inherent risk its activity give rise to, a dedicated audit resource will be created. This team would be specifically employed to carry out audits in Commercial Services, and funded by KCS. The team will remain professionally accountable to the Head of Audit and Risk, who would retain the direction for the audit programme. The outcome of the audits carried out in Commercial services will continue to be reported to the Governance and Audit Committee through the Head of Audit and Risk.

Liaison with the 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. The outcome of this liaison will be reported to the Governance and Audit Committee.

### ***Resources and skills required***

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.

Where audits require 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 Council and from outside sources.

Staff developments needs are continually assessed through the appraisal scheme and feedback from clients and quality reviews. These are fed into Internal Audit's training plan to ensure that team members have appropriate skills and are able to deliver a professional service in line with current best practice.



# Annual Audit Plan

## 1. Authority Wide

Ref	Audit	Reason for Audit	Scope/Comments	Days
AW01 2012	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	30
AW02 2012	Schemes of delegation and limits on approval	To support the Annual Governance Statement and provide assurance that appropriate schemes of delegation have been put in place in line with the Council's restructure.	To provide assurance that controls are in place to ensure decisions are made in line with the Council's intended scheme of delegation.	20
AW03 2012	Annual Governance Statement	To provide assurance that actions identified in directorates' individual annual governance statements are in place and being implemented.	A review of directorates' twice yearly annual governance statements to ensure that issues identified have appropriate action plans in place and are being implemented.	30
AW04 2012	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.	30
AW05 2012	Risk Management	To support the Annual Governance Statement	A review of the Council's risk management arrangements.	35
AW06 2012	Business Continuity Planning	To ensure that business continuity plans reflect the new structure of the Council.	To provide assurance that there are business continuity plans in place that are regularly tested and updated where necessary, and that the plans are disseminated to relevant and appropriate staff.	30
	<b>Total days</b>			<b>175</b>

## 2. Core Systems Work

The work in this section is programmed to provide the Council with assurance that controls are in place and operating in key financial or information systems

Ref	Audit	Days
CS01 2012	Oracle - General Ledger	50
CS02 2012	Oracle - Accounts Payable	50
CS03 2012	Oracle - Accounts Receivable	50
CS04 2012	Oracle - i Procurement	20
CS05 2012	Corporate Purchase Cards	20
CS06 2012	Oracle - payroll and HR	50
CS07 2012	Treasury Management	30
CS08 2012	Cashiering and Bank reconciliations	20
CS09 2012	Medium Term Planning	20
CS10 2012	Revenue Budget Monitoring	30
CS11 2012	Swift - Social Care System (Domiciliary & Residential)	30
CS12 2012	TDM - (Transactional Data Matching)	25
CS13 2012	Client Billing	20
CS14 2012	Capita One - Children Social Care System	30
CS15 2012	Pensions contributions	15
CS16 2012	Pensions investment income	15
CS17 2012	Enterprise and Interprise (Property info databases)	15
CS18 2012	Routewise	25
CS19 2012	WAMS	25
CS20 2012	Financial control in schools	10
CS21 2012	Oracle Modules	30
CS22 2012	Firewalls and Firewall Management	20
CS23 2012	Network Security and Infrastructure (LAN)	35
CS24 2012	Exchange Server and e-mail	25
CS 25 2012	IT Support Arrangements (ITIL)	40
CS 26 2012	IT compliance	20
	<b>Total Days</b>	<b>720</b>

### 3. Key Policies

To provide assurance on the application and compliance with the Council's key policies

Ref	Policy area	Days
POL01 2012	Data Protection Act	15
POL02 2012	Freedom of information Act	15
POL03 2012	Equalities Act	15
POL04 2012	Complaints, Comments and Compliments Policy	25
POL05 2012	Blue Book – Job Evaluation	20
POL06 2012	Blue Book – Recruitment & selection	30
POL07 2012	Blue Book – TCP	20
POL08 2012	Blue Book – Employment Contracts	15
POL09 2012	Blue Book – Equality Act / Fairness at Work	20
POL10 2012	Blue Book – Health and Safety at Work	25
POL11 2012	Blue Book – Performance and Conduct	30
POL12 2012	Communications Toolkit	20
POL13 2012	Procurement	40
POL14 2012	Information Security	30
	<b>Total Days</b>	<b>320</b>

## 4. Emerging Issues

The following list shows examples of emerging issues

Title	Reason for potential audit/advice & information
East Kent Waste collection partnership	Renegotiation of waste collection contract, may need Internal audit input.
Power of Central Competence	Legal power to give Councils a free hand to pursue the best interests of their local areas. Wide ranging power may be inappropriately applied, and therefore may be compliance failure.
Local Enterprise Partnerships	Joint local authority-business bodies brought forward by local authorities to promote local economic development- to replace the Regional Development Agencies (RDAs). Governance issues will need to be addressed.
Recruitment process	Inconsistency in approach to recruitment including responsibility for employment checks. Identified in the Audit Commission's publication 'Protecting the Public Purse'.
Academies Bill	There will be implications for KCC as academies are established.
Information Governance	The Information Commissioner's Office has been given new powers to enforce good information governance including the power to levy fines up to £500k. Responsibility for information governance devolved in KCC increasing the inherent risk of control failure.
Bribery and Corruption Act	Review how this may affect KCC.
Young People's Learning Agency (YPLA)	Transfer of funding for 16 – 19 year olds education to local authorities may be requirement for audits to be carried by Internal Audit.
Publications of all payments of £500 and above.	Central Government requires public bodies to publish details of £500 and above, implication of data protection issues, increased FOI requests and media interest.
Publication of salaries of staff earning £58k and above	Data protection issues.
Renegotiation of KHS contract	My require Internal Audit input.
Upgrades to systems including Oracle, Swift and i proc.	Changes to the control environment may require Internal Audit input.
NHS White Paper	PCT responsibilities for local health improvement will transfer to local authorities.

