

GOVERNANCE AND AUDIT COMMITTEE

Tuesday, 29th November, 2011

10.30 am

Darent Room, Sessions House, County Hall, Maidstone

There will be a presentation on Fraud Awareness for Members of the Committee at 10.00 am on the morning of the meeting.



AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Tuesday, 29th November, 2011, at 10.30 am
Darent Room, Sessions House, County Hall, Maidstone

Ask for: **Andrew Tait**
Telephone: **01622 694342**

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

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, Ms A Hohler, Mr R A Marsh, Mr R J Parry, Mr R Tolputt and Mr C T Wells

Liberal Democrat (1): Mr T Prater

Webcasting Notice

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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 in items on the agenda for this meeting
4. Minutes - 14 September 2011 (Pages 1 - 8)
5. Committee Work Programme (Pages 9 - 12)
6. Bribery Act Policy (Pages 13 - 22)
7. Progress Update on Change to Keep Succeeding (Pages 23 - 28)
8. Update on Savings Programme (Pages 29 - 40)
9. Review of KCC's Risk Management Framework (Pages 41 - 56)

10. Treasury Management 6 month review 2011/12 (Pages 57 - 66)
11. Debt Management (Pages 67 - 76)
12. Audit Commission Draft Annual Audit Letter (Pages 77 - 94)
13. Effectiveness of Internal and External Audit Liaison (Pages 95 - 96)
14. Internal Audit Progress Report (Pages 97 - 116)
15. Anti Fraud and Corruption progress report (Pages 117 - 132)
16. Other items which the Chairman decides are urgent

EXEMPT ITEMS

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

Peter Sass
Head of Democratic Services
(01622) 694002

Monday, 21 November 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

GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Wednesday, 14 September 2011.

PRESENT: Mr R L H Long, TD (Chairman), Mr M V Snelling (Vice-Chairman), Mr A R Chell, Mr B R Cope, Mr C Hibberd, Mr D A Hirst, Mr R A Marsh, Mr R J Parry, Mr T Prater, Mr R Tolputt and Mr C T Wells

ALSO PRESENT: Miss S J Carey and Mr A J King, MBE

APOLOGIES: Mr K A Ferrin, MBE and Ms A Hohler

OFFICERS: Mr A Wood (Acting Corporate Director of Finance and Procurement), Mr G Wild (Director of Governance and Law), Mr D Tonks (Head of Audit & Risk), Mr P Rock (Counter Fraud Manager), Ms S Buckland (Audit Manager), Mrs A Beer (Corporate Director of Human Resources), Ms J Foster (Director of Business Strategy), Ms A Mings (Treasury & Investments Manager), Mr I Treacher (Assistant Head Of Trading Standards) and Mr A Tait (Democratic Services Officer)

ALSO IN ATTENDANCE: Mr D Wells and Mrs E Robinson of the Audit Commission.

UNRESTRICTED ITEMS

29. Minutes - 30 June 2011

(Item 4)

RESOLVED that the Minutes of the meeting held on 30 June 2011 are correctly recorded and that they be signed by the Chairman.

30. Meeting dates in 2012

(Item 5)

The Committee noted the following meeting dates in 2012:-

Wednesday, 18 April 2012;
Thursday, 26 July 2012;
Tuesday, 25 September 2012 (pm);
Wednesday, 19 December 2012.

31. 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 2011/12 be agreed.

32. The development of Statements of Required Practice

(Item 7)

- (1) The Director of Business Strategy gave an overview of the process for the development of Statements of Required management Practice (SORPs). She explained their purpose and the method by which they were being developed, communicated and embedded into the organisation, as well as a timeline for the development of specific SORPs. She also outlined the governance arrangements for their development and ongoing review.
- (2) The Director of Business Strategy agreed to send a copy of each of the SORPs to the Members of the Committee once they had been finalised.
- (3) The Committee asked for a progress update report at its meeting in April 2012.
- (4) RESOLVED that the process and governance for the development of SORPs be noted for assurance and that a progress update be reported to the Committee in April 2012.

33. KCC's Performance Management Framework

(Item 8)

- (1) The Director of Business Strategy reported on the review of current performance management arrangements and the introduction of the performance management framework (agreed at Cabinet on 20 June 2011) which aimed to ensure effective briefing of Cabinet and into Scrutiny.
- (2) The Committee agreed that paragraph 3.6 should be amended to indicate that managers would continue to be trained in the skills required by the Council.
- (3) RESOLVED that subject to (2) above the report be noted for assurance.

34. Review of the Committee Terms of Reference

(Item 9)

- (1) The Head of Audit and Risk suggested some minor amendments to the Committee's terms of Reference for recommendation to the County Council. These were agreed.
- (2) RESOLVED that:-
 - (a) the amendments to the Committee's description of methodology be agreed as set out in the Annex to the report; and
 - (b) the Committee's Terms of Reference be further reviewed in September 2012.

35. Progress update on "Change to Keep Succeeding"

(Item 10)

(1) The Chairman declared that this item was Urgent on the grounds that the Committee needed to be constantly updated on how the County Council was managing the staffing reduction figures.

(2) The Corporate Director of Human Resources tabled a report giving an update on the "Change to Keep Succeeding" programme of organisational change, covering progress on populating the senior level of the new operating framework, the changes to staffing across the Authority since April 2011 and the development of values and behaviours and other culture change initiatives.

(3) The Corporate Director of Human Resources agreed to provide the total staffing numbers for inclusion in the Minutes. These were (excluding staff on Casual Relief, Sessional or Supply contract):-

Total Non Schools 11,647 (9,658.37 fte)

Total Schools 23,315 (15,793.93 fte)

TOTAL KCC 34,689 (25,452.30 fte).

(4) RESOLVED that the report be noted for assurance and that further reports on this matter be given to the Committee on a quarterly basis.

36. 2010/11 Budget Monitoring

(Item 11)

(1) The first quarterly budget monitoring report to the Budget IMG and Cabinet had previously been circulated to all Members of the Committee as a supplementary appendix.

(2) The Acting Corporate Director of Finance and Procurement asked the Committee to note the quarterly budget report for assurance, explaining that detailed examination would take place at the Budget IMG on 15 September 2011 and at Cabinet on 19 September 2011.

(3) The Chairman noted comments from Members of the Committee that the level of detail contained in the supplementary report might not be necessary for the Committee to carry out its function and said that consideration would be given to these views in advance of publication of the next agenda.

(4) RESOLVED that the forecast outturn for the year 2011/12, based on spend and activity in the first quarter of the year be noted.

37. Ombudsman Complaints

(Item 12)

(1) The Director of Governance and Law reported the Local Government Ombudsman letter and Annual review 2010/11 as well as the latest position on

complaints about the County Council escalated to the Ombudsman during the period 1 April to 30 June 2011.

(2) The Director of Governance and Law confirmed that a report on the maladministration case set out in paragraph 5 of the report would be made to the next meeting of the Committee.

(3) RESOLVED that the report be noted for assurance.

38. 2010/11 Final Accounts and Annual Governance Report
(Item 13)

(1) The Acting Corporate Director of Finance and Procurement updated the Committee on the final Annual Governance Report from the External Auditors relating to the 2010/11 Statement of Accounts.

(2) Mr Darren Wells from the Audit Commission informed the Committee that, whilst he had made recommendations for improvement, there were no significant areas of concern.

(3) RESOLVED that the report be noted for assurance.

39. Treasury Management update
(Item 14)

(1) The Treasury and Investments Manager gave a quarterly summary of Treasury Management activity.

(2) RESOLVED that the report be noted for assurance.

40. Annual RIPA Report on "surveillance" and other activities carried out by KCC between January and December 2010
(Item 15)

(1) The Assistant Head of Trading Standards outlined the work undertaken in 2010 by Kent County Council's Officers on surveillance and other activities governed by the Regulation of Investigatory Powers Act 2000 (RIPA).

(2) RESOLVED that the use of the powers under RIPA during 2010 be noted for assurance.

41. Internal Audit progress report
(Item 16)

(1) The Head of Audit and Risk reported the outcomes of Internal Audit activity during June and July 2011.

(2) RESOLVED to note:-

- (a) the amendments to and progress against the 2011/12 audit programme; and

- (b) the assurance provided in relation to the County Council's control environment as a result of the Internal Audit programme to date.

42. Internal Audit Benchmarking results

(Item 17)

(1) The Head of Audit and Risk summarised the 2010/11 Internal Audit Benchmarking results. He explained that (as recommended by CIPFA) these related to comparator County Councils. The number of such Councils participating in the exercise had reduced from 21 in 2009/10 to 13 in 2010/11.

(2) RESOLVED that the outcome of the annual benchmarking exercise be noted for assurance in respect of the economy and efficiency of the Internal Audit section.

43. Progress for anti-fraud and corruption arrangements

(Item 18)

(1) The Head of Audit and Risk provided a summary of progress against the self-assessment of anti fraud and corruption arrangements.

(2) RESOLVED that the progress against the identified actions be noted for assurance.

44. Bribery Act 2010

(Item 19)

(1) The Head of Audit and Risk summarised the County Council's proposed response to the commencement of the Bribery Act 2010.

(2) RESOLVED that the enactment of the bribery Act 2010 and the County Council's proposed response plan be noted for assurance.

45. The future of the Head of Audit and Risk role

(Item 20)

(1) The Head of Audit and Risk reported that following the announcement of his resignation, a decision had been taken to strengthen the role he currently fulfilled. This would involve splitting the function by the recruitment of a permanent Head of Audit as well as a Head of Risk (whose responsibilities would be carried out within the Business Strategy Unit).

(2) The Chairman thanked Mr David Tonks on behalf of the Committee for his invaluable work as Head of Audit and Risk.

(3) RESOLVED to note the steps being undertaken to replace the Head of Audit and Risk and to strengthen the functions currently carried out by him.

By: Chairman of Governance and Audit Committee
Samantha Buckland, Acting Head of Internal Audit

To: Governance and Audit Committee – 29 November 2011

Subject: COMMITTEE WORK PROGRAMME

Classification: Unrestricted

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

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 December 2012. The content of the programme is matched to the Committee Terms of Reference and aims to provide at least the minimum coverage necessary to meet the responsibilities set out.
3. The programme has been updated since the September meeting to reflect the requests made there from committee members for additional reports on specific items of interest.

Recommendations

4. It is recommended that Members:
 - approve the forward work programme for 2012 to meet the Committee's Terms of Reference, and
 - identify any additional items that members would wish to include.

Samantha Buckland
Acting Head of Internal Audit
Ext: 4611

Category / Item	Owner	Apr-12	Jul-12	Sep-12	Dec-12
Secretariat					
Minutes of last meeting	AT	✓	✓	✓	✓
Work Programme	HoIA	✓	✓	✓	✓
Member Development Programme	HoIA	✓	✓	✓	✓
Risk Management and Internal Control					
Corporate Risk Register	JF	✓		✓	
Treasury Management quarterly report	NV	✓		✓	✓
Ombudsman Complaints	JH			✓	
Report on Insurance and Risk Activity	NV			✓	
Treasury Management Annual Report	NV		✓		
Treasury Management - half yearly review	NV	✓		✓	
Review of the Risk Management Strategy, Policy and Programme	JF			✓	
Annual Complaints Report	JH			✓	
Update on Savings programme	AW	✓	✓	✓	✓
Annual report on 'surveillance' activities carried out by KCC	DC			✓	
Corporate Governance					
Progress update on Change to Keep Succeeding	KK	✓	✓	✓	✓
The process for the development of Statements of Required Practice.	JF	✓			
Update on the Council's new internal control framework	JF			✓	
Future of the Trading activities Sub Group	AW				
Annual review of Terms of Reference	HoIA			✓	
Debt Recovery	AW		✓		✓
Mid-Year Review of the Annual Governance Statement	GW	✓			
Annual review the Council's Code of Corporate Governance	GW	✓			
Review of Bribery Act Policy and any related amendments to Constitution	GW				✓

Category / Item	Owner	Apr-12	Jul-12	Sep-12	Dec-12
Internal Audit					
Internal Audit Progress Report	HoIA	✓	✓	✓	✓
Internal Audit Annual Report	HoIA		✓		
Internal Audit Benchmarking Results	HoIA			✓	
Internal Audit Strategy and Annual Plan	HoIA	✓			
Review of Terms of Reference and Charter of Internal Audit	HoIA		✓		
External Audit					
External Audit Update	HoIA	✓	✓	✓	✓
Proposal for tracking of External Audit and regulators recommendations	HoIA	✓			
External Audit Governance Report	HoIA		✓		
External Audit Annual Audit Letter	HoIA				✓
Certification Work Report	HoIA	✓			
Effectiveness of Internal and External Audit Liaison	HoIA				✓
External Audit Annual Plan & Fee	HoIA		✓		
External Audit Pension Fund Plan & Fee	HoIA		✓		
External Audit Opinion work programme	HoIA				
Financial Reporting					
Statement of Accounts & Annual Governance Statement	AW		✓		
Revised Accounting Policies	CH	✓			
Fraud					
Anti-fraud and anti-corruption compliance with "Protecting the Public Purse	PR	✓			
Review of the Anti-fraud and anti-corruption Strategy	PR	✓			
Anti-Fraud and Corruption Progress Report	PR	✓	✓	✓	✓

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By: Roger Gough – Cabinet Member for Business Strategy,
Performance and Health Reform
Geoff Wild – Director of Governance and Law
To: Governance and Audit Committee – 29th November 2011
Subject: BRIBERY ACT POLICY
Classification: Unrestricted

Summary: This report provides the Governance and Audit Committee the opportunity to review the Bribery Act Policy and associated amendments to the Council's constitution.

FOR DECISION

Introduction and Background

1. The Bribery Act 2010 came into force on the 1st July 2011. The Act modernises the law on bribery. The Act represents a significant change from the current law and places obligations on the Council to ensure that it has adequate procedures in place. The Committee were provided a full briefing at the previous Governance and Audit Committee.

Bribery Act Policy

2. The Bribery Act Policy has been prepared to ensure the Council complies with the Act. The policy explains the process through which the Council intends to maintain its high standards and protect its employees, Members and business partners against any allegations of bribery and corruption.

Amendments to the Constitution

3. With the introduction of the Bribery Act 2010 and the associated policy it is appropriate that the Council's constitution be amended. The changes suggested are minor and reflect the need for employees and Members to adhere to the Council's policy.
4. The Standards Committee considered this report at its meeting on 17 November 2011 and agreed to recommend it to the County Council for adoption subject to any amendments this Committee may make.

Recommendations

5. Members of the committee are asked to:
 - Recommend to the County Council that, together with the consequential changes to the constitution, the Bribery Act Policy be approved.

Geoff Wild
Director of Governance and Law
01622 694302

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KENT COUNTY COUNCIL

BRIBERY ACT POLICY

As approved by:

Standards Committee – 17 November 2011

Selection & Member Services Committee – 18 November 2011

County Council – 15 December 2011

Introduction

1. This policy is introduced to ensure compliance with the Bribery Act 2010. It explains the process through which the Council intends to maintain high standards and to protect the organisation, employees, Members and business partners against allegations of bribery and corruption.
2. It is the Council's policy to conduct business in an honest and open way, and without the use of corrupt practices or acts of bribery to obtain an unfair advantage. The Council attaches the utmost importance to this policy and will apply a "zero tolerance" approach to acts of bribery and corruption by any of its Members, employees, or persons and partners acting on our behalf. Any breach of this policy will be regarded as a serious matter and is likely to result in disciplinary action and possibly criminal prosecution.

Policy Statement

3. Bribery is a criminal offence. The Council will not pay bribes, or offer improper inducements to anyone for any purpose, nor will the Council accept bribes or improper inducements. The use of a third party to channel bribes is also a criminal offence. The Council will not engage indirectly in or otherwise encourage bribery.
4. The Council is committed to ensuring compliance with the highest legal and ethical standards. The Council will commit to policies and procedures to prevent, deter, and detect acts of bribery. The Council will ensure that anti-bribery compliance is an essential aspect of its governance process and at the core of its business principles. It is an on-going process and not a one-off exercise.

Objective

5. This policy presents a clear and precise framework to understand and implement the arrangements required to comply with the Bribery Act 2010. It provides the context for the detailed rules, procedures and controls in place. It should provide no room for misinterpretation and will ensure that Members, employees, volunteers and business partners know what is expected of them in preventing bribery.
6. This policy should be read in conjunction with, and reinforce, other related policies and documents (see paragraph 27). The provisions in these policies and documents should be reflected in every aspect of the way the Council operates. The requirement to act honestly and with integrity at all times is made clear and is fundamental and non-negotiable.
7. This policy explains the procedures established to prevent acts of bribery and allow any breach to be identified and reported.

Scope

8. This policy applies to all of the Council's activities. The Council requires that all Members (including independent and co-opted Members), employees at all levels and grades, temporary and agency staff, volunteers, contractors, agents, consultants and partners acting on the Council's behalf, comply with the provisions of this policy. The Council will also seek to promote the adoption of reciprocal anti-bribery and corruption measures that are consistent with the Council's policy by joint venture partners and major suppliers.
9. The responsibility to mitigate the risk of bribery resides at all levels of the Council and includes all directorates. It does not rely solely on the Council's assurance functions.

Policy Commitment

10. The Council commits to:
 - setting out a clear anti-bribery policy and keeping this up-to-date with regular reviews
 - making all Members, employees and partners aware of their responsibilities to adhere to this policy at all times
 - providing training, where appropriate, to allow Members, employees and partners to recognise and avoid the use of bribery by themselves or others
 - encouraging Members, employees and partners to be vigilant and to report any suspicions of bribery
 - providing suitable channels of communication (e.g. Whistleblowing Procedure) to ensure that sensitive information is handled appropriately
 - investigating instances of alleged bribery and assisting the police and other authorities in any prosecution
 - taking action against anybody acting for or on behalf of the Council who is involved in bribery
 - reporting breaches and suspected breaches of this policy to Members, employees and partners in an open and transparent way and
 - including appropriate clauses in contracts with suppliers to advise on the Council's approach to the provisions of the Bribery Act 2010

The Bribery Act 2010

11. The Bribery Act 2010 was introduced to update and enhance English law on bribery. It creates a strict liability corporate criminal offence of failing to prevent bribery. The only defence against this corporate offence is for organisations to have adequate procedures in place to prevent bribery.

12. The Act includes four offences:

- Bribing a person to induce or reward them to perform a relevant function improperly
- Requesting, accepting or receiving a bribe as a reward for performing a relevant function improperly
- Using a bribe to influence a foreign official to gain a business advantage and
- In relation to a commercial organisation committing bribery to gain or retain a business advantage, there being no adequate procedures in place to prevent such actions

13. Acts of bribery are intended to influence an individual or organisation in the performance of their duty and for them to act illegally.

14. The penalties under the Bribery Act have been raised significantly and are severe. The new corporate offence is punishable with an unlimited fine. An individual guilty of an offence may be liable to imprisonment for up to 10 years or to a fine, or to both.

15. The Council accepts that public bodies may be classed as a “commercial organisation” in relation to the corporate offence of failing to prevent bribery. In any event, it represents good governance and practice to have adequate procedures in place to protect the Council, Members, employees and partners from reputational and legal damage. It is in the interests of everybody connected to the Council to act with propriety at all times.

Council Procedures on the Bribery Act

14. The Council will follow the guidance issued by the Ministry of Justice. The actions are intended to be proportionate to the risks faced by the Council and to the nature, scale and complexity of the Council’s activities. The actions are expected to provide a defence of “adequate procedures” against any corporate offence. The following steps will be taken:

- **Top Level Commitment** – The Corporate Management Team is committed to preventing bribery by persons associated with the Council. A report on the Bribery Act 2010 and the introduction of this policy has been approved by the Corporate Management Team (on 23 August 2011) and the Governance and Audit Committee (on 14 September 2011).
- **Risk Assessment** – The nature and extent of the Council’s exposure to external and internal risks of bribery will be assessed as part of the Council’s risk management process. Any risk assessment is intended to be an on-going process based on regular communication and review.
- **Due Diligence** – A proportionate and risk based approach will be taken in respect of persons and other organisations that perform services for or on behalf of the Council. Due diligence will include an evaluation of the

background, experience and reputation of business partners. The transactions will be properly monitored and written agreements and contracts will provide references to the Bribery Act 2010 and this policy. Reciprocal arrangements may be required for business partners to have their own policies in place. They will be advised of the Council's policy and be expected to operate at all times in accordance with such policy.

- **Communication** – The Council will ensure that this policy and other related policies and procedures are embedded in the Council's working arrangements through appropriate communication, including training, which is proportionate to the risks the Council faces. The Council's induction programme will include reference to the Bribery Act 2010 and this policy.
- **Monitoring and Review** – This policy, control arrangements, risk management processes and other related policies and procedures designed to prevent bribery and corruption will be monitored, reviewed and improved where necessary on a regular basis. All incidents of bribery or suspected bribery will be reported to the Governance and Audit Committee. An assurance of compliance will be included in the Annual Governance Statement.

15. In the context of this policy it is unacceptable for persons acting for or on behalf of the Council to:

- Give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be received, or to reward a business advantage already given
- give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to facilitate or expedite a routine procedure
- accept payment from a third party that is known to be, or suspected to have been, offered with the expectation that it will obtain a business advantage for them
- accept a gift or hospitality from a third party if it is known to be, or suspected to have been, offered with an expectation that a business advantage will be provided by the Council in return
- retaliate against or threaten a person who has refused to commit an act of bribery or who has raised concerns under this policy and
- engage in any activity in breach of this policy

Gifts and Hospitality

16. This policy is not intended to change the requirements of the Council's Gifts and Hospitality policies and procedures. This is contained in the Kent Code and in the Members Code of Conduct in the Council's Constitution.

17. The guidelines clearly set out the restrictions on accepting gifts and hospitality, the need to inform the manager and the need to register any approved gifts that are retained.
18. If there is any doubt about whether an invitation or gift should be accepted then the offer should be refused. Each Corporate Director is required to review their respective Gifts and Hospitality registers at least annually. The Corporate Director of Finance and Procurement will ensure that reminders on this subject and the need for officers to complete a Register of Interests form are sent out every year.
19. The procedures for Members' registers of interest are set out in the Members' Code of Conduct.

Public Contracts

20. Under the Public Contracts Regulations 2006 (which gives effect to EU law in the UK) a company is automatically and perpetually debarred from competing for public contracts where it is convicted of a corruption offence. It is understood that there are no plans to amend the 2006 regulations for these to include the crime of failure to prevent bribery. Organisations that are convicted of failing to prevent bribery are not automatically barred from participating in tenders for public contracts. The Council will use its discretion as to whether to exclude organisations convicted of this offence and any instances where this is the case will be reported to the Corporate Management Team for a decision.

Member, staff and partner Responsibilities

21. The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the Council or acting for or on its behalf. All Members, staff, volunteers and partners are required to avoid activity that breaches this policy. Adherence to the policy is mandatory.
22. Members, staff, volunteers and partners must:
 - Ensure that they have read, understood and comply with the Bribery Act Policy and
 - raise concerns as soon as possible if they believe or suspect that a conflict with this policy has occurred, or may occur in the future
23. In addition to the possibility of criminal prosecution, members of staff who breach the policy will face disciplinary action, which could result in dismissal for gross misconduct.

Raising a concern

24. Staff are encouraged to raise any concerns with their manager. In addition, the Council has published a Whistleblowing Procedure. This provides information on the courses of action available to report serious concerns

(including bribery) in confidence. Members, staff or partners who refuse to accept the offer of a bribe may worry about the repercussions. The Council aims to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken.

25. The Council is committed to ensuring that nobody suffers detrimental treatment through refusing to take part in bribery.

Review of the Bribery Act Policy

26. It is the responsibility of the Corporate Director of Finance and Procurement to routinely refresh, review and reinforce this policy and its underlying principles and guidelines. All members of staff are responsible for reading and understanding this policy which will also form part of the induction programme.

Other relevant policies

27. The following policies, procedure documents and codes of conduct should be read in conjunction with the Bribery Act Policy:

- Constitution
- Anti-Fraud and Corruption Policy
- Anti-Money Laundering Policy
- Whistleblowing Procedure
- Kent Code
- Disciplinary Procedure
- Members Code of Conduct
- Spending the Council's Money

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By: Cabinet Member for Business Strategy, Performance & Health Reform
Corporate Director of Human Resources

To: Governance and Audit Committee – 29 November 2011

Subject: Update on Change to Keep Succeeding

Classification: Unrestricted – for information

Summary: This update on the Change to Keep Succeeding programme of organisational change has been requested by the Governance and Audit Committee. The paper covers progress on populating the senior level of the new operating framework, the changes to staffing across the Authority since April 2011 and other key organisational development activity since the last report to the Committee in September 2011. The Governance and Audit Committee is invited to note the changes covered in the report.

1. Introduction

A report on progress towards full implementation of Change to Keep Succeeding was noted by the Governance and Audit Committee on 14th September 2011. This paper is a result of the request made at that meeting for a regular update, concentrating on changes in staffing numbers, to be brought on a quarterly basis to the Committee. This report does not cover all the achievements since April 2011 or detail all the many streams of activity which form part of the overall Change to Keep Succeeding Programme as they were reported in the September paper which is therefore cited as a background document to this report.

2. The Operating Framework

Patrick Leeson joined KCC on 17th October as the Corporate Director Education, Learning and Skills.

Andrew Ireland took up his appointment as the Corporate Director Families and Social Care on 1st November. Andrew holds the statutory responsibilities of Director of Children's Services (DCS) and the Director of Adult Social Services (DASS) as part of his role.

Andy Wood was appointed as Corporate Director Finance and Procurement on 18th November, having covered the post on an interim basis since November 2010. He is the Authority's Section 151 Officer.

All appointments to the Corporate Management Team have therefore now been finalised.

Matt Burrows has been appointed as Director of Communication & Engagement, reporting to the Corporate Director, Customer and Communities. Matt will join KCC from his current role as Head of Communications at the London Borough of Croydon on a date to be determined.

Remaining senior posts

The posts of Director of Children's Specialist Services and Director of Commercial Services continue to be covered on an interim basis. The senior structure in Education, Learning and Skills remains the subject of consultation.

Restructures

Significant restructures are taking place in Divisions in all Directorates. Initial feedback from the Decision Making Analysis pilot has been received and is being considered. Training for officers from HR and the Challenger Group will take place in December to ensure the learning from the pilot can be applied across the Authority.

3. Staffing Numbers and Reductions

Part of the Authority's response to the very significant financial pressures it is facing is to reduce spending on staffing budgets. It is expected that a total of 1500 posts will be lost over the four financial years from April 2011. Appendix 1 shows the current staffing numbers.

The figures attached show a reduction in headcount (excluding casual, relief, sessional and supply staff) of 762. This reduction will include both redundancies and natural wastage where staff have left KCC and not been replaced. 364 staff were made redundant between 1 April and 31st October 2011 and redundancy payments for that period totalled £3,461,172.16. The restructures currently under consultation and being planned for the rest of this financial year and early 2012/13 are likely to result in a further significant reduction in posts.

4. Organisation Development Plan

Action plans to support the achievement of KCC's organisation development plan for 2011 – 2015 have been discussed at CMT and by each Directorate management team. The detailed plans are currently being finalised for reporting to Personnel Committee for endorsement.

5. The Kent Manager

Kent Manager, the standard that clearly defines the management role within KCC and provides an agreed benchmark for all Kent Managers to work towards, has been launched for staff at KS13 and above.

7. Conclusion

Significant progress continues to be made in implementing Change to Keep Succeeding which is underpinned by the Organisational Design Principles which form part of Bold Steps for Kent. The amount of structural, operational and culture change needed cannot be completed overnight, but clear programmes to achieve all that is required are in place.

Amanda Beer
4136

Background paper

“Update on Change to Keep Succeeding - Governance and Audit Committee
14.9.11.

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Staffing Numbers

Oct 11

Based on Active Assignments

	Assignment Count	Headcount (inc CRSS)	Headcount (exc CRSS)	FTE
Total KCC	45,475	38,461	34,219	25,138.14

Total Non Schools	14,239	12,928	11,182	9,442.83
Non Schools Workforce difference compared with Mar 11	-1,091	-922	-762	-618.04
Total Schools	31,236	25,730	23,123	15,695.31

Directorate Split				
BSS	1,696	1,685	1,663	1,538.65
ELS	1,619	1,562	1,269	965.21
FSC	5,609	5,072	4,779	4,052.78
CC	4,085	3,498	2,395	1,818.45
EE*	1,230	1,216	1,120	1,067.74

NB CRSS = Staff on Casual Relief, Sessional or Supply contract

* Includes Commercial Services figures as shown below.