## 5. 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	Continued development of the 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.	35
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	10
Irregularities and other investigations	Based on previous experience dealing with investigations of irregularities.	200
<b>Total days</b>		<b>335</b>

## Summary

Audit	Days
Authority Wide	175
Core Systems Work	720
Key Policies	320
Pro Active and re-active fraud Work	335
Follow ups of audits with minimal assurance; and recommendations with high priority rating	125
Liaison, Advice & Information and potential emerging issues (Contingency)	180
Grant Claims	70
<b>Total 2010/11 totals</b>	<b>1925</b>

By: David Tonks, Head of Audit and Risk  
To: Governance and Audit Committee – 16 March 2011  
Subject: **Audit Opinions and Recommendations**  
Classification: Unrestricted

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**Summary:** This paper sets out changes to audit opinions and recommendations that will be introduced for work completed as part of the 2011/12 Audit Programme.

## **FOR DECISION**

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### **Introduction and background**

1. The Internal Audit section are asked by the Council, Committees, management, and other stakeholders (such as central government) to provide opinions as part of each individual audit engagement as well as on the overall adequacy of governance, risk management, and control within the Council. These requests may be for an assurance or opinion at a broad level for the Council as a whole (macro-level opinions) or on individual components of the Council's operations (micro-level opinions).
2. It is the view of the Head of Audit and Risk that the current "assurance levels" issued by Internal Audit need to be changed to meet the needs of stakeholders across and outside of the Council, and provide better clarity as to the assurance being given. Linked to this, the way in which recommendations are currently graded must be changed, so that the priority status is aligned to the current perception held by stakeholders across the Council.
3. It is best practice that stakeholder requirements for internal audit opinions, including the level of assurance required, should be clarified by the "Chief Audit Executive" (i.e. Head of Audit and Risk) with senior management (i.e. CMT) and the Audit Committee. CMT have already endorsed the principles outlined in this paper.

### **Context**

#### **Positive Assurance Opinions**

4. Positive assurance or reasonable assurance opinions provide the highest level of assurance and are one of the strongest types of audit opinions. In providing positive assurance, the auditor takes a definite position, which can be binary in nature but may also include the use of a grading system. Where relevant, the expression of the opinion may also include information about the direction of the opinion since a previous audit.
5. KCC Internal Audit currently issue positive assurance opinions using the gradings of High, Substantial, Limited and Minimal. Whilst the gradings are defined, superficially there is a lack of distinction between the lowest two levels of limited and minimal, and there is no opportunity for the auditor to conclude that no assurance can be provided based on the evidence available.

6. In addition, the present definitions of the ratings (which are not repeated here) introduce concepts from risk management, whilst also being described in summary as relating to controls. Latest risk management practice recognises that there must be a strong link between audit assurance and risk management, but basing assurances on the likely exposure to risk introduces a layer of complexity to the opinions that is not well understood, either by stakeholders or to some extent the current audit staff. This therefore diminishes the value of the assurances provided.

**Audit recommendations**

- 7. At the conclusion of the audit reviews, the auditor currently assesses the risks resulting from the control weaknesses identified. These risk ratings use the categories ●● Critical, ● High, ● Medium and ● Low.
- 8. These ratings relate to the risk arising as a result of a potential control failure, and not the priority for implementing the recommendation made to improve the control environment. There will usually be a strong correlation between these two, but the result is that stakeholders, and on occasion auditors, talk in terms of “critical” or “medium” recommendations, inferring priority for rectification, leading to a perception gap. This process also introduces another aspect of “risk” that is not yet linked with the risk management framework of the Council, and does not feed into the Risk Based Audit planning presently used by Internal Audit.

**Summary of the proposed changes**

**Audit Opinions**

9. Internal Audit will continue to issue positive assurance opinions for the majority of the reviews completed in any one year. The annual opinion issued by the Head of Audit and Risk will also be based on this model. However, from the 2011/12 audit year the description of the assurance will be amended and the definitions relating to the assurance provided will now focus more explicitly on controls to manage risk. The new assurance levels and definitions will be:

Assurance Level	Definition
Full	The controls evaluated are well designed, appropriate in scope and applied consistently and effectively. Any issues identified are minor in nature and should not prevent objectives being achieved.
Substantial	The controls evaluated are generally well designed, appropriate in scope and applied consistently and effectively, but weaknesses have been identified that require management attention. These issues increase the possibility that objectives may not be achieved.
Limited	Some controls evaluated are generally well designed, appropriate in scope and applied consistently and effectively. However, issues of poor design, gaps in coverage or inconsistent or ineffective implementation have been identified that require immediate management attention. The issues identified, if unresolved, mean that objectives may not be achieved.



Assurance Level	Definition
No assurance	Expected controls are absent, or where evaluated are flawed in design, scope or application. The auditor is unable to form a view as to whether objectives will be achieved.

10. In addition to the above, three other concepts will be introduced:

- Qualified opinions
- Pure compliance opinions
- Negative assurance opinions

### Qualified Opinions

11. This concept will replace the use of “split assurance opinions” that are currently used by Internal Audit. Qualified opinions will be only be given where the auditor feels that awarding a lower level opinion is not justified because the issue identified is known to be unusual in nature and/or not typical of the normal practice in the area assessed. The form of the opinion would be, “substantial assurance, except for...”. It is anticipated that this type of opinion will only be issued in exceptional circumstances, approved by the Head of Audit and Risk, where the auditor has exhausted all other economic means to reach a definitive opinion.

### Pure Compliance Opinions

12. It is recognised that there will be instances where it is more beneficial to senior management or other stakeholders to have a yes/no assertion of compliance. In these instances the following opinion will be given:

Opinion	Definition
Compliant	The area assessed meets all the requirements of the legislation, regulation, policy or other guiding documentation.
Not compliant	For the area assessed there are requirements of the legislation, regulation, policy or other guiding documentation that have not been met.*

\*No weighting is used as to the area of non-compliance

### Negative assurance opinions

13. A negative assurance opinion is one stating that nothing came to the auditor’s attention about a particular objective, system, data return etc. that would require comment. In these cases the Auditor takes no responsibility for ensuring that the scope of the work completed is sufficient to identify all issues, and as such this type of opinion is less valuable to management than the preferred positive opinions described above. However, there will be instances where the potential scope of the work is so wide ranging that this is the only valid form of opinion that can be given. It is the intention that these types of opinion will be rare, and will

always be approved by the Head of Audit and Risk. Therefore a prescribed wording will not be defined

14. These concepts allow for greater precision for the auditor and are expected to provide greater clarity for the recipient of the final output.