EE - Commercial Services	656	649	640	609.41
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Notes

If a member of staff works in more than one directorate they will be counted in each. However, they will only be counted once in the Non Schools Total and once in the KCC Total.

If a member of staff works for both Schools and Non-Schools they will be counted in both of the total figures. However, they will only be counted once in the KCC Total.

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

To: Governance and Audit Committee –29 Nov 2011

Subject: Update on savings Programme

Classification: Unrestricted

Summary: This report asks Members to note the position

FOR ASSURANCE

1. Introduction

1.1 The savings target for the 2011-12 financial year was £95m. This was addressed through the savings PID process and is being continually monitored, to ensure that savings targets are met or that alternatives are found.

2. Latest Position

2.1 The latest exception report showed a pressure of £1.3m (see attached **Appendix**). The current PID position is £76m achieved, £16m likely and £3m unlikely. There are compensating savings for this £3m in the current year. It is important to recognise that the savings which are unlikely to be achieved in the current year are either delivered in time for next year or alternatives are proposed through the budget and medium term plan process for 2012-2014.

2.2 Heads of Service within directorates will own these savings and must deliver them (or an alternative). The position will be closely monitored by the Budget Programme Board. PID's for 2012/13 savings will be submitted by the end of November.

3. Recommendation

3.1 Members are asked to NOTE the report for assurance.

Andy Wood
Acting Corporate Director of
Finance and Procurement
Ext: 4662

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To: CABINET – 17 October 2011

By: John Simmonds, Cabinet Member for Finance & Business Support
Andy Wood, Acting Corporate Director of Finance & Procurement

REVENUE & CAPITAL BUDGET MONITORING EXCEPTION REPORT 2011-12

1. Introduction

1.1 The first full monitoring report for 2011-12 was presented to Cabinet in September. This exception report, based on the monitoring returns for August, highlights the main movements since that report.

2. REVENUE

2.1 There are a number of significant pressures that will need to be managed during the year if we are to have a balanced revenue position by year end. The current underlying net revenue position by portfolio, before and after the implementation of assumed management action, compared with the net position reported last month, is shown in **table 1** below.

Table 1: Net Revenue Position before and after Proposed Management Action

Portfolio	Gross Position £m	Proposed Management Action £m	Net Position after mgmt action £m		Movement £m
			This month	Last month	
Education, Learning & Skills	-0.334	-	-0.334	-0.334	-
Specialist Children's Services	+8.812	-	+8.812	+8.778	+0.034
Adult Social Care & Public Health	-0.560	-	-0.560	-0.195	-0.365
Environment, Highways & Waste	-2.186	-	-2.186	-2.186	-
Communities, Customer Services & Improvement	+0.419	-	+0.419	+0.800	-0.381
Regeneration & Enterprise	-	-	-	-	-
Finance & Business Support	-4.165	-0.376	-4.541	-4.848	+0.307
Business Strategy, Performance & Health Reform	-0.225	-0.107	-0.332	-0.282	-0.050
Deputy Leader	-	-	-	-	-
Total (excl Schools)	+1.761	-0.483	+1.278	+1.733	-0.455
<i>Schools (ELS portfolio)</i>	+5.748	-	+5.748	+5.748	-
<i>Schools (SCS portfolio)</i>	-	-	-	-	-
Schools (TOTAL)	+5.748	-	+5.748	+5.748	-
TOTAL	+7.509	-0.483	+7.026	+7.481	-0.455

2.2 **Table 2** shows the forecast underlying gross position **before** the implementation of proposed management action, compared with the gross position reported last month.

Table 2: Gross Revenue Position before Management Action

Portfolio	Variance		Movement £m
	This Month £m	Last Month £m	
Education, Learning & Skills	-0.334	-0.334	-
Specialist Children's Services	+8.812	+8.778	+0.034
Adult Social Care & Public Health	-0.560	-0.195	-0.365
Environment, Highways & Waste	-2.186	-2.186	-
Communities, Customer Services & Improvement	+0.419	+0.800	-0.381
Regeneration & Enterprise	-	-	-
Finance & Business Support	-4.165	-4.352	+0.187
Business Strategy, Performance & Health Reform	-0.225	-0.175	-0.050
Deputy Leader	-	+0.063	-0.063

Portfolio	Variance		Movement £m
	This Month £m	Last Month £m	
Total (excl Schools)	+1.761	+2.399	-0.638
<i>Schools (ELS portfolio)</i>	+5.748	+5.748	-
<i>Schools (SCS portfolio)</i>	-	-	-
Schools (TOTAL)	+5.748	+5.748	-
TOTAL	+7.509	+8.147	-0.638

2.3 The gross underlying revenue pressure (excluding schools) is currently £1.761m as shown in table 2 above, but this is expected to reduce to a pressure of £1.278m by year end, after assuming the delivery of management action within Finance & Business Support and Business Strategy, Performance & Health Reform portfolios, as shown in table 1.

2.4 Management action proposals are currently being considered within the Communities, Customer Services & Improvement portfolio, which will reduce this pressure further, and the aim remains to deliver a balanced budget by year end. This position will be very closely monitored throughout the remainder of the financial year given that we have a savings requirement of £95m, increasing demands for services and the need to deliver the Children's Services Improvement Plan and every effort will be made to balance the budget and avoid any overspend at year end. A position of +£1.278m at this point in the year is encouraging; and we remain confident, but not complacent, of avoiding any significant overspend in this financial year.

2.5 Table 2 shows that there has been a reduction of £0.638m in the overall gross pressure before management action this month. The main movements, by portfolio, are detailed below:

2.6 Specialist Children's Services portfolio:

The pressure on this portfolio has increased marginally by £0.034m this month to £8.812m; however within this small overall movement there are some larger compensating movements. The movements above £0.1m are:

2.6.1 +£0.489m Fostering – an increase in the pressure from £4.258m to £4.747m, mainly due to a £0.466m increase in expected costs from Legal Services for ongoing care proceedings.

2.6.2 -£0.188m Other Preventative Services – an increase in the underspend from £0.403m to £0.591m, mainly as a result of a significant reduction in service usage of the Link Placement Scheme. The service is currently under review.

2.6.3 +£0.365m Residential Children's Services – an increase in the pressure from £1.065m to £1.430m is in the main due to three new placements, extensions to six existing placements, and placement moves for two children which have resulted in higher costs.

2.6.4 -£0.188m Safeguarding – a reduction from a pressure of £0.125m to an underspend of £0.063m, mainly as a result of £0.281m of contributions from Partners of the Safeguarding Board, slightly offset by £0.093m of Safeguarding recruitment costs.

2.6.5 -£0.353m Assessment of Vulnerable Children – a reduction in the pressure from £2.236m to £1.883m as a result of a reduction from the original forecast for additional agency staff costs because the expectation is that social workers will be appointed and agency staff will no longer be required. However, due to the Ofsted inspection, there is a great deal of change in this service, making forecasting difficult and potentially volatile at the present time.

2.7 Adult Social Care & Public Health portfolio:

The forecast underspend on this portfolio has increased by £0.365m this month from £0.195m to £0.560m. The movements over £0.1m this month are:

2.7.1 -£0.199m Strategic Management (incl Commissioning & Safeguarding) – a reduction in the pressure from £0.353m to £0.154m, which mainly reflects the continual management of vacancies and further savings against non-pay costs.

- 2.7.2 -£0.318m Older People Direct Payments – an increase in the underspend from £0.444m to £0.762m as a result of a reduction in the growth assumed in the previous forecast, since the trend has remained static so far this year.
- 2.7.3 -£0.359m Physical Disability Direct Payments – a reduction in the pressure from £0.546m to £0.187m as a result of a reduction in the growth assumed in the previous forecast, since the trend has remained static so far this year.
- 2.7.4 +£0.391m Older People Nursing Care – an increase in the position from an underspend of £0.372m to a small pressure of £0.019m as a result of an increase in placements due to an increase of 47 clients creating a £0.613m pressure. This is slightly offset by both the release of unrealised creditors and an increase in income, totalling £0.222m.
- 2.7.5 +£0.177m Older People Residential Care – a reduction in the underspend from £0.830m to £0.653m representing an increase of 23 clients, which has increased gross costs by £0.215m which is offset by an over recovery of income of £0.074m. The remaining £0.036m movement reflects a forecast reduction in income collected for in house residential care.
- 2.7.6 +£0.303m Learning Disability Supported Accommodation – a reduction in the underspend from £1.096m to £0.793m as a result of a net movement of nine clients contributing a £0.246m pressure, coupled with a reduction in income contributions of £0.057m as a result of a client who changed from full funding to nominal funding, backdated to the beginning of the year.
- 2.7.7 +£0.147m Learning Disability Day Care – a reduction in the underspend from £0.221m to £0.074m as a result of an ongoing review of commissioned services (+£0.069m), an increase in client numbers (+£0.037m) and the remaining £0.041m is due to updated spend trend information.
- 2.7.8 -£0.513m Other Adult Services – a reduction in the pressure from £0.599m to £0.086m, which is mainly due to:
- -£0.157m to reflect the current trend within the Occupational Therapy equipment service, where the growth is currently below the level reflected in the budget;
 - -£0.225m due to non renewal of contracts within Learning Disability Other Services;
 - -£0.097m net effect of the cost/volume reduction through the provision of meals contract;
 - -£0.025m anticipated additional health monies for the good health group.

2.8 Environment, Highways & Waste portfolio:

The forecast position for this portfolio has remained at an underspend of £2.186m this month but it is important to recognise that this is dependent on waste tonnages continuing to remain at the levels experienced over the last two years and Highways being able to deliver a balanced budget.

The budgeted waste tonnage for 2011-12 is 760,000 tonnes. Tonnage for the first five months of this financial year combined with the experience of the last two financial years has allowed the Directorate to estimate that the final tonnage will be 25,000 tonnes less than budgeted, which has resulted in the forecast underspend. Whilst the Directorate has a direct influence over the disposal and recycling of waste, it has limited control over the amount of waste put into the system and any significant changes in waste tonnage will impact on the forecast outturn.

A break even position is currently predicted for Highways and Transportation. In previous years severe winters have resulted in additional costs which have had a detrimental impact on the Directorate's outturn. This position will be monitored closely and all efforts will be taken to manage any winter pressures within budget.

2.9 Communities, Customer Services & Improvement portfolio:

The gross pressure on this portfolio has reduced by £0.381m this month from £0.800m to £0.419m. The main movements are:

- 2.9.1 -£0.460m Contact Centre & Consumer Direct – a reduction in the pressure from £0.644m to £0.184m. The gross pressure of £0.644m reported last month consisted of £0.406m of savings targets not progressing as expected, £0.460m of call volume pressures, compensating one-off solutions of £0.214m and a £0.008m reduction in administration & support.

The £0.460m call volume pressure represented a pro rata cost to increase the establishment to meet the demand of answering 80% of calls within 20 seconds (80/20). It has since been agreed that calls are prioritised, where possible, and that these 80/20 indicators be relaxed slightly so that some are answered within 30 seconds and 40 seconds. This equates to a reduction in staff time and capacity of £0.153m.

The remaining £0.307m of this £0.460m variance is the pro rata cost of increasing the establishment to realise an average indicator across the 80/20, 70/30 and 60/40 response rates. The funding for these costs is now being met from a virement from the debt charges underspending within the Finance and Business Support portfolio, as agreed by Cabinet on the 19th September.

The service will continue to search for other ways in which to mitigate the remaining £0.184m pressure.

- 2.9.2 +£0.123m Local Boards – an increase in the forecast from a £0.043m underspend to a £0.080m pressure. The Communications, Consultation and Community Engagement (CCCE) division is split between two lines in the A-Z of services, namely; Local Boards (Community Engagement Managers) - as part of Local Democracy - and Communications and Media Relations (within Strategic Management, & Directorate Support Budgets).

One of the proposals to enable delivery of £1.5m of communication and engagement savings in 2011-12 has, following consultation, not been progressed and will no longer be delivered. The full year effect of this change is a pressure in the region of £0.265m, however only a part year saving was expected in 2011-12 from this proposal, so a pressure of £0.135m is now anticipated in this financial year.

The monitoring has therefore been updated to reflect this current year pressure of £0.135m, pending the service reviewing their options with regard to mitigating this change of events and aiming to deliver the saving in a different way. A small £0.012m underspend has been delivered in other running costs to arrive back at the £0.123m movement this month.

- 2.9.3 There have also been smaller movements, all below £0.1m, across other units, mainly within the Library Service where the service continues to deliver savings ahead of schedule with regards to the roll out of Radio Frequency Identification (RFID) technology. However, this is partially offset by an adverse movement within the Trading Standards budget relating to Kent Scientific Services where the level of samples from other authorities continues to decline resulting in reduced income.

- 2.9.4 Community Learning Services - The service has delivered a balanced budget for the past two years, despite funding reducing by close to £1m in that time. A further reduction in funding of £0.350m has recently been notified by the Skills Funding Agency and the service is currently reviewing their cost base to ascertain whether a net pressure will ensue. Nothing has been reflected in the forecast for this as yet and an update will be presented for the next monitoring report.

- 2.9.5 Management Action:

In addition to extended vacancy management and curtailing non critical spend, the directorate is also reviewing non committed budgets with a view to part mitigating the residual £0.419m reported pressure.

Specifically with regard to the Communications related pressures, a small working group is to be established to review current year spend against activity budgets across the authority with a view to identifying where expenditure can be reduced or where information can be communicated in different, and more cost effective ways.

The management action that has been ongoing and was to be included within this report, was a review of, and proposals thereon, of 2010/11 printing, advertising and communication expenditure levels. However on further investigation these budgets have been severely diminished by grant reductions of one form or another and therefore proposals were not deliverable as the budgets no longer existed, hence the change in approach to reviewing current levels of spend and what can be reduced or stopped or delivered more cost effectively in the current year.

2.10 Finance & Business Support portfolio:

The forecast underspend for this portfolio has reduced by £0.187m this month to £4.165m. This is due to:

- +£0.307m as a result of the virement from the debt charges underspending to the Contact Centre within the Communities, Customer Services & Improvement portfolio as approved by Cabinet at the meeting on 19 September;
- -£0.120m reduction in the pressure on the Finance & Procurement Unit following the confirmation that, in advance of the implementation of the new structure on 1 April 2012, 12 voluntary redundancies have been agreed with effect from 1 December 2011.

2.11 Business Strategy, Performance & Health Reform portfolio:

The forecast underspend for this portfolio has increased by £0.050m this month to £0.225m. This is due to the Legal Services Unit increasing their forecast over-recovery of income resulting from additional work that the function has taken on, over and above that budgeted for.