### **Audit Recommendations**

15. It is proposed to have three levels of priority for recommendations (as set out below) and remove the risk rating of control failures. This aligns perceptions of stakeholders and auditors and simplifies the process.

### **Proposed priorities for recommendations**

Rating	Definition
High	<p>Immediate management action is required to remedy a serious failure of internal control that has led, or may lead, to one or more of the following:</p> <ul style="list-style-type: none"> <li>• Substantial loss of resources.</li> <li>• Serious failure to comply with legislation and / or Council Policy.</li> <li>• Significant reputational damage for the Council, involving national media.</li> <li>• Significant adverse regulatory impact, such as a national report, intervention or suspension of services.</li> </ul>
Medium	<p>Timely management action is required to remedy weaknesses in internal control that could lead to one or more of the following:</p> <ul style="list-style-type: none"> <li>• Loss of resources.</li> <li>• Failure to comply with some aspects of legislation and / or Council Policy.</li> <li>• Reputational damage for the Council, involving local or regional media</li> <li>• Adverse regulatory impact, such as loss of external ratings or negative local report.</li> </ul>
Low	<p>Management action is suggested to improve the quality and/or efficiency of the control environment of the Council.</p>

16. All recommendations made will include an indicative implementation date. This date will be agreed through discussion between the auditor and the review owner(s). No timescale for implementation will be specified, but it is expected that most High priority recommendations will be acted upon within one month of the final report being issued, and Medium priority recommendations within six months. The Head of Audit and Risk will have the final sanction where implementation dates relating to High priority recommendations are considered too far in the future, and in all cases where the suggested action does not meet the control deficiency.

17. High and Medium priority recommendations will be subject to more rigorous follow up and reporting to Governance and Audit Committee, which will require

detailed management responses and potential attendance at committees by those officers identified as responsible for implementing high priority recommendations.

## **Conclusion**

18. The current basis for opinions and recommendations inhibit the precision, usability and understanding of the Internal Audit reports, thereby reducing the benefit of the potential assurance provided. Change is required to bring the current working practices of the Internal Audit section in line with the best practice offered by the Institute of Internal Audit.

## **Recommendations**

19. Members are asked to:

- Approve the amendments to gradings and definitions for audit opinions, and approve the introduction of qualified, compliance and negative assurance opinions.
- Approve the amended prioritisation criterion for audit recommendations and the indicative timescales for implementing the recommendations.
- Approve the amended reporting to the Committee in relation to the tracking of implementation of recommendations, including the requirement for officers to attend Committee when deadlines for implementation of High priority recommendations have been missed.

**David Tonks**  
**Head of Audit and Risk**  
**Ext: 4614**

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By: John Simmonds, Cabinet Member for Finance  
Andy wood, Acting Director of Finance

To: Governance and Audit Committee – 16 March 2011

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

Classification: Unrestricted

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

## **FOR ASSURANCE**

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### **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 attached report from the Audit Commission provides a summary of the work completed in relation to the certification of claims for funding for the 2009/2010 financial year. The report relates to five claims reviewed by the Audit Commission, totalling £153m.
3. The report makes a total of two recommendations to improve the control environment in relation to claims submitted for certification. The response to these recommendations is being developed, but due to the timing of the report a completed action plan had not been able to be produced.

### **Recommendations**

4. 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 2009/10**



**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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# Summary

**Funding from government grant-paying departments is an important income stream for the Council. The Council needs to ensure grant conditions are met. This report summarises the findings from the certification of 2009/10 claims.**

## **Certification of claims**

- 1** Kent County Council receives more than £1.8 billion funding from various grant paying departments. Some departments attach conditions to the grants, which the Council must meet to ensure the funding is not put at risk.
- 2** In 2009/10, my audit team certified five claims with a total value of £153 million. All claims were certified without amendment or qualification. Appendix 1 sets out a full summary.
- 3** The fees I charged for grant certification work in 2009/10 were £16,192.

# Background

4 The Council claims income for specific activities from grant paying departments. As a significant income stream, it is important that appropriate management arrangements are in place. In particular this means:

- an adequate control environment over each claim and return; and
- a clear evidence trail to show that grant conditions are met;
- government deadlines are met.

5 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 Kent County 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.

6 The key features of the current arrangements are as follows.

- For claims and returns below £125,000 the Commission does not make certification arrangements;
- For claims and returns between £125,000 and £500,000, auditors undertake limited tests to agree claims 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 tests to agree to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means the audit fees for certification work are reduced if the control environment is strong.
- For claims spanning 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.

7 Of the five claims audited, two were a limited review and three a full review.

# Findings

## Control environment

**8** My audit team assesses the following items that comprise the control environment:

- Arrangements to ensure claims and returns are completed accurately and follow the scheme terms and conditions;
- including internal financial control and internal audit review;
- Quality of supporting working papers;
- Expertise and relevant knowledge of preparers, including the adequacy of supervision and review; and
- Cumulative knowledge of the problems associated with compilation of this claim or return including previous points arising, any known concerns expressed by the grant-paying body or any actions/decisions by the grant-paying body on previous qualification letters.

**9** All claims certified in 2009/10 were over the £500,000 certification threshold. I concluded that I could rely on the control environment for two claims: School Centred Initial Teacher Training return (EDU06) and Sure Start, Early Years and Childcare grant claim (EYC02). I also assessed the control environment for two new claims, both Local Transport Plan Major Project schemes, and concluded that I could rely on the control environment.

**10** I was unable to rely on the control environment for one claim: Teachers' Pensions Return. I identified the following weaknesses in the control environment assessment:

- Overall risk - The return is high-risk as there are a large volume of transactions;
- Cumulative problems - the return was subject to qualification in 2008/09 for two issues where the Council did not:
  - carry out a review of the information included in Part B of the return which is provided by third parties before certifying the claim; and
  - obtain supporting documentation from schools who carry out their own payroll service.