2.12 Deputy Leader portfolio:

The forecast for this portfolio has moved by -£0.063m to a breakeven position this month. This is wholly due to a reduction in the Democratic & Member Services Unit forecast pressure, largely due to additional income being raised through admission appeals work for Academies.

3. CAPITAL

3.1 There have been a number of cash limit adjustments this month as detailed in **table 3** below:

Table 3: Capital Cash Limit Adjustments

	2011-12 £000s	2012-13 £000s
1 Cash Limits as reported to Cabinet on 19th September	358,036	264,111
2 Re-phasing agreed at Cabinet on 19th September		
Adults Social Care & Public Health (ASC&PH)	-1,418	1,418
Enterprise & Environment (E&E)	-2,540	-2,924
Customer & Communities (C&C)	-1,227	-24
2 Country Park Access - additional external funding - C&C portfolio	13	
3 Gateways - additional external funding - C&C	270	
4 Tunbridge Wells Library - reduction in external funding - C&C portfolio	-16	
5 Edenbridge Community Centre - C&C portfolio	-1,937	
6 Highways Major Maintenance - additional external funding - EHW portfolio	60	
7 Sittingborne Northern Relief - reduction in project cost - EHW portfolio	-384	-166
8 A2 Cyclo Park - additional external funding - EHW portfolio	2,800	
9 Drovers Roundabout/M20 Junction 9 - reduction in grant funding - EHW portfolio	-1,047	
10 Swale Parklands - additional external funding - Regen portfolio	24	
	352,634	262,415
11 PFI	22,000	
	374,634	262,415

3.2 The current forecast capital position by portfolio, compared with the position reported last month is shown in **table 4** below.

Table 4: Capital Position

	Real and	Real	Movement
	Re-phasing	Variance	This month
	Variance	Last month	
	This month		
Portfolio			
	£m	£m	£m
Education, Learning & Skills	-8.428	-0.034	-8.394
Specialist Children's Services	0.211	0.000	0.211
Adult Social Care & Public Health	-2.640	-0.125	-2.515
Environment, Highways and Waste	7.007	7.292	-0.285
Customer & Communities	0.077	0.003	0.074
Regeneration & Economic Development	0.457	0.457	0.000
Business Strategy and Support	-4.538	0.000	-4.538
Total (excl Schools)	-7.854	7.593	-15.447
Schools	0	0	0
Total	-7.854	7.593	-15.447

Since last month's report, the forecast outturn has reduced by £15.4m, which is almost entirely due to re-phasing rather than project over/under spends. The main movements this month are detailed below:

3.3 Education, Learning & Skills portfolio:

The forecast has moved by -£8.394mm. Projects subject to re-phasing and overall variances affecting 2011-12 are:

- Primary Improvement Programme (-£3.798m, re-phasing): Previous monitoring returns had brought forward Primary Capital Grant funding into 2011-12 to enable projects at Richmond, Westminster and Halfway House Primary Schools to be undertaken. It has come to light that this grant will not be available. The funding therefore needs to be re-phased back into 2012-13 and will be taken out in the MTP process. The effect on the project is that only Richmond & Westminster Primary Schools will remain within this programme and Halfway House Primary School is to be funded from the 2011-12 Modernisation programme. The projects at Westminster Primary School and Richmond Primary School are re-phasing by -£601m and -£0.154m respectively following delays whilst ensuring funding could be put in place following the decision by Government to stop the Primary Capital Programme.
- Kingsmead (-£1.799m, re-phasing): this project has been delayed following problems in agreeing the level of resources available, resolving design issues and in obtaining planning approval.
- Unit Review (-£1.525m, re-phasing): delays in obtaining project approval and the subsequent appointment of consultants.
- Basic Needs – Goat Lees Primary School (-£0.480m re-phasing and -£0.856m real variance): The overall project has decreased by -£0.800m following the reduction in the level of developer contributions that will be available to fund the project. The project has also re-phased following delays in obtaining project approval and the subsequent appointment of consultants.
- Special Schools Review Phase 2 – Wyvern School (-£0.890m, re-phasing): the start was delayed following the need for the project to be re-tendered to enable costs to be brought in line with the resources available.
- Modernisation Programme 2011-12 (+£0.857m, re-phasing): the main reason for the increase in costs has been caused by the addition of the Halfway House Primary School project which has been moved from the Primary Improvement Programme.

- Special Schools Review Phase 2 – Approval to Plan (+£0.500m, re-phasing): funding has been brought forward for development costs to ensure the build programme scheduled for 2012-13 proceeds as promptly as possible.
- Pupil Referral Units (+£0.472m, real variance): the increase relates to additional expenditure in 2011-12 which is fully funded by Revenue Contributions to Capital. This revenue contribution has been made to take into account of and compensate for the 80% reduction in Devolved Formula Capital (DFC) allocations from the Department for Education (DfE), knowing that the PRU service had already committed itself to funding a capital programme in 2011-12 based on the assumption that DFC would continue at the same level as received in previous years.
- Basic Needs – Repton Park Primary School (-£0.399m, re-phasing): the contract negotiation period was extended on this project in order to secure more certainty on the contract costs; this has led to a delayed start on site. The project should still be completed in time for a September 2012 opening date.
- Modernisation Programme 2008 to 2010 (-£0.381m re-phasing and +£0.077m real variance): the main reason for the movement is due to the following:
 - Wrotham School** – re-phasing of -£0.383m due to differences between the original estimate and the resources available this project has been re-designed and a new planning application has had to be submitted before going out to tender. This has meant that the project is 2 to 3 months behind schedule.
 - Sissinghurst Primary School** – the overall costs of this Aided School project has increased by +£0.077m. +£0.060m relates to the LEA's 10% contribution in line with the overall DfE grant approval level for the project and +£0.017m is due to increased costs for the Highways element of the project.
- Corporate Property Team and Capital Strategy Team (net -£0.097m, real variance): the forecast has been brought in line with 2010-11 actual spend.

Overall this leaves a residual balance of -£0.075m on a number of minor projects.

3.4 Specialist Children's Service portfolio:

The forecast has moved by +£0.211m. Projects subject to re-phasing and overall variances affecting 2011-12 are:

- Quarryfields/Aldington Eco Centre (formerly Schools Self Funded) (+£0.211m, real variance): the development of the Aldington Eco Centre is a partnership project with Aldington and Bonnington Parish Council and Ashford Borough Council. Their contribution to the project was the provision of land free of charge and councillors support. Our contribution is the erection of the building and landscaping which is to be met from revenue.

3.5 Adult Social Care & Public Health portfolio:

The forecast has moved by -£2.515m. Projects subject to re-phasing and overall variances affecting 2011-12 are:

- Learning Disability Good Day Programme (-£2.442m, re-phasing): a prudent view had been taken pending clarity around the releasing of further funds to support the delivery of the programme.
- Broadmeadow Extension (-£0.058m, real variance): a real variance of £0.274m was reported in last months monitoring return which was requested to be transferred and used as part of the Older Persons Strategy – Integrated Specialist Service Centre (DLC). A further £0.58m underspend has been declared and is also requested to be transferred to Older Persons Strategy.

Overall this leaves a residual balance of -£0.015m on a number of minor projects.

3.6 Environment, Highways & Waste portfolio:

The forecast has moved by -£0.285m. Projects subject to re-phasing and overall variances affecting 2011-12 are:

- A2 Cyclo Park (+£0.905m, real variance): £0.605m funding has been secured from Interreg which will enable additional access improvements and creating/improving the park's wildlife habitat. Projects costs have increased by £0.300m due to delays, re-measurement and additional paving, the increase is to be met from external funding.

- Non TSG Land, Compensation Claims (-£0.733m re-phasing and -£0.050m real variance): the re-phasing is due to the Edenbridge Relief Road, where compensation on one of the plots of land is subject to a Land Tribunal decision which will not be settled in this financial year. There is an overall real underspend of -£0.204m (-£0.050m 2011-12) this is due to reduction in the estimated volume of Land Compensation Act Part 1 claims related to Hawking phase 2.
- Household Waste Recycling Centres and Transfer Station (-£0.500m re-phasing and £0.300m real variance): the movement is forecast is due to the following:
 - Herne Bay Site Improvement** - -£0.500m re-phased to reflect the anticipated construction start date of Spring 2012.
 - North Farm Transfer Station** - +£0.400m overspend where scheme costs have increased due to delays in construction and potential claims caused by unforeseen ground condition. The overspend is to be funded from an underspend against the Lydd/New Romney site project and revenue.
 - Lydd/New Romney Site** - -£0.100m underspend due to unused contingency.
- Ashford Ring Road (-£0.117m, re-phasing): reconstruction of the damaged flume work has been re-phased to 2012-13 to ensure the correct option will be chosen.

Overall this leaves a residual balance of -£0.090m on a number of minor projects.

3.7 Communities, Customer Services & Improvement portfolio:

The forecast has moved by +£0.074m. There are no significant variances to report.

3.8 Business Strategy, Performance & Health Reform portfolio:

The forecast has moved by -£4.538m. Projects subject to re-phasing and overall variances affecting 2011-12 are:

- Workplace Transformation (-£3.070m, re-phasing): the significant re-profiling has resulted from the need to revise strategic priorities to include pressures such as the CSS improvement plan and the shaping of One Council/Bold Steps for Kent.
- Sustaining Kent – Maintaining the Infrastructure (-£1.174m, re-phasing): there have been delays in implementing Unified Communications, this is the result of problems with technical resource availability and a considerable amount of time spent on ensuring the technical design meets the Government Connects code of connection security requirements.
- Property Asset Management System (-£0.254m, re-phasing): work is being undertaken with South East 7 (SE7) partners to see if an Asset Management System can be procured for better value for money. Analysis work will begin in 2011-12 but the majority of the 2011-12 budget of £0.274m will not be spent until 2012-13.

Overall there is a residual balance of -£0.040m on minor projects.

3.9 Capital Project Re-phasing

Normally, cash limits are changed for projects that have re-phased by greater than £0.100m to reduce the reporting requirements during the year. Any subsequent re-phasing greater than £0.100m is reported and the full extent of the re-phasing will be shown. The tables below summarises the proposed re-phasing this month.

Table 5 – re-phasing of projects >£0.100m

Portfolio	2011-12	2012-13	2013-14	Future Years	Total
	£k	£k	£k	£k	£k
Education, Learning & Skills					
Amended total cash limits	161,192	147,244	75,848	87,290	471,574
Re-phasing	-7,914	5,564	-370	2,720	0
Revised cash limits	153,278	152,808	75,478	90,010	471,574
Specialist Children's Services					
Amended total cash limits	12,629	5	0	0	12,634
Re-phasing	0	0	0	0	0
Revised cash limits	12,629	5	0	0	12,634
Adult Social Care & Public Health					
Amended total cash limits	14,811	7,186	2,699	3,146	27,842
Re-phasing	-2,442	2,027	0	415	0
Revised cash limits	12,369	9,213	2,699	3,561	27,842
Enterprise & Environment					
Amended total cash limits	94,606	74,132	65,224	253,157	487,119
Re-phasing	-1,206	629	-3,366	3,943	0
Revised cash limits	93,400	74,761	61,858	257,100	487,119
Customer & Communities					
Amended total cash limits	18,194	5,529	5,274	4,929	33,926
Re-phasing	0	0	0	0	0
Revised cash limits	18,194	5,529	5,274	4,929	33,926
Regen & ED					
Amended total cash limits	14,281	8,549	2,500	2,500	27,830
Re-phasing	0	0	0	0	0
Revised cash limits	14,281	8,549	2,500	2,500	27,830
Business Strategy & support					
Amended total cash limits	12,201	5,859	3,390	2,923	24,373
Re-phasing	-4,498	1,748	2,750	0	0
Revised cash limits	7,703	7,607	6,140	2,923	24,373
TOTAL RE-PHASING >£100k	-16,060	9,968	-986	7,078	0
Other re-phased Projects below £100k	-59	+77	-18	0	0
TOTAL RE-PHASING	-16,119	+10,045	-1,004	+7,078	0

Table 6 details individual projects which have further re-phased since being reported to Cabinet on 19th September.

	2011-12	2012-13	2013-14	Future Years	Total
	£k	£k	£k	£k	
EH&W					
HWRC - Herne Bay Site Improvement					
Original budget	+1,500	0	0	0	+1,500
Amended cash limits	-750	-750	0	0	-1,500
additional re-phasing	-500	+500	0	0	0
Revised project phasing	+250	-250	0	0	0
Non TSG Land, Compensation Claims					
Amended total cash limits	+2,665	+706	+367	+249	+3,987
Amended cash limits	-100	+100	0	0	0
additional re-phasing	-733	+682	0	+51	0
Revised project phasing	+1,832	+1,488	+367	+300	+3,987
A2 Cyclo Park (formerly A2 Linear)					
Original budget	+4,803	0	0	0	+4,803
Amended cash limits	-203	+203	0	0	0
additional re-phasing	+203	-203	0	0	0
Revised project phasing	+4,803	0	0	0	+4,803

4. RECOMMENDATIONS

Cabinet is asked to:

- 4.1 **Note** the initial forecast revenue and capital budget monitoring position for 2011-12.
- 4.2 **Note** the changes to the capital programme.
- 4.3 **Agree** that £16.060m of re-phasing on the capital programme is moved from 2011-12 capital cash limits to future years.
- 4.4 **Agree** the £0.580m transfer of funding to Older Persons Strategy – Integrated Specialist Service Centre (DLC).

By: Roger Gough, Cabinet Member for Business Strategy,
Performance and Health Reform

To: Governance and Audit Committee – 29th November
2011

Subject: **REVIEW OF KCC'S RISK MANAGEMENT
FRAMEWORK**

Classification: Unrestricted

Summary:

The Governance and Audit Committee is responsible for the annual review of the Council's Risk Management Policy and procedures. The Governance and Audit Committee are asked to approve the revised Risk Management Policy and note the progress to date.