Audit testing during 2009/10 confirmed the Council has addressed these qualification issues.

## Specific claims

**11** Appendix 1 sets out the specific claims I certified in 2009/10. I did not have to request amendments to any of the claims as a result of my work. I did however, identify a small number of improvements that could be made in the Council's arrangements as reported below:

- Two claims were submitted after the deadlines specified by the government departments (School Centred Initial Teacher Training -8 weeks late and Teachers' Pensions Return - 3 weeks late)
- For some of the claims it was not clear which officer is responsible for liaising with the auditor when the claim is completed by different departments or external bodies. This has the potential to delay the audit and incur unnecessary costs to the Council.

## Recommendation

- R1** The officer responsible for certifying the claim should ensure that it is submitted to audit before the deadline set by the grant paying body.
- R2** The Council should ensure that key contacts are available for all grant claims to provide supporting evidence and respond to auditor queries.
-

## Appendix 1 Summary of 2009/10 certified claims

Table 1: **Claims and returns above £500,000**

Claim	Value £	Adequate control environment	Amended	Qualification letter
School Centred Initial Teacher Training (EDU06)	750,350	Yes	No	No
Sure Start, Early Years and Childcare grant (EYC02)	47,409,127	Yes	No	No
Teachers' Pensions Return (PEN05)	87,845,901	No	No	No
Major Transport Plan: Sittingbourne Northern Relief Road (TRA11)	6,534,429	Yes	No	No
Major Transport Plan: East Kent Access Phase 2 (TRA11)	10,946,000	Yes	No	No

## Appendix 2 Action Plan

### Recommendations

#### Recommendation 1

The officer responsible for certifying the claim should ensure that it is submitted to audit before the deadline set by the grant paying body.

<b>Responsibility</b>	Keith Abbott and Richard Hallett
<b>Priority</b>	High
<b>Date</b>	1 April 2011
<b>Comments</b>	None

#### Recommendation 2

The Council should ensure that key contacts for the grant claims to provide supporting documentation and respond to auditor queries.

<b>Responsibility</b>	Keith Abbott and Richard Hallett
<b>Priority</b>	Medium
<b>Date</b>	1 April 2011
<b>Comments</b>	None

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By: Roger Gough – Member for Corporate Support Services  
and Performance Management  
To: David Tonks – Head of Audit and Risk  
Governance and Audit Committee – 16 March 2011  
Subject: INTERNAL AUDIT PROGRESS REPORT  
Classification: Unrestricted

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**Summary:** This report summarises the progress against the 2010/11 internal audit programme.

## **FOR ASSURANCE**

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### **Introduction**

1. This report summarises the progress against the 2010/11 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. Between November 2010 and January 2011 Internal Audit finalised seven reports, issued 11 draft reports and started the field work for 13 audits. Detailed progress against the audit plan for 2010/11 is listed at annex A. Summaries of the audits finalised in the period are at annex B. The directorates' progress against the implementation of agreed recommendations is shown at annex C.
3. The section has been working hard all year to ensure delivery of the 2010/11 audit plan, whilst at the same time going through a fundamental reorganisation and dealing with a legacy of delayed reports from the 2009/10 audit programme. As previously reported to the Committee the current year's audit plan has been behind schedule, and as set out in annex F this remains the case. Although additional resources have been commissioned to resolve this issue, a number of fraud investigations (see below) have required additional audit resource. Whilst it is disappointing that the plan is not currently on target, it is still expected that the audit plan will be completed to a sufficient degree to allow the Head of Internal Audit opinion to be issued to the June committee.
4. Amendments to the Audit Plan are shown at annex D and a breakdown of Internal Audit Performance Indicators are shown at annex F.

### **Irregularities**

5. Since September 2010 seven cases of suspected irregularities have been reported involving KCC finances, all of which have required varying levels of investigation by audit staff, representing a . Three of the investigations have been completed and the others are ongoing. Details of the completed investigations can be found at annex E.

## **Implications for Governance**

6. Although issues have been identified from the ongoing work of the Audit Plan, no significant control weaknesses or failures of governance have been identified from the audits completed or the irregularities investigated in the financial year to date. Annex G provides the cumulative assurance position for the Council from 2008/09 to present, while annex H provides the definition of these assurance levels.

## **Recommendation**

7. Members are asked to note:
  - the amendments to, and progress against the 2010/11 audit programme
  - the assurance provided in relation to the council's control environment as a result of the outcome of the internal audit programme completed to date.

**David Tonks**  
**Head of Audit & Risk**  
**Ext: 4614**  
**23 February 2011**

Annex A  
Progress against the 2010/11 Audit Plan

Directorate/area	Audit	Progress at 31 January 2011	Assurance
<b>Authority Wide</b>			
	Risk Management – Health & Safety	Final report issued	High
	Authority Wide – ISG Management /Strategy Development	Final report issued	Substantial
	Vetting and Barring Scheme		
	Use of Consultants	Final report issued	Substantial
	Website Management	Final report issued	Substantial
	Data Protection	Draft report issued	
	Handling Risk Information	Draft report issued	
	Staff Expenses System	Draft report issued	
	Governance of Partnerships	Audit in progress	
	Corporate Governance	Audit in progress	
	Capital Contract Monitoring	Draft report issued	
	Performance Management Framework	Audit in progress	
	Risk Management -	Audit in progress	
<b>Chief Executive's</b>			
	Virus Protection/Spyware	Final report issued	Substantial
	End User controls	Final report issued	Limited
	Building Maintenance Contract	ToR issued and agreed	
	Employment checks through Kent Top Temps	Final report issued	High
	Procurement	ToR issued and agreed	
	Operation of the Property Consultants Framework	Final report issued	Substantial
	Medium Term Plan - income	Final report issued	High
	Accounts Payable	Draft report issued	
	Payroll		
	Accounts Receivable	Final report issued	High
	Year End Accounting	Final report issued	N/A
	Commercial Services Accounts Payable	Final report issued	Substantial
	Accounts Receivable (Commercial Services)	Final report issued	Substantial
	Pensions Contributions	Draft report issued	
	East Kent Payroll Services Contract	Audit in progress	
	General Ledger (Commercial Services)	Draft report issued	
	Schools' Personnel Service	Audit in progress	
	Pensions Investment Income	Audit in progress	
	General Ledger	Audit in progress	
	Corporate Purchase Cards	ToR issued and	