FOR DECISION

1. Introduction and background

- 1.1 KCC's Risk Management Policy and Framework is reviewed annually to ensure that it remains up to date and relevant. Following significant organisational change within the Council it is appropriate and timely to provide updates on their realignment.
- 1.2 The changes made within the attached policy are based on the Office of Government Commerce's model guidelines and ensure alignment to our new priorities, streamlining our approach within the "one council" model and encompassing roles for new bodies such as the Performance and Delivery
- 1.3 Responsibility for our risk management approach has now transferred from Finance and Procurement to Business Strategy and we have appointed an interim Corporate Risk Manager and are currently establishing a small corporate risk management team. The team's aims will be to provide and implement a risk management framework that enables managers and officers to ensure risk management remains a key focus and is actively managed.
- 1.4 To support the policy presented today and those who will apply it, we are preparing procedures in the form of a Risk Management Statement of Required Practice (SORP) and User Guidance. We have obtained feedback from users and are applying it to inform the design of these documents. The SORP will be agreed by lead Cabinet Members and is due for launch in December 2011. A copy will be circulated to Members of this Committee.
- 1.5 We are currently developing a Corporate Risk Register, with information gathered from a series of Cabinet and Corporate Management Team workshops, to be made available for approval in December 2011.
- 1.6 Work is underway to evaluate, determine and deliver practical and effective options for promoting awareness of risk management, enhancing user capability and training.

- 1.7 The policy document presented focuses on the Strategic Risk Management specialism. We are liaising with other areas of the Council where other risk specialisms operate, such as Business Continuity, Anti-Fraud, Health and Safety, etc., to ensure consistency in approach where possible.
- 1.8 Links with Internal Audit will be maintained to share information on risk that will inform the preparation of the Annual Audit Plan and, following the separation of risk management responsibility from Internal Audit, allow audits of our risk management arrangements to be conducted with a greater degree of independence.
- 1.9 It is an objective of this committee to ensure; *Risk Management and Internal Control Systems are in place that are adequate for purpose and effectively and efficiently operated*. Cabinet Members have considered the refreshed policy and now seek Governance and Audit Committee approval for its implementation. A copy of the refreshed Risk Management Policy is presented with this covering report.

2. Recommendations

- 2.1 That Members note the progress and the planned activity on risk management presented in this report.
- 2.2 That Members of the Governance and Audit Committee, on behalf of the County Council, APPROVE the Risk Management Policy for the coming year.
- 2.3 That Members of the Governance and Audit Committee receive a further update on risk management at an agreed future date.

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Contact Officer
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Interim Senior Risk Manager
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Risk Management Policy 2011 - 2012

CONTENTS

Policy Owner / Author

Version control

- 1. Introduction**
- 2. Mandate and commitment**
- 3. Applicability**
- 4. Objectives of Risk Management**
- 5. Principles of Risk Management**
- 6. Context of Risk Management**
- 7. Governance of Risk Management**
- 8. Overview of the Risk Management Framework and Process**
- 9. Risk Appetite**
- 10. Training on Risk Management**
- 11. Review of this Policy**

Appendix 1: Roles and Responsibilities

Appendix 2: Risk Management Governance Structure

POLICY OWNER:

*Corporate Risk Manager
Sessions House, Maidstone*

POLICY AUTHOR:

*Michael Hardie
Interim Corporate Risk Manager
Sessions House, Maidstone
Michael.Hardie@kent.gov.uk
01622 6204*

VERSION CONTROL

Version	Revision Date	Issue Date	Comments
1.00	08/11/2011	19/09/2011	Author: David Tonks, reviewed by PAT and Interim senior Risk Manager. Amended to reflect project and programme risk and amended from pure ISO principles to more practical OGC format.alignment with OGC best practice management
2.00		08/11/11	Issued to CMT and Cabinet Members

Review Process:

This Risk Management Policy is mandatory and is subject to approval by the Governance and Audit Committee on behalf of the Kent County Council. It will be reviewed annually by the Policy Owner to check efficient and effective operation – reporting any recommendations for change to the Performance Assurance Team and Cabinet Members prior to agreement of revisions by the governance and Audit Committee.

Risk Management Policy

1. Introduction

- 1.1. As an organisation concerned with service provision and the social and economic development of the county it is essential that the risks to achieving our objectives are managed efficiently and effectively.
- 1.2. By implementing sound management of our risks and the threats and opportunities which flow from them we will be in a stronger position to deliver our business objectives, provide improved services to the community, and achieve better value for money.
- 1.3. Risk management will therefore be at the heart of our good management practice and our corporate governance arrangements. Our risk management arrangements will be proactive and will enable decisions to be based on properly assessed risks, ensuring that right actions are taken at the right time.
- 1.4. Our risk management framework will be based on the Office of Government Commerce publication *Management of Risk: Guidance for Practitioners* which provides a 'best practice' reference point for risk management. It is derived from the HM Treasury Orange Book and is closely aligned and informed by the international standard for risk management BS ISO: 31000.

2. Mandate and commitment

- 2.1. This policy is supported and endorsed by the Performance Assurance Team (PAT), Corporate Directors and Cabinet Members who will ensure that:
 - the risk management objectives are aligned with the objectives and strategies of the Council;
 - the Council's culture and risk management policy are aligned;
 - the necessary resources are allocated to risk management; and
 - the framework for managing risk continues to remain appropriate.

3. Applicability

- 3.1. This policy applies to the whole of Kent County Council's (KCC) core functions (except schools). Where KCC enters into partnerships the principles of risk management established by this policy and supporting guidance should be considered as best practice and applied where possible. We would also expect that our significant contractors have risk management arrangements at a similar level, and this should be established through procurement processes.

4. Objectives of risk management

- 4.1. The aims of this policy are to set out how KCC will:
 - manage risks in line with its risk appetite, and thereby enable us to achieve our objectives more effectively;
 - apply recognised best practice to manage risk using a balanced, practical and effective approach (Office of Government Commerce publication *Management of Risk: Guidance for Practitioners*)
 - embed effective risk management into the culture of the Council;

- integrate the identification and management of risk into policy and operational decisions;
- eliminate or reduce the impact, disruption and loss from current and emerging events, consequently reducing the cost of threat;
- harness risk management to identify opportunities that current and emerging events may present and maximise benefits and outcomes;
- anticipate and respond in a proactive and timely way to all social, environmental and legislative changes and directives that may impact delivery of our objectives;
- harmonise risk management disciplines across all Council activities;
- benefit from consolidating ongoing learning and experience through the collation and sharing of risk knowledge; and
- demonstrate increasing confidence in our ability to deal effectively with the uncertainty that internal and external pressures present.

4.2. KCC shall achieve these aims by:

- determining and agreeing roles, responsibilities and reporting lines throughout the Council based on the organisational design principles set out in “*Change to Keep Succeeding (2010)*”;
- strengthening the common links between business planning, performance and risk management;
- integrating effective risk management practices into Council’s management, decision making and planning activities;
- exploiting available business technology to store and share risk information and providing the business with access to a repository of risk knowledge and learning;
- increasing the frequency and effectiveness of monitoring of key risks in line with the internal control management framework endorsed by Corporate Management Team;
- developing the role of the Kent Manager in relation to risk management;
- providing risk management training and awareness sessions;
- establishing links between audit planning and risk management processes to enable assurance on the effectiveness of risk management across the council;
- subjecting KCC’s risk framework and practice to annual review to determine the effectiveness of arrangements and level of risk maturity.

4.3. The Corporate Risk Manager shall maintain a programme that sets out the detailed delivery of this policy with delivery being assured by the Performance Assurance Team.

5. Principles of risk management

5.1. The following principles of risk management have been adopted by KCC from the Office of Government Commerce’s (OGC) recognised best practice guidance - *Management of Risk: Guidance for Practitioners*. The eight principles provide the basis on which KCC will manage risk and are informed by both corporate

a) Aligns with objectives

Risk Management focuses on and around the achievement of the council's priorities and objectives together with those risks that may impact their successful achievement. This contributes towards enhancing the opportunity for success and eliminating or minimising the threat of failure. In aligning risk management to its objectives the Council will determine the amount of risk it is able to withstand and the amount of risk it is prepared to tolerate.

b) Fits the context

There is clear understanding of how the business operates and its operating environment. It is aware of the changing nature of the internal and external operating environment and the external and internal factors and events that may threaten or impact its stability.

c) Engages stakeholders

The Council has determined, assessed and appropriately engaged all internal and external groups and individuals with a vested interest in its activities. It will understand how stakeholders may influence Council activities and how Council activities affect them. In doing so the Council will seek to align stakeholders' perceptions of risk and gain commitment from those with responsibility to ensure risk is managed.

d) Provides clear guidance

The Council encourages the effective management of its risk through provision of a 'user friendly' and transparent approach, that is suitably resourced and that is consistently applied throughout the organisation to best effect.

e) Informs decision making

The Council harnesses its risk management capability within its decision making and planning processes to objectively inform both the substance for the decision or plans and achievability of desired outcomes. Additionally, the Council will assess approval of its decisions and plans along side its capacity and appetite for taking risk.

f) Facilitates continual improvement

The Council has the means to gather knowledge and learning from its risk management activities and applies it to continually refine and enhance capability and effectiveness.

g) Creates a supportive culture

Risk management is embedded within the Council's day to day activities with the full support and commitment of corporate management and members. This support will align risk management to the Council's values and culture through encouraging openness, transparency and sharing of risks. It will develop a 'risk aware' culture that increases the value and benefit derived from its investment in risk management.

h) Achieves measurable value

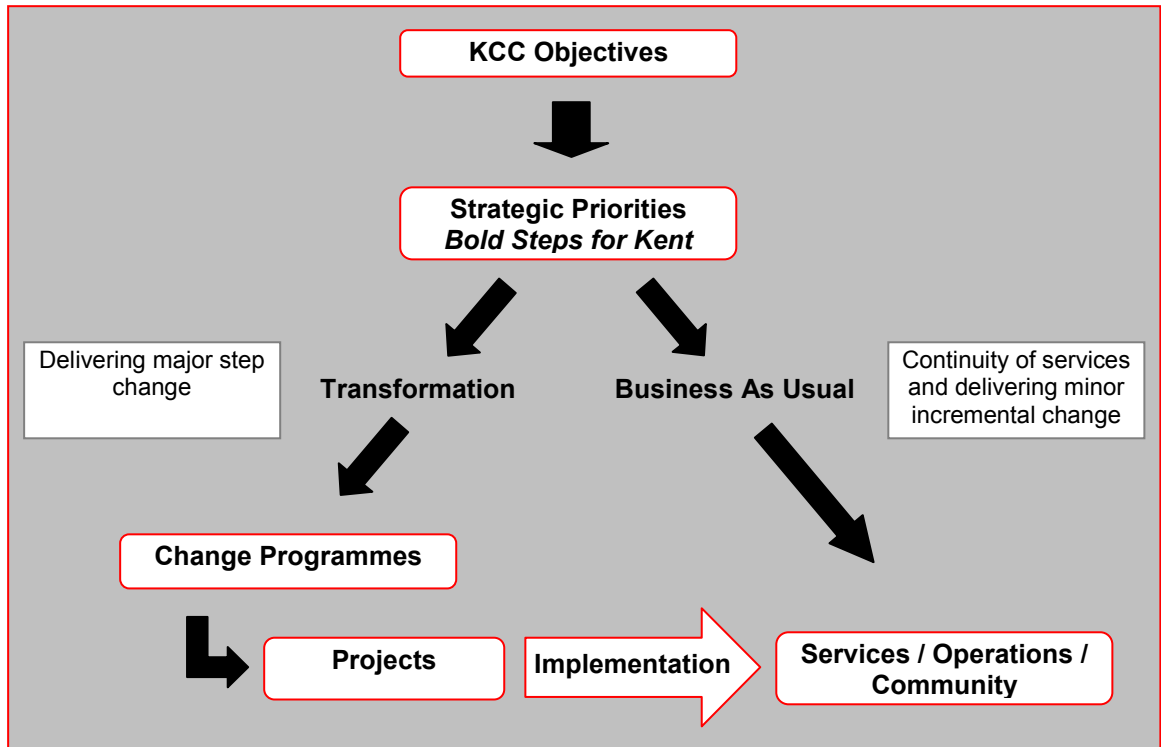
Enabled by the previous seven principles the effective operation of the Council's

risk management framework will need to demonstrate that it adds value to the organisation through helping to protect its current organisational 'value', increase Council and stakeholder confidence and success. The Council will determine benchmarks and measures to monitor and report on how risk management contributes added value to the organisation.

6. Context of risk management

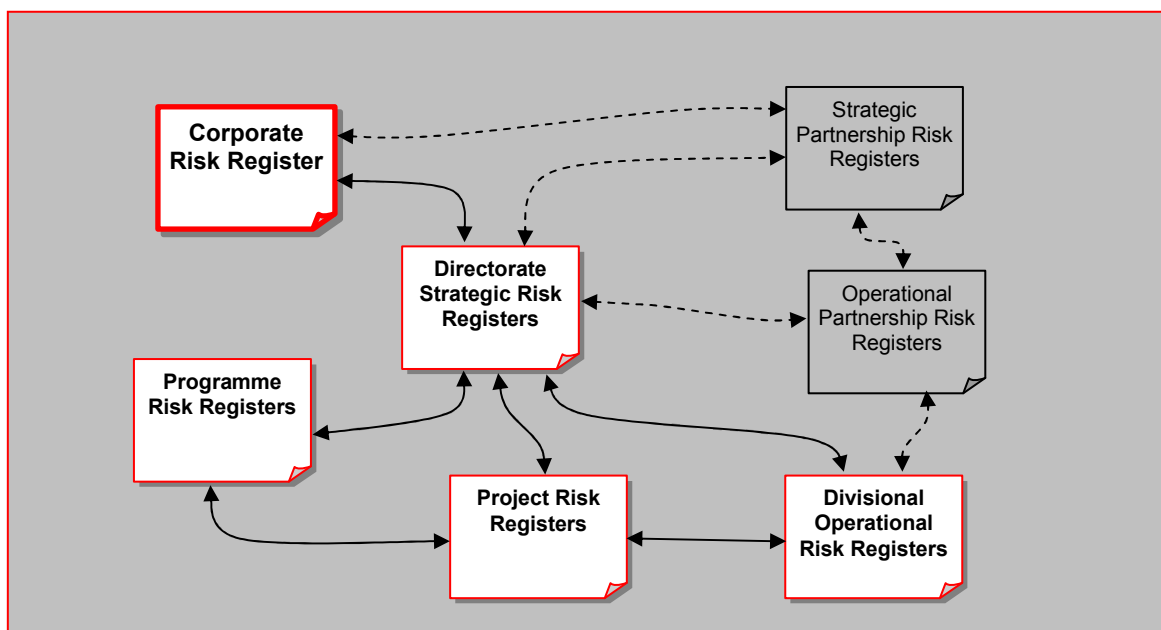
- 6.1. To be effective, risk management must take account of the external and internal environment (or context) within which the Council seeks to achieve its objectives. We are a highly complex organisation delivering multiple services. Our external environment is very dynamic and the changes occurring are not always subject to our control or influence. The external context can impact directly on our internal context, but other internal factors must also be understood, such as our policies and objectives, our governance, the Council's capability and capacity and our culture.
- 6.2. To assist management in understanding the context within which they are required to operate the risk management framework, the Corporate Risk Management team will maintain a Risk Context document, which will be updated as part of the annual policy review process.
- 6.3. In an organisation as operationally complex and diverse as ours it is important to recognise and understand where risks emerge. There are two main elements to manage;
 - 'Business as usual' - that is, the day to day management of operations and services to agreed service levels and performance; and
 - Transformation – managing the development and implementation of key step changes that will deliver our objectives and priorities.
- 6.4. The operational delivery model below provides a visual demonstration of how these two management elements operate in the greater context of organisational direction. They also helps to determine where risk occurs providing **five risk perspectives**;
 - **Corporate** – where decisions are made that shape our overall mission, strategic priorities and ambitions.
 - **Strategic** - where we are exposed to risks that could affect our ability to successfully achieve our strategic priorities.
 - **Programme** – where we are exposed to risks that could affect our ability to successfully complete the desired transformational outcomes of the Council and the County
 - **Project** – where we are exposed to risks that could affect our ability to successfully deliver predefined outputs that enable us to deliver outcomes and realise benefits.
 - **Operational / Service** – where we are exposed to risks that could affect our control and ability to successfully and continually deliver service to our services to our customers.