Directorate/area	Audit	Progress at 31 January 2011	Assurance
		agreed	
	Data backup and data centres	Draft report issued	
	Treasury Management	Audit in progress	
<b>Children Families &amp; Education</b>			
	Cluster Funding	Draft report issued	
	Direct Payments (for children)	Audit in progress	
	Out of County Placements		
	Financial Control in Schools		
	Special Education Needs Transport	Final report issued	Limited
	Unstructured data processing	Audit in progress	
<b>Kent Adult Social Services</b>			
	Transaction Data Matching		
	Residential Payments Data	Final report issued	Substantial
	Debt Management	Audit in progress	
	Swift Project Dependency Management	Draft report issued	
	Learning Disability Transfer	Audit in progress	
	Quality of Care in Residential Homes	Audit in progress	
<b>Communities</b>			
	Fee Income	Draft report issued	
	Libraries IT Renewal Project	Final report issued	Substantial
	Careworks Application	Draft report issued	
	Data Quality	Audit in progress	
	Revenue Budget Monitoring	Draft report issued	
	Pre implementation review of self issue kiosks in libraries	Draft report issued	
<b>Environment, Highways &amp; Waste</b>			
	Key financial controls in KCC establishments Church Marshes - Waste Transfer Station	Draft report issued	
	Permit Scheme IT Application Audit	Final report issued	Limited
	Carbon Reduction Commitment	Audit in progress	
	Review of Roadworks Permit Scheme	Audit in progress	
	Highways Maintenance Programme - Traffic Light management contract	Audit in progress	
	Over 60s travel passes	Audit in progress	

### **Virus Protection and Spyware**

#### **Scope**

The scope of the audit was to review the technical management of the Councils Anti Virus and Spyware provision to protect the Council from malicious software (Malware).

#### **Overall assessment – Substantial**

The Council has in place an Anti-Virus Policy, covering the major points on virus protection, and guidance is provided to users. Procedure are in place for loading and updating anti-virus software and apply to all PCs, laptops and remote access usage.

Although user machines and servers are loaded with the latest anti-virus updates at connection to the network, network devices are not currently updated and patched and unauthorised software is not currently being identified in a sustainable manner; and the procurement policy around IT equipment and systems procured inside ISG needs to be strengthened.

Possible infection incidents are logged by the Service Desk, who have defined and documented procedures for virus handling. There is however, a need to further educate users about the risk of viruses and spyware

### **End User Controls**

#### **Scope**

The scope of the audit was to review the technical management of the Councils IT systems to help protect data and manage end user behaviours when using IT systems or equipment.

#### **Overall assessment – Limited**

An end user is generally a person that uses IT hardware once it has been installed and is ready for use. End user devices include laptops, Personal Digital Assistants (PDA) and Smartphones. Some end user devices such as portable USB data storage devices, may be used solely for the purpose of transferring data from one device to another.

There was one critical rated recommendation relating to the regular patching of network devices including workstations, laptops, bridges, routers, switches and gateways.

Although the security configuration at the workstation/laptop level tended to be relatively strong, the key areas of weakness were around the more portable devices, such as portable data storage devices (e.g. external hard drives, writable CDs and USB drives) which can hold large volumes of data and be easily moved around.

There are three key areas which impact on this. The first is Information Governance which is now being developed within KCC. The second is the ability to monitor and manage portable devices' ability to connect to the Council's systems through end point security. The third area is relates to policy awareness and training for users which are key in providing the tools to make decisions around how to use end user equipment.

<b>Operation of the Property Consultants Framework</b>
<p><b>Scope</b></p> <p>The purpose of the framework is to enable Council sites to commission property consultants without the need of undertaking lengthy procurement processes each time. The scope of the audit was to review compliance with the framework.</p> <p><b>Overall Assessment – Substantial</b></p> <p>The audit found that consultants are being commissioned in compliance with the stipulations of the consultants' framework. However, there is no monitoring of compliance and as a result non compliance may not be detected and prevented by management. We found that the consultants' list is not being rotated as stipulated in the framework. We also found that insurance details of several consultants were out of date, but the suspension process (as stipulated within the framework) was not invoked. Since our review, the Contract Performance and Financial Monitoring team have written to all consultants with expired insurance details informing them that they will be suspended from the framework if up to date insurance is not received.</p> <p>We have made three recommendations which have been accepted by management.</p>

<b>Medium Term Plan - Income</b>
<p><b>Scope</b></p> <p>The purpose of the audit was to provide assurance that that income estimates in the budget for 2010/11 are based on up to date information and sound assumptions.</p> <p><b>Overall Assessment – High</b></p> <p>Our audit confirmed that accurate recording of Council Tax and Formula and Area Based Grants is carried out by the Strategic Finance team with the use of up to date information being provided directly from third parties, such as the districts or central government. Regular reviews takes place to ensure that the best possible estimate is included within the budget at the time of approval and to minimise change to the budgeted figures.</p> <p>We did not make any recommendations.</p>

<b>Accounts Receivable (Kent Commercial Services)</b>
<p><b>Scope</b></p> <p>The scope of the audit was to review the effectiveness of controls for accounts receivable in the following :-</p> <ul style="list-style-type: none"> <li>• New customer accounts are appropriately authorised and credit checked;</li> <li>• Income is correctly and completely recorded – our work was restricted to the interface controls of three key accounting systems, LASER, TRACE (Kent Fleet) and Oneoffice (Kent County Supplies) with the CODA system;</li> <li>• Debt is appropriately managed;</li> <li>• Risk of fraud and error is minimised.</li> </ul> <p><b>Overall Assessment – Substantial</b></p> <p>The Exchequer Manager has written procedures for the opening of new accounts for the CORE accounts. Overall our audit confirmed that new accounts are appropriately authorised and where relevant credit checked by the Exchequer Manager.</p>

Accounts can be opened without a credit limit being applied to the account, but this is highlighted on a Credit Limits report received by the Exchequer Manager.