Delivery Model



6.5 These five perspectives are inherent at different levels across the organisation. They have clear interdependencies for effective management of risk and provide a logical structure of risk registers that inform each other and allow risks to be communicated and if necessary escalated up and down and across the hierarchy. The **Corporate Risk Register** leads this hierarchy and will be a key document through which Council maintains assurance around its most significant risk areas.

Risk Perspectives and Interdependencies



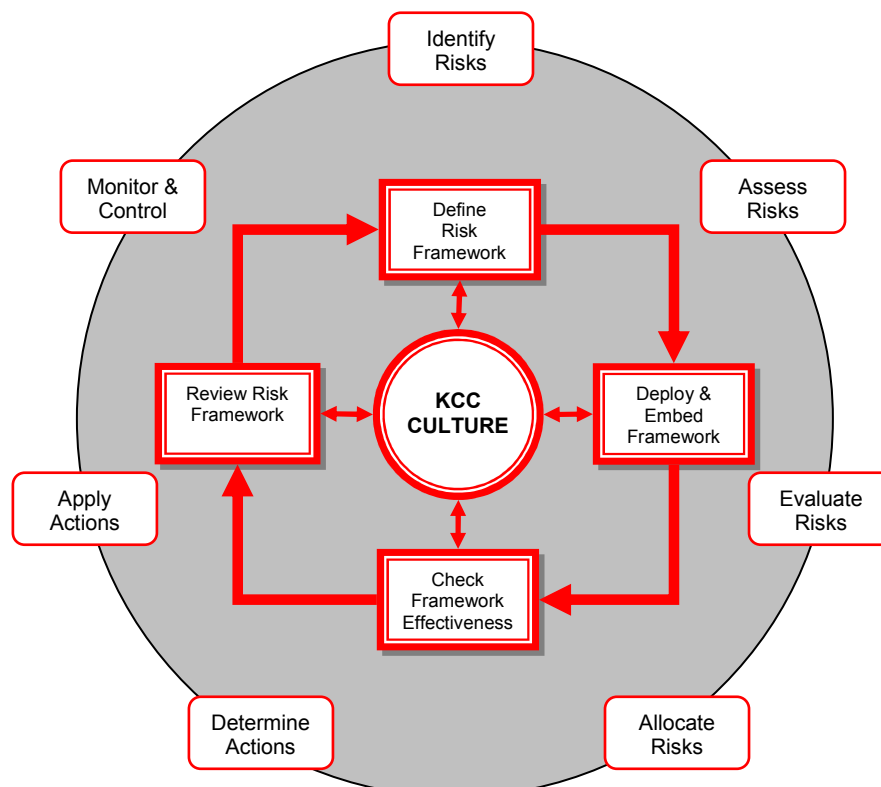
7. Governance of risk management

- 7.1. In December 2010 the Council approved “Change to Keep Succeeding”. The design principles introduced by that document align closely with principles of risk management, particularly those in relation to appropriate decision making. The role of the Kent Manager will also include Risk Management.
- 7.2. Responsibility for risk management runs throughout the Council; everyone has a role to play. However, to ensure that risk management is successful, the roles and responsibilities of key groups and individuals must be clearly identified. The main individuals and groups and reporting structure for Risk Management are set out below in Appendix 1 and the roles and responsibilities are set out below in Appendix 2.
- 7.3. Other officer groups will deal with related risk related specialisms, such as Health and Safety, Treasury, Emergency Resilience and Business Continuity, Insurance, Information Security, etc. These groups will be linked into the Performance Assurance Team so that their work is co-ordinated within the Council’s overall risk management framework.

8. Overview of the risk management framework and process

- 8.1. Our risk management framework will align with OGC’s recognised best practice guidance - *Management of Risk: Guidance for Practitioners*, as expressed in diagram 1 below: The framework is an iterative process to enable continuous improvement.

Diagram 1 – The Risk Management Framework



- 8.2. The risk management framework is summarised below and practical detail for managers will be set out in the Risk Management Statement of Required Practice (SORP) and risk management guidance and support resources.
- 8.3. **Risk Management Framework** - The four core elements of the framework development, shown around the Council's culture, highlight the need for its risk management approach and practices to be informed and aligned with its values and 'the way things are done'. They will form the basis of the Council's Risk Management Policy:
- **Define risk framework** – The Corporate Risk Manager will determine and recommend policy and practical procedures (SORP and guidance) for the management of the Council's risks in line with its culture and values. Supported by Cabinet Members and Corporate Directors, it will set out the standards and practices that must be used across the Council and will define the activities and practices for assessing and managing risk.
 - **Deploy & embed framework** – Senior management will assign resources to implement risk management throughout the council. This will entail the promotion and communication of the policy supported by the delivery of training in the principles and practices of risk management to all Members and appropriate officers.
 - **Check framework effectiveness** – The Performance Assurance Team (PAT) will ensure that the council's arrangements for managing risk are regularly reviewed and will report on this to Cabinet. The Governance and Audit Committee shall regularly commission its internal auditors to undertake a formal review of council's risk management arrangements. The outcomes of the internal review will be presented to the Governance and Audit Committee and be used to inform its review of the policy and framework.
 - **Review risk framework** – All information collated on the effectiveness of the council's risk management arrangements will be interpreted and used alongside lesson's learnt to review and strengthen the policy and to provide greater capability and capacity for managing the Council's risks. This in turn will provide greater assurance to stakeholders.
- 8.4 **Risk Management Approach** – Illustrated above, surrounding the four concepts of the risk management framework, is the defined process and practices for assessing and managing risk. Practical details will be outlined within the SORP and practical guidance for managers:
- **Identify Risk** – Concerns our methodology for establishing an activity's exposure to risks and how they are to be recorded for each of the 5 risk perspectives.
 - **Assess Risk** – A process through which recorded risks are analysed in readiness for evaluation.
 - **Evaluate Risk** – The evaluation of risks against parameters (Risk appetite and Tolerance) which provides assurance of a consistent approach to the measurement of risk probability and impact and appropriate management and escalation.

- **Allocate Risk** – Ensuring that identified risks are suitably allocated to stakeholders who are best placed to take ownership of the risk and who have the required level of authority to effectively manage them.
- **Determine Actions** – A logical approach to determining appropriate and viable solutions to eliminating, reducing or controlling threats and enhancing opportunities.
- **Apply Actions** – Our approach for the agreement and deployment of selected actions.
- **Monitor & Control** – Methodology for reviewing risks against factors that could affect their profiles and for exercising control over risk to reduce and maintain them to tolerable levels.

9. Risk appetite

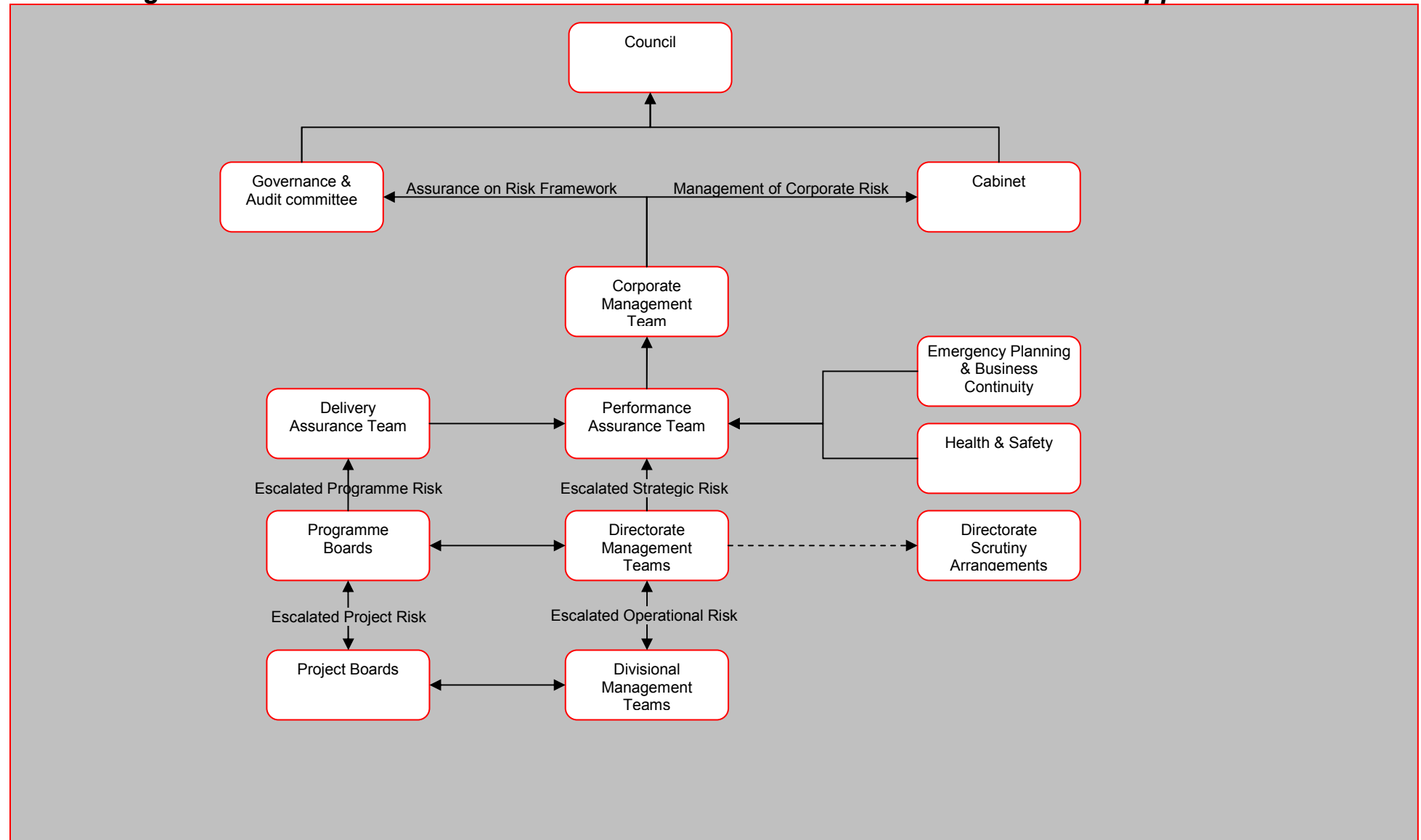
- 9.1. Principle e) in Section 5.1 makes reference to Risk Appetite – our willingness to tolerate a particular level of exposure to specific risks or risk groups. Understanding risk appetite is a vital aspect in supporting effective risk management. It follows that this appetite reflects the council's capacity to bear risk and may vary by risk type and perspective. Our appetite for risk will be implicitly defined within the Corporate Risk Register and guidelines for managers will be established and agreed with Cabinet Members and CMT which support consistent and appropriate escalation and management activity.

10. Training on risk management

- 10.1. The Corporate Risk Team will develop and deliver appropriate training to support the implementation of this policy for Members and Officers. Officer training will be guided by a training needs assessment that will be updated annually and approved by the Performance Assurance Team to ensure that the requirements of the various staff groups within the Council are met. Supplementary training will also be delivered to directorates and business units if requested and where capacity allows.
- 10.2. The attendance at training sessions will be monitored to ensure that no one group of staff is excluded; thereby ensuring that risk management capability is fully and consistently embedded across all areas of the Council.

11. Review of this policy

- 11.1. It is the responsibility of the Governance and Audit committee to: *'On behalf of the Council ensure that Risk Management and Internal Control systems are in place that are adequate for purpose, and are effectively and efficiently operated.'* Internal Audit will support their role in assuring its effectiveness and adequacy.
- 11.2. Information from Internal Audit and from other sources will be used to inform recommended changes to the policy and framework at least annually. Any changes will be presented to the Governance and Audit Committee for approval before publication.



Group or Individual	Responsibilities
Council	Ensure that an effective system of risk management is in place.
Cabinet	Responsibility for the operation of the risk management system, including the establishment of the Council's Risk Appetite.
Cabinet Member for Business Strategy & Performance	On behalf of Cabinet ensure effective risk management arrangements are put in place
Cabinet Portfolio Holders	Responsibility for the effective management of risk within their portfolio areas and ensuring that they consider risks in all decisions they make
Governance & Audit Committee	On behalf of the Council ensure that Risk Management and Internal Control systems are in place that are adequate for purpose, and are effectively and efficiently operated.
Overview & Scrutiny Bodies	To scrutinise decisions to ensure that due consideration is given to associated risks.
Section 151 Officer	Active involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered.
Corporate Management Team (CMT)	To ensure the Council manages risks effectively through the Risk Management Policy and actively consider, own and manage key strategic risks affecting the Council through the Corporate Risk Register.
Performance Assurance Team (PAT)	Keep the Council's Risk Management Framework under regular review and approve and monitor delivery of the annual risk work programme. On behalf of the Executive monitor the corporate risk register to ensure that actions are being implemented to mitigate risk within the Council's Risk Appetite and report on exceptions and key changes to risk impact or immediacy.
Delivery Assurance Team	To obtain assurance from those responsible for the delivery of the council's priorities and major change programmes that the associated risks are effectively identified and managed and report by exception.
Programme / Project Boards	To ensure that programme and project risks are effectively identified and managed and that any impacts on the business that may follow implementation are reported and managed.
Corporate Programme Office	To develop and ensure implementation of programme and project governance, controls and risk management arrangements to successfully deliver outputs and secure desired outcomes and benefits.
Directorate Management Teams (DMT)	Responsibility for the effective management of risk within Directorates and reporting to PAT and the Corporate Risk Team as appropriate.
Divisional Management Teams (DivMT)	Responsibility for the effective management of risk within divisions and reporting to DMT as appropriate.
Managing Director	Responsibility for the overall monitoring of strategic risks across the Council, including the endorsement of priorities and management action. Responsible for ensuring that risk management resources are appropriate.
Corporate Risk	For promoting a positive risk management culture within KCC,

Manager	<p>developing and implementing the risk management framework and strategic approach and continuing to develop and embed an effective infrastructure for managing and reporting risk.</p> <p>Facilitate maintenance of an up to date Corporate Risk register and provide reports on corporate risk to the Executive and PAT.</p> <p>Facilitating the risk management process within the Council and advising on developments on risk management. Assisting key individuals with implementing and embedding risk within key Council areas and providing guidance, training and support as required.</p>
Corporate Risk Team	<p>Day to day responsibility for developing and co-ordinating risk management across the Council and providing advice, support and training. And contributing to ongoing quarterly reporting on risk management</p>
Internal Audit	<p>Assesses the effectiveness of the risk management framework and the control environment in mitigating risk</p>
Directors and Kent Managers	<p>Ensure that effective risk management arrangements are in place to minimise the Council's exposure to risk and uncertainty.</p>

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

To: Governance and Audit Committee –29 November 2011

Subject: **TREASURY MANAGEMENT 6 MONTH REVIEW
2011/12**

Classification: Unrestricted

Summary: To present the Treasury Management 6 Month Review.

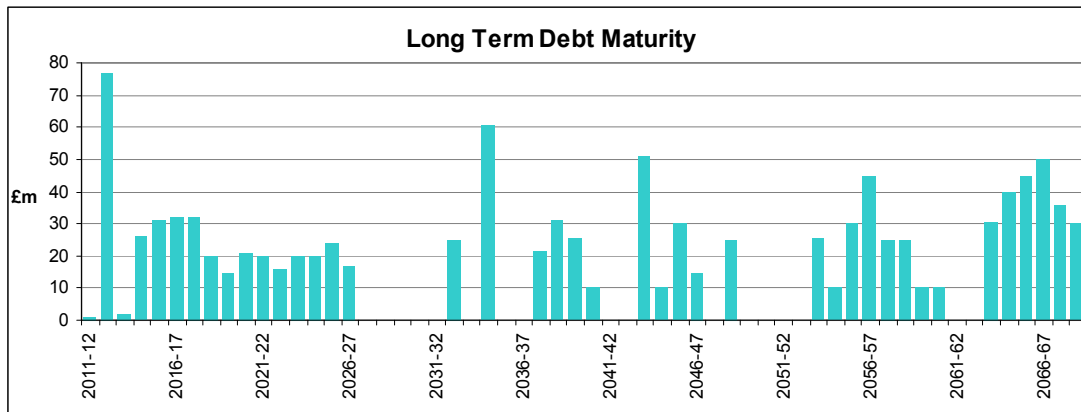
FOR ASSURANCE

1. INTRODUCTION

- 1.1 Treasury management is defined as, “The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 1.2 This Committee is responsible for the oversight of the Council’s treasury management activities. Council agreed the Treasury Strategy in February and implementation is the responsibility of the Corporate Director of Finance & Procurement in consultation with the Treasury Advisory Group (TAG). TAG is an all party sub-group of Cabinet chaired by the Cabinet Member for Finance. TAG receives a weekly report on deposits and a monthly performance report. The group normally meets quarterly but met twice in July to examine counter party options in detail.
- 1.3 Although formally this report is to 30 September it will cover specific action taken on counterparties in October and on the Icelandic Supreme Court decision on the Council’s deposits in Landsbanki and Glitnir.

2. DEBT MANAGEMENT

- 2.1 As at 30 September the Council had long term borrowing of £1,091m with a maturity profile as follows:



Total external debt includes £46.1m of pre LGP debt relating to Medway Council and £4.2m for other bodies.

- 2.2 The Council has a new borrowing requirement of £7m in 2011/2 but no new borrowing has been undertaken so far in the financial year. Taking new borrowing involves a very significant long term revenue cost to the Council. So even though we anticipate long term interest rates rising from current levels (50 year Public Works Loan Board rate is 4.33%) the very low rates on deposit, the shortage of counter parties and our resilient cash flow position all support not taking new borrowing at the current time.
- 2.3 During August a short term PWLB loan of £50m was refinanced by 2 market loans with RBS which had been arranged in May 2010 at a rate of 3.83%. The new loans are for 46 and 47 years.
- 2.4 There was no rescheduling of existing debt in the quarter.
- 2.5 It is forecast that debt costs for 2011-12 will be £1.2m less than budget as the result of not taking new borrowing. The average rate of interest paid on the Council's debt has however increased by 0.02% to 5.32% due to the re-financing of maturing debt in August.

3. INVESTMENTS

- 3.1 A list of the Council's deposits on 4 November is attached in the Appendix.
- 3.2 The Council's overriding objective in determining where to place Cash deposits is the security of the funds. The Council also needs to ensure that it has the liquidity to meet payment requirements. In what are extremely uncertain and fragile financial markets we have to accept that return is an insignificant consideration compared with maintaining the security of principal sums.
- 3.3. The Council's credit criteria is based upon:
 - 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
- County exposure eg Sovereign support mechanisms, GDP, the country's net debt as a Percentage of GDP.
- Share Price

The counterparties approved by Cabinet are:

- Debt Management Agency Deposit Fund / Treasury Bills
- Barclays
- HSBC
- Lloyds Banking Group
- Royal Bank of Scotland
- Santander UK
- Standard Chartered
- Clydesdale
- Nationwide

3.4 Of these counter parties:

- Santander UK has unfortunately been suspended since April 2010. Santander UK's credit rating still meets our requirements but the relationship with the Spanish parent and consequently exposure to the Spanish economy and Euro zone means that it is not currently a suitable counter party.
- Standard Chartered – will not take deposits from the Council.
- Clydesdale – never used because of events in Australia and consequent impact on its parent the National Bank of Australia.

3.5 In August Arlingclose reduced their maximum recommended duration for deposits from 12 to 6 months and this was implemented immediately.

3.6 On 7 October Moody's downgraded a number of UK institutions including RBS/ Nat West and Nationwide such that they no longer met our credit rating requirement. Any funds on call were immediately withdrawn. Clydesdale was also downgraded below our minimum level but we had no funds with them.

3.7 The Cabinet Member for Finance and Acting Corporate Director of Finance & Procurement formally reviewed the position on 11 October. The action sheet from the meeting was then updated after Fitch downgraded Lloyds on 12 October – again below our minimum acceptable level. A note of decisions taken was circulated to members of TAG. On 14 October all funds on call with Lloyds were withdrawn.

3.8 Currently the only counter parties available are:

- Debt Management Agency Deposit Fund / Treasury Bills
- Barclays
- HSBC

This is in accordance with Arlingclose's advice.

3.9 To transact business the Council has to use a clearing bank and Nat West is KCC's banker. The Cabinet Member for Finance and the Corporate Director of Finance & Procurement have evaluated the risks and costs of change and have decided that we should retain Nat West. Changing banks would take months to do and potentially we could end up with the same problem of a bank not meeting our counter party requirements. RBS is of course 84% owned by the UK Government.

3.10 Average cash balances were £319m during the period. These included schools balances in the corporate scheme (£56m), KCC working capital (£80m) created by differences in income and expenditure profiles, Iceland deposits (£39m) and other reserves and funds held in trust.

4. ICELAND

4.1 On 28 October the Icelandic Supreme Court confirmed the 1 April District Court decision that UK local authority deposits did count as deposits under Icelandic law and we are therefore preferred creditors. This also applies in the cases concerning the UK Financial Services Compensation Scheme, the Dutch National Bank (on behalf of retail depositors) and Dutch local authorities.

4.2 The position on the two banks is as follows:

- Glitnir – UK local authorities had £219m deposited with Glitnir and 100% of this will be recovered. Negotiations with the Winding Up Board to ensure prompt payment have commenced. Other creditors will receive a significant payout from Glitnir (20-25%).
- Landsbanki – the Winding Up Boards current projected return is 90%. The depositor group has previously met with the Winding Up Board and we expect a large dividend payment soon. It is unlikely any non-preferred creditors will receive any money from Landsbanki.

4.3 The Heritable administration continues to proceed well and we are confident of a final return of at least 85%. To date 65p in the £ has been paid totalling £11.9m.

5. COMPLIANCE WITH PRUDENTIAL INDICATORS

- 5.1 The Council can confirm that it has complied with its Prudential Indicators for 2011/12, which were set as part of the Council's Treasury management Strategy Statement. Details can be found in Appendix 2.

6. RECOMMENDATION

- 6.1 Members are asked to endorse this report and recommended that it is submitted to Council.

Nick Vickers
Head of Financial Services
Ext: 7000 4603

KCC Deposits at 04-11-11

Instrument Type	Counterparty	Principal Deposit Amount at 4 Nov 2011	End Date	Interest Rate	Territory
	Total Icelandic Bank Deposits	£38,496,223.97			
Fixed Deposit	Bank of Scotland	£3,000,000.00	16/12/2011	1.25	UK Bank
Fixed Deposit	Barclays Bank	£5,000,000.00	31/05/2013	6.8	UK Bank
Same Day Call Deposit	Barclays Bank	£8,000,000.00	n/a	0.7	UK Bank
Fixed Deposit	Barclays Bank	£2,000,000.00	10/04/2012	1.359	UK Bank
Fixed Deposit	Barclays Bank	£3,000,000.00	09/03/2012	1.28	UK Bank
Fixed Deposit	Barclays Bank	£4,000,000.00	07/11/2011	0.83	UK Bank
Fixed Deposit	Barclays Bank	£5,000,000.00	07/12/2011	0.94	UK Bank
Fixed Deposit	Barclays Bank	£5,000,000.00	08/06/2012	1.37	UK Bank
Fixed Deposit	Barclays Bank	£5,000,000.00	16/03/2012	1.2	UK Bank
Fixed Deposit	Barclays Bank	£3,000,000.00	27/03/2012	1.2	UK Bank
Fixed Deposit	HSBC	£7,250,000.00	21/11/2011	0.4	UK Bank
Fixed Deposit	HSBC	£3,900,000.00	30/03/2012	0.75	UK Bank
Fixed Deposit	HSBC	£4,000,000.00	31/01/2012	0.55	UK Bank
Fixed Deposit	HSBC	£4,000,000.00	29/02/2012	0.65	UK Bank
Fixed Deposit	HSBC	£15,000,000.00	25/11/2011	0.4	UK Bank
Fixed Deposit	HSBC	£5,850,000.00	05/03/2012	0.65	UK Bank
Fixed Deposit	Lloyds TSB	£5,000,000.00	09/01/2012	2	UK Bank
Fixed Deposit	Lloyds TSB	£4,000,000.00	09/02/2012	1.8	UK Bank
Fixed Deposit	Lloyds TSB	£4,000,000.00	08/05/2012	2.1	UK Bank
Fixed Deposit	Lloyds TSB	£5,000,000.00	05/01/2012	1.45	UK Bank
Fixed Deposit	Royal Bank of Scotland	£5,000,000.00	06/01/2012	1.4	UK Bank
LIBOR Fixed Deposit	Royal Bank of Scotland	£5,000,000.00	18/10/2013	1.56825	UK Bank
	Total UK Bank Deposits	£111,000,000.00			
Fixed Deposit	Nationwide Building Society	£5,000,000.00	14/12/2011	1.03	UK Building Society
Fixed Deposit	Nationwide Building Society	£4,600,000.00	25/11/2011	0.93	UK Building Society
Fixed Deposit	Nationwide Building Society	£1,200,000.00	04/05/2012	1.17	UK Building Society
Fixed Deposit	Nationwide Building Society	£4,200,000.00	15/03/2012	1.14	UK Building Society
	Total UK Building Society Deposits	£15,000,000.00			
Fixed Deposit	Debt Management Office	£5,000,000.00	07/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£7,000,000.00	08/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£7,400,000.00	11/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£8,000,000.00	09/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£10,000,000.00	14/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£10,000,000.00	15/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£16,000,000.00	10/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£7,000,000.00	16/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£3,650,000.00	17/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£4,150,000.00	18/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£4,400,000.00	17/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£2,850,000.00	18/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£4,400,000.00	23/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£5,000,000.00	07/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£3,400,000.00	07/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£5,600,000.00	23/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£4,400,000.00	30/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£7,000,000.00	29/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£8,000,000.00	24/11/2011	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£10,000,000.00	28/11/2011	0.25	UK Govt.
	Total UK Govt Deposits	£133,250,000.00			
	Grand Total of All Deposits	£297,746,223.97			

2011-12 October Monitoring of Prudential Indicators

1. Estimate of capital expenditure (excluding PFI)

Actual 2010-11	£377.147m	
Original estimate 2011-12	£305.448m	
Revised estimate 2011-12	£293.974m	(this includes the rolled forward re-phasing from 2010-11)

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

	2010-11 Actual	2011-12 Original Estimate	2011-12 Forecast as at 31.10.11
	£m	£m	£m
Capital Financing Requirement	1,286.518	1,308.640	1,300.801
Annual increase in underlying need to borrow	36.902	35.527	14.283

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

3. Estimate of ratio of financing costs to net revenue stream

Actual 2010-11	12.85%
Original estimate 2011-12	11.77%
Revised estimate 2011-12	13.98%

The actual 2010-11 and revised estimate 2011-12 includes PFI Finance Lease costs but these costs were not included in the original estimate calculation.

4. 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 2011-12

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

	Prudential Indicator 2011-12 £m	Position as at 31.10.11 £m
Borrowing	1,158	1,044
Other Long Term Liabilities	0	0
	1,158	1,044

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

	Prudential Indicator 2011-12 £m	Position as at 31.10.11 £m
Borrowing	1,204	1,090
Other Long Term Liabilities	0	0
	1,204	1,090

5. **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 2011-12 are:

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

	£m
Borrowing	1,198
Other long term liabilities	0
	1,198

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

	£m
Borrowing	1,204
Other long term liabilities	0
	1,204

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.