Transaction files are interfaced from the individual business units into the CODA system. The accounting systems tested are reconciled on a monthly basis, with any discrepancies resolved and documented. All tested income received was allocated to the correct codes in a timely manner. Unallocated cash is posted to a unique account code in the Accounts Receivable system and is reviewed on a daily basis.

All debts are allocated to a named credit controller and debt collection procedures have been clearly specified and appropriately followed by credit controllers. The client base is predominately local authorities and schools so there are very few write offs. At the time of the audit there were over £1.5m of credit balances (excluding £1m of internal credit balances). Some are being offset against current invoicing but many are not. The inclusion of these credit balances provides bias in the reported debt figures and increases it by £2.5m.

We noted that there is a separation of duties in the raising of invoices (at business units) and in the collection and accounting for income (In Exchequer).

We have made three recommendations which have been accepted by management.

### **Accounts Payable (Kent Commercial Services)**

#### **Scope**

The purpose of the audit was to review the effectiveness of controls in the following:-

- Payments should only be made to bona-fide suppliers;
- Inappropriate or duplicate payments should not be paid;
- Payments should be accounted for accurately and completely;
- Payments should be made on a timely basis.

#### **Overall Assessment – Substantial**

Invoices are properly authorised, accurately input and paid on a timely basis with proper segregation of duties in place. Cheques and BACS payments had been reconciled to payment runs and paid on a timely basis. Signatory lists at the units reviewed were up to date with the exception of Landscape Services.

Data from systems such as Trace, Oneoffice and Astea are interfaced on a daily basis to the main accounting system, CODA. Any errors identified are corrected, however, there is no full reconciliation of the totals of records interfaced.

Access to systems are appropriately controlled although there is no regular job families' access review; and we were unable to verify that only the appropriately authorised staff have access to the system areas.

We have made seven recommendations which relate mainly to the authorisation of new suppliers and the management of inactive suppliers; the reconciliation of feeder files and reviewing on a regular basis the approved signatory lists.

The recommendations have been accepted by management.

**Libraries IT Renewal Project****Scope**

Kent Libraries and Archives joined the South East Library Management Services (SELMS) consortium the aim being to improve the management and service capabilities of all participating local authorities improving customer service, accessibility and efficiency. The purpose of the audit was to assess whether the replacement of the Galaxy library management system with the Spydus system has delivered the aims of both the SELMS specification and any additional requirement as stated by KCC.

**Overall Assessment – Substantial**

The audit established that the majority of the specifications of the new system had been delivered, although at the time of the audit there were still some aspects of the system in development. A major requirement of the new system was to move away from generic log - ins to enable all transactions by all members of staff to be traceable. However, only financial transactions can be traced in this way and the process for this is very time consuming. A system called Smart – Lock is currently in development to address this.

Where the aims of the new system have not yet been achieved, there was evidence to support that action is being taken to put them in place as soon as possible.

We have made not made any recommendations.



**Directorates' Progress with the Implementation of Agreed Recommendations**

Where Internal Audit find instances of non compliance i.e. with policies, procedures and legislation and/or lack of internal controls recommendations are made to ensure compliance and/or improve controls. At the draft report stage of an audit, recommendations are discussed with responsible managers who decide how they will implement the recommendation and the timeframe. The agreed action, date and name of the responsible officer are included in the final audit report. Internal Audit, either follow up the progress of the implementation of agreed recommendations or seek assurance from the relevant responsible manager that the recommendation has been implemented as agreed.

The annex is split into two tables showing the progress with the implementation of agreed recommendations.

Table 1 – This details the recommendations that were due to be actioned between November 2010 and January 2011.

38 actions' were due to be in place by the end of January 2011;

- 34 have been implemented
- 4 actions are outstanding; one of which is high priority and three medium priority.

Revised dates for implementing the outstanding recommendations have been provided.

Table 2 - This details the outstanding high priority recommendations with revised implementation dates.

## Directorates Progress with the Implementation of Audit Recommendations November and December 2010 and January 2011

Directorate	Total actions due to be in place by end of January 2011	Actions in place	Priority of outstanding actions as at 31 January 2011			Comments on recommendations		
			C	H	M	Audit		To be completed by
<b>Authority wide and S151</b>	2	2				Employment checks through Kent Top Temps	All recommendations relating to this audit have been completed.	
	2	1			1	Governance of Partnerships	All recommendations for the Kent Safeguarding Children Board – Performance Monitoring are completed. Kent and Medway Safety Camera Partnership are currently rewriting their Memorandum of Understanding to make it a legally binding document. This has not yet been agreed with the partners.	31 <sup>st</sup> March 2011
	1	1				Imprest accounts	Recommendations complete	
<b>Chief Executive's Department</b>	1				1	Property System Management Security	The technical solution, which was hoped would avoid having to put in place a manual procedure, has finally proved too difficult to implement. A policy and procedure is being drafted to be approved by Property SMT.	31 <sup>st</sup> March 2011
<b>Children, Families &amp; Education</b>	6	4		1	1	Childcare Resource Systems	The outstanding recommendations are currently in progress and are awaiting the implementation of version 3.37a of eStart.	31 <sup>st</sup> March 2011
<b>Kent Adult Social Services</b>	5	5				Client Billing	All recommendation relating to this audit have been completed or superseded.	
<b>Environment, Highways and Waste</b>	8	8				Kent Highways	All recommendations relating to this audit have been completed or the accountable	

## Directorates Progress with the Implementation of Audit Recommendations November and December 2010 and January 2011

Directorate	Total actions due to be in place by end of January 2011	Actions in place	Priority of outstanding actions as at 31 January 2011			Comments on recommendations		
			C	H	M	Audit		To be completed by
						Services Road Permit	manager considers that the existing controls are sufficient for the risks involved.	
	4	4				Kent Thameside	All recommendations relating to this audit have now been completed or no longer apply as the Company's activities will cease at the end of the current financial year.	
	3	3				Ashford Regeneration	All recommendations relating to this audit have now been completed or no longer apply as the Company's activities will cease at the end of the current financial year.	
<b>Communities</b>	6	6				Tribal EBS System	All recommendations relating to this audit have been completed or superseded.	
<b>TOTAL</b>	<b>38</b>	<b>34</b>		<b>1</b>	<b>3</b>			

## Directorates Progress with the Implementation of Audit Recommendations November and December 2010 and January 2011

Directorate	Audit	Outstanding recommendation	Reason for non-completion	Date to be completed by
Children, Families & Education	Children's Centre Resource Systems	Audit trails should be adequately enabled on the eStart system to allow for changes to the system to be identified. A process should also be established to periodically report and review any changes made to user profiles and critical or master data changes.	We have raised the need for an Audit Trail with Capita and this is something they are looking to provide in future updates, the upgrade is due to begin shortly and we will be looking to see if the ability to create an audit trail has been included.	31 <sup>st</sup> March 2011

## Amendments to Plan

<b>Audit</b>	<b>Comments</b>	<b>Days</b>
CFE05 – ContactPoint	Central Government has scrapped the ContactPoint database therefore the audit is no longer relevant.	-20
CFE06 2011 – LSC Transfer	Audit removed due to change / uncertainty as to the requirements of central government.	-25
CFE07 2011 – Kent Children’s Trust	Assurance in this area provided through work of OFSTED.	-20
KASS02 – FAME	The original audit (deferred from 2009/10) was to provide assurance on the arrangements for project management in relation to this project. As the project is now in its latter stages it was considered that assurance obtained would be of limited value, and alternative assurance can be obtained by a QA review performed by ISG.	-25
KASS03 – Self Directed Support	Continuing advice and information will be provided as this process is implemented instead of an audit.	-
KASS04 – Kent Card	This audit will be deferred until the key contact returns from maternity leave.	-10
KASS-07 Client Billing	Merged with KASS debt management.	-
S09 – Construction Industry Scheme	This is part of the process for paying suppliers and will be included in a future Account Payable audit.	-10
CED06 – Regeneration Fund/Regeneration Framework	This has been deferred as a result of the Council-wide restructure.	-15
CED08 – Telecoms/Voice Over Internet Protocol (VOIP)	As this is an ongoing key project a member of staff from Internal Audit will join the project team to provide advice and information.	-
AW06 – Information Sharing	Assurance now provided by the audit on information governance and data protection	-30
AW07 2011 – Hypothecated Funding	The in year and future reduction of government funding has had a significant impact on the level of Hypothecated Funding received by the Council, reducing the need for this audit.	-15
AW10 2011 Schemes of delegation	This work has been carried forward to 2011/12 plan as a result of the light of Council-wide restructure.	-10
AW13 – Staff Expenses System	A review of the system for paying staff expenses.	+15
CMY02 2011 Protection of Children and Adults	Assurance in this area provided through work of OFSTED.	-25
CMY05 – Business Continuity	This has been deferred as a result of the Council-wide restructure.	-15
CMY06 Self Issue Kiosks	Pre implementation review of self issue kiosks in libraries	+10
<b>Total</b>		<b>-195</b>

## Irregularities: Investigations completed November 2010 to February 2011

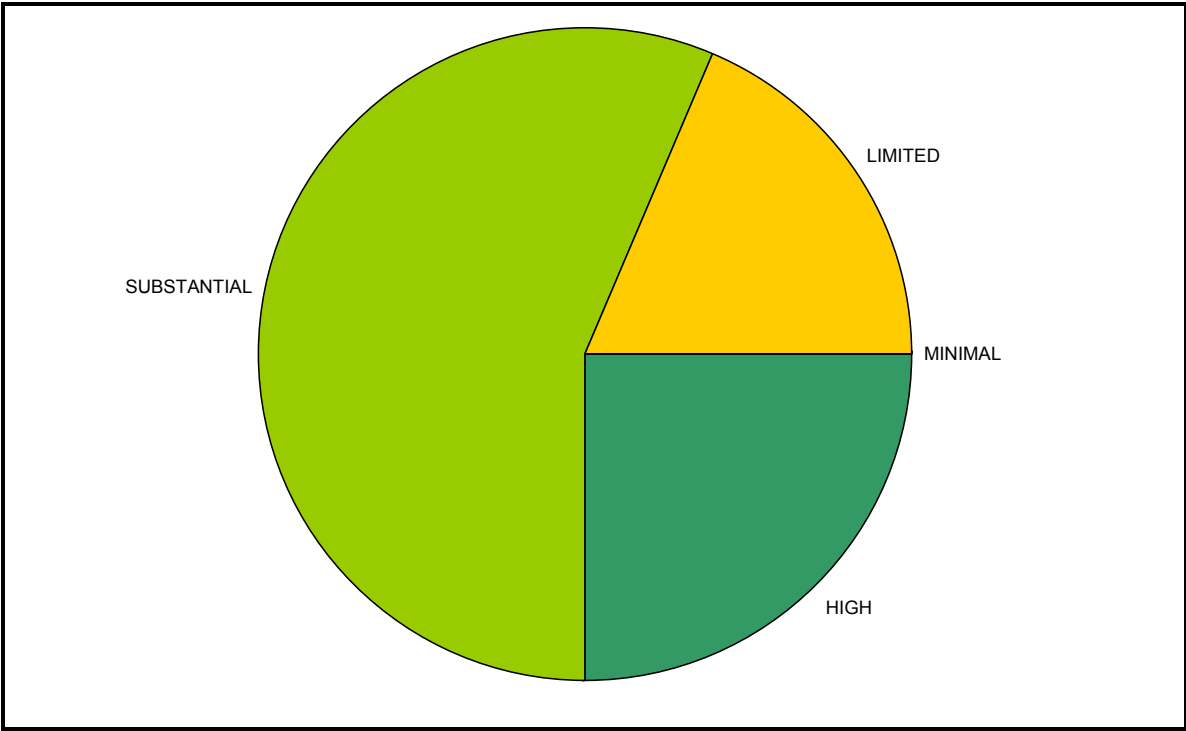
Ref	Value	Details and Outcome
xx 798	Unknown	<p>An allegation was made by a person(s) who wished to remain anonymous via another local authority, that an individual was using a cloned Blue Badge. Although the allegation was about someone who lives in the county, the Council had not issued a badge. Despite investigations we are unable to identify the issuer or if the badge was cloned. No further action taken.</p>
xx799	N/A	<p>A Head teacher at a school had authorised the overtime claim for a member of staff. The Head teacher believed that the claim was excessive, but did not identify that until after the claim had been paid. In addition large sums of money were being kept in the school's safe contrary to the limit specified in the school policy. The Head teacher had concerns that the member of staff was not complying with school policy and had falsified overtime claims.</p> <p>Internal Audit carried out an investigation, but could find no evidence that the member of staff had falsified their claim, or failed to comply with school policy.</p> <p>We have made a number of recommendations to generally improve financial controls at the school.</p>
xx800	£485	<p>There was a theft from the safe of a care centre in which a ring and money belonging to a client, as well as income collected by the centre was stolen.</p> <p>The keys to the safe were not held securely so the culprit could not be identified. The police were informed although were unable to carry out an investigation because several people had access to the keys to the safe.</p> <p>Internal Audit have made recommendations to improve controls.</p>

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

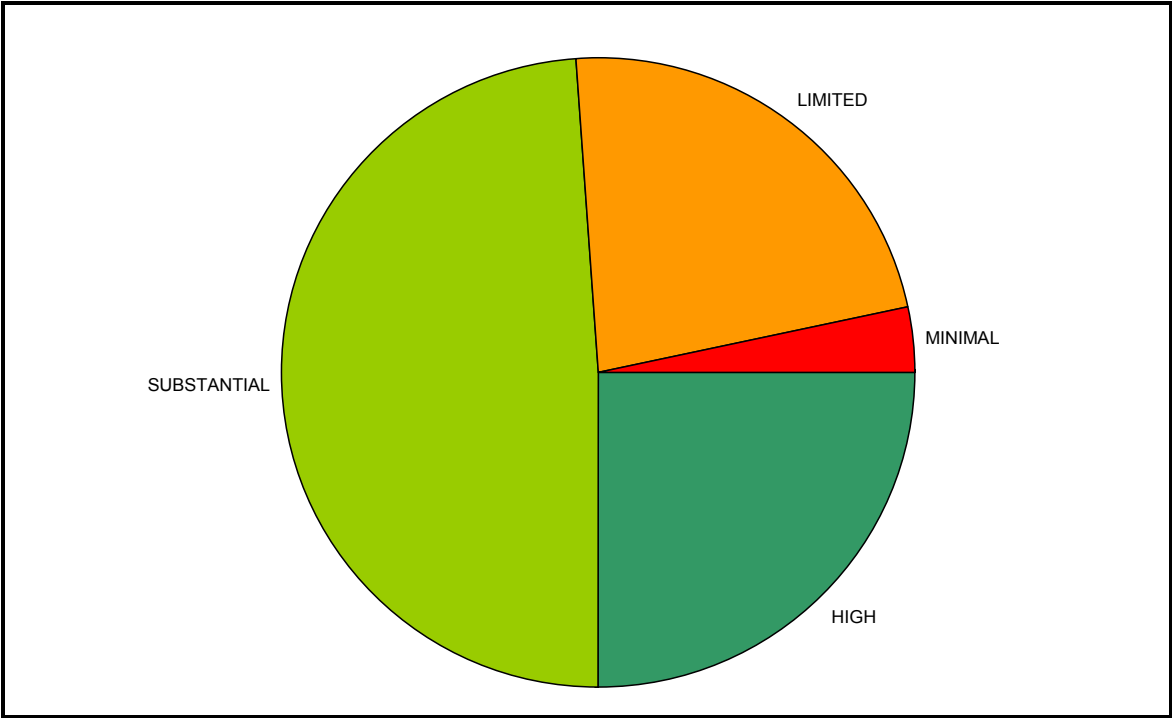
Performance Indicator	Target	Actual (Apr – January 2011)
<p><b><u>Effectiveness</u></b></p> <ul style="list-style-type: none"> <li>• % of recommendations accepted</li> <li>• Compliance with the CIPFA Code of Practice for Internal Audit</li> </ul>	<p>98%</p> <p>90%</p>	<p>91%</p> <p>79%</p>
<p><b><u>Efficiency</u></b></p> <ul style="list-style-type: none"> <li>• % of plan delivered –</li> <li>• % of available time spent on direct audit work</li> <li>• % of draft reports completed within 10 days of finishing fieldwork</li> <li>• Preparation of annual audit plan</li> <li>• Periodic reports on progress</li>   <li>• Preparation of annual report and Annual Governance Statement</li> </ul>	<p>83%</p> <p>80%</p> <p>80%</p> <p>By March G&amp;AC meetings</p> <p>By May</p>	<p>65%</p> <p>86%</p> <p>62%</p> <p>March G&amp;AC meetings</p> <p>May</p>
<p><b><u>Quality of Service</u></b></p> <ul style="list-style-type: none"> <li>• Average Client Satisfaction Score –</li> </ul>	<p>70%</p>	<p>97%</p>

\* Percentage of plan delivered as at 31 January 2011

Assurance Position:  
2010/2011



2009/2010





Annex H  
Internal Audit Assurance Levels

Assurance Level	Summary description	Detailed definition
<b>High</b>	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.
<b>Substantial</b>	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.
<b>Limited</b>	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, <b>or</b> there is significant evidence that they are not applied consistently and effectively.</p>
<b>Minimal</b>	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, <b>or</b> there is evidence that there is significant non-compliance with key controls.</p>

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By virtue of paragraph(s) 1, 2, 7 of Part 1 of Schedule 12A of the Local Government Act 1972.

Agenda Item 20

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