6. **Compliance with CIPFA Code of Practice for Treasury Management in the Public Services**

The Council has adopted the Code of Practice on Treasury Management and has adopted a Treasury Management Policy Statement. Compliance has been tested and validated by our independent professional treasury advisers.

7. **Upper limits of fixed interest rate and variable rate exposures**

The Council has determined the following upper limits for 2011-12

Fixed interest rate exposure	100%
Variable rate exposure	50%

These limits have been complied with in 2011-12.

8. Upper limits for maturity structure of borrowings

	Upper limit	Lower limit	As at 31.10.11
	%	%	%
Under 12 months	25	0	1
12 months and within 24 months	40	0	7
24 months and within 5 years	60	0	5
5 years and within 10 years	80	0	11
10 years and within 20 years	25	10	11
20 years and within 30 years	25	5	16
30 years and within 40 years	25	5	12
40 years and within 50 years	25	10	17
50 years and within 60 years	30	10	21

9. Upper limit for principal sums invested for periods longer than 364 days

Indicator £50m	Actual £10m
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By: John Simmonds, Cabinet Member for Finance
Andy Wood, Acting Corporate Director of Finance &
Procurement

To: Governance & Audit Committee – 29 November 2011

Subject: DEBT MANAGEMENT

Classification: Unrestricted

Summary: To report on the Council's debt position

FOR ASSURANCE

INTRODUCTION

1. The purpose of this report is to provide the Governance and Audit Committee with assurance on the Council's outstanding debt position.
2. This report concentrates mainly on debt over 6 months old.

MANAGEMENT SUMMARY

3. The overall outstanding debt as at 30 September 2011 as shown on Oracle Accounts Receivable is £41,745,781.
This represents social care debt from SWIFT of £18,030,690 (29,963 invoices) and sundry debt of £23,715,091 (5,956 invoices). This includes FSC Health debt of £3,136,442.
4. The detail around the Social Care element of debt can be found in sections 12-19, with earlier sections referring to AR sundry debt only.
The Social Care debt reflects the four weekly client billing process run on the 20th June 2011, rather than the month end position.
5. Since October 2009 the responsibility for the collection and monitoring of KASS social care debt returned to the Directorate. This debt is covered in paragraph 15 onwards.
6. Please note that throughout this report Business and Strategic Support (BSS) will include the old Chief Executive debt; Education and Learning Skills (ELS) will include the old CFE debt; Enterprise & Environment (E&E) will include the old EHW debt; Customers & Communication (C&C) will include old Communities debt; and Families & Social Care (FSC) will include the old KASS debt. We are unable to retrospectively

amend Oracle to reflect the new directorate structure. The debt reporting is calculated from the invoice due date and not the invoice date.

7. The table below is an analysis of the summary position as at 30 September 2011.

Directorate	Outstanding Debt (excluding debts not yet due)	0 – 60 Days	Over 60 Days and Under 6 Months	Over 6 Months
BSS	976,205	350,586	299,903	325,716
ELS	4,593,037	1,209,432	2,227,434	1,156,171
E&E	1,288,975	599,795	448,145	241,035
C&C	366,384	166,461	105,757	94,166
FSC + KASS (Sundry)	4,526,639	1,131,883	798,539	2,596,217
Total	11,751,240	3,458,157	3,879,778	4,413,305

The above figures do not include those debts which are not yet due, which total £11,963,851.

PERFORMANCE

8. There are two performance indicators that the Debt Recovery Team aims to achieve. The percentages are based on the total outstanding unsecured debt.
- Total outstanding sundry debt under 60 days old – greater than 65%
 - Total outstanding sundry debt over 6 months old – less than 20%

As at 30 September 2011 65% of the total sundry outstanding debt is under 60 days old and 19% is over 6 months old.

DEBT LEVELS OVER SIX MONTHS OF AGE

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

Directorate	Status of Debt	Amount Over 6 Months Old
BSS	Instalments	63,713
	Referred to legal services	3,021
	Referred to directorate for action	106,495
	Ongoing action	151,733
	Referred for write off	754
	Sub total	325,716

BSS

- The £152k marked as Ongoing action represents 93 invoices, the largest being an invoice to Capita Business Services for £73k raised in August 2011 which has since been paid.
- The £106k marked as referred to Directorate represents 10 invoices, the largest being a repayment of an empty property loan of £100k.

Directorate	Status of Debt	Amount Over 6 Months Old
ELS	Instalments	18,456
	Referred to legal services	25,121
	Referred for write off	113,432
	Referred to directorate for action	385,769
	Ongoing action	613,339
	Internal school charges	54
	Sub total	1,156,171

ELS

- The £386k marked as referred to Directorate for action represents 35 invoices. Of these there are 2 invoices totalling £365k invoiced to an East Kent Health Authority which has had a name change and are in the process of being cancelled and re-raised.

Directorate	Status of Debt	Amount Over 6 Months Old
E&E	Instalments	2,490
	Referred for write-off	2,205
	Ongoing action	156,700
	Referred to directorate for action	53,172
	Insurance	25,958
	Referred to legal services	510
	Sub total	241,035

E&E

- The £157k marked as Ongoing Action represents 107 invoices, the largest being £29k for a Section 28 charge.

Directorate	Status of Debt	Amount Over 6 Months Old
FSC (Sundry debt)	Instalments	24,610
	Instalments- Small Claims	5,020
	Referred to legal services	1,470,723
	Referred for write-off	9,068
	Ongoing action	107,185
	Health debt	909,959
	Referred to directorate for action	68,047
	Small Claims	1,605
	Sub total	2,596,217

FSC

- The £1,471K marked as Referred to Legal Services relates to 7 invoices. There is one invoice of £1,439,790 raised in September 2010 to a Primary Care Trust.
- The £910k of Health Debt relates to 28 invoices with an average value of £32.5k
- The £107k marked as Ongoing Action relates to 88 invoices.

Directorate	Status of Debt	Amount Over 6 Months Old
Communities	Instalments	5,376
	Referred for write-off	4,928
	Referred to directorate for action	5,203
	Ongoing action	73,006
	Referred to legal services	5,653
	Sub total	94,166

C&C

- The 73k marked Ongoing Action represents 64 invoices, the largest of which is £9.7k to Essex County Council raised by Kent Scientific Services

INSTALMENT PAYMENTS

10. The table below represents the amount and value of debt being paid by instalments.

Directorate	Number of Cases	Total Value £
BSS	12	73,280
ELS	35	33,788
C&C	14	8,764
E&E	8	25,519
FSC + KASS (sundry debt)	77	33,959
Total	146	175,310

11. The table below represents the sundry debt for Kent Adult Social Services and the former Social Services. Unfortunately, it is not possible to break the figures down by district; however the age analysis is detailed.

Area	0-60 Days	Over 60 Days and Under 6 Months	Over 6 months	Total
EK KASS	150	71,832	433,375	505,357
EK Social Services	0	0	11,796	11,796
HQ KASS	0	27,148	156,145	183,293
HQ Social Services	0	0	115	115
MK Social Services	0	0	1,564	1,564
WK KASS	0	258,708	1,938,667	2,197,375
Other FSC KASS/SS Debt	1,131,733	445,604	50,010	1,627,347
Total Debt	1,131,883	803,292	2,591,672	4,526,847

The 'Other FSC/KASS/SS Debt' figures represent charges raised through the Oracle system that do not denote a specific area. Debts within this category will include salary overpayments, Direct Payments and home support fund repayments.

TRENDS

12. Listed below is the outstanding debt over 6 months old as the percentage of the total debt as at 30 April for the last 5 years

30 April 2011	30 April 2010	30 April 2009	30 April 2008	30 April 2007
7.8%	6%	11%	12%	20%

13. The numbers and values of invoices raised for the last 4 years are:

	10-11	09-10	08-09	07-08
Number of invoices raised	29,336	30,369	34,097	34,270
Value of invoices raised	£176,597,554	£165,961,032	£183,804,045	£183,656,212

WRITE OFFS

14. The table below shows the sum written off per Directorate for the period April – September 2011:

Directorate	Total £
BSS	1,958
ELS	3,935
E&E	2,836
FSC (Sundry debt only)	23,305
C&C	10,751
Total	42,785

SOCIAL CARE DEBT

15. Client Charging

- (1) Clients are financially assessed to determine their contribution towards either their residential or domiciliary care costs.
- (2) Residential Charging - This charging is distinct from non-residential (domiciliary) charging in that councils have a duty to charge for services under Section 22 of the National Assistance Act 1948. Councils have no discretion in how they charge individuals, and all councils are required to do so.
- (3) Non-Residential Charging - Section 17 of the Health and Social Security and Social Services Adjudication Act 1983 gives councils the power to charge a person for non-residential services no more than it appears reasonable for them to pay. This means that each council has discretion in how they charge individuals for certain services and how much an individual has to contribute to the costs. In Kent we currently only charge for domiciliary type care, however following the decision of 23rd September by the cabinet member for Adult Social Care & Public Health, Kent is due to start charging for day care & transport from April 2012.
- (4) In 2010-11 the total amount of income charged to clients through the client billing system was as follows:

Residential	£46,885k
Domiciliary	£10,731k
Total	£57,616k

Analysis of client related debt

16. (1) As at the 22 September the 2011-12 overall client related social care debt stood at £18,508k, the debt can be broken down as follows:

Residential	£16,139k
Domiciliary	£2,342k
Health Contributions	£27kk
Total	£18,508k

- (2) Of the £18,508k only £13,806k is actually due for payment, invoices had only just been dispatched for the remaining £4,702k.

- (3) The £13,806k can be broken down between secured and unsecured debt as follows:

• Unsecured – ongoing clients	£5,565k
• Unsecured – terminated/deceased clients	£1,028k
• Total Unsecured	£6,593k
• Secured with legal charges	£7,199k
• Health contributions	£14k
• Overall total of due debt	£13,806k

Aged Analysis of Unsecured Debt

17. The following table shows an analysis of unsecured debt that is due for payment:

	Under 6 months	Over 6 months	Over One Year	Total
Unsecured – ongoing client debt	£2,906k	£973k	£1,686k	£5,565k
Unsecured - Deceased/terminated client debt	£130k	£154k	£744k	£1,028k
Total unsecured client debt	£3,036k	£1,127k	£2,430k	£6,593k

Unsecured – Ongoing client debt over 6 months equates to 349 debtors

Unsecured – Deceased/Terminated Client Debt equates to 393 debts for those with debts just over 6 months.

Unsecured – Ongoing client debt both over/under 6 months only equates to 769 debtors.

Unsecured - Deceased/ Terminated Client Debt equates to 73 debtors for those with debts both under/over 6 months.

Numbers of Unsecured Debtors

18. The table below analyses the number of debtors with an unsecured debt, both due and not yet due.

	Numbers
Unsecured – ongoing debtors with debts	11,836
Unsecured deceased/terminated debtors with debts	581
Total Unsecured Debtors	12, 417

Bad Debt Provision – Client Related

19. (1) The total bad debt provision that exists for client related debt at the end of 2010-11 was £3,981k. This is calculated by looking at the value of all of the debts under various debt categories of those secured and unsecured. It also takes into account the age of the debt.
- (2) Generally the percentages for the main categories used are as follows:
- Unsecured – ongoing (under 6 months) - 5%
 - Unsecured – ongoing (over 6 months) - 60%
 - Unsecured – terminated (under 6 months) - 33%
 - Unsecured – terminated (over 6 months) - 75%
- (3) The general provision is £1,960k. This covers all debts, secured, unsecured and Health. This provision is recalculated on a monthly basis, and any required changes are forecast within the revenue monitoring.
- (4) In addition to the general provision that is calculated as described above we have allowed for an additional £2,021k of specific provisions. This relates to individual named clients for which we believe there is a high risk of the debt not being paid. This is reviewed during the course of the year to see if any payments have been made.

Write Offs

20. (1) In 2010-11 £351k of client related debt was written off.

Reasons for Debt

21. (1) Many of the clients who we are charging do not actually manage their own financial affairs, especially those in residential and nursing care. It is likely that a family member is managing their affairs on their behalf. However the debt must remain the responsibility of the client, and we cannot take specific debt recovery action against the family member, only the client. In many debt cases the client is not even aware that their relative is not paying the monies due. This makes debt recovery against vulnerable people very difficult.
- (2) When we are made aware that others may be misappropriating a client's finances, we can approach the Pension Service and ask that KCC becomes appointee for the client's benefit. This can be a complicated and lengthy process, and depends entirely on whether the client has mental capacity, and if so, whether they agree to us becoming responsible for their finances. In cases such as this it is likely that any debt that has accrued before we take on appointeeship, will never be paid, and will probably end up being written off.

RECOMMENDATION

22. Members are asked to note the content of this report.

Nick Vickers
Head of Financial Services

Michelle Goldsmith
Finance Business Partner FSC

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

To: Governance and Audit Committee – 29 November 2011

Subject: **Audit Commission: Draft Annual Audit Letter**

Classification: Unrestricted

Summary: The Audit Commission's Annual Audit letter provides a summary of the most important findings from their 2010/11 audit.

FOR ASSURANCE

Introduction

1. The Audit Commission's Code of Audit Practice requires that the external auditors prepare an Annual Audit Letter (the Letter) and issue it to the Council. The purpose of the Letter is to communicate to the Council and its external stakeholders, including members of the public, the key issues arising from auditors' work, which the District Auditor considers should be brought to the attention of the Council. The Letter is intended to cover the work carried out by the external auditors since the previous Letter was issued, in this case November 2010.
2. The Letter highlights any key issues drawn from reports previously presented to the Governance and Audit Committee and the auditors' conclusions on relevant aspects of the audit.

Summary of the letter

3. This Letter summarises the work from the External Auditor's 2010/11 Audit plan and includes:
 - The audit opinion and financial statements
 - Value for money
 - Current and future challenges
 - The audit fees for 2010/11
5. The Letter reaffirms the unqualified opinion on the 2010/11 financial statements, including the Kent Pension Fund, and the unqualified value for money conclusion.
6. Mr Wells, the District Auditor, will provide a short commentary in relation to any issues in the letter that he feels require detailed consideration by the committee.

Publication of the Letter

7. The Letter is addressed to all Members and the District Auditor requires that all Members receive a copy. There is also a statutory requirement to publish the Letter, and the Audit Commission will publish all Letters on its website as part of its objective to make its findings easily accessible to everyone. To meet the publication requirements, the Letter will be circulated to all Members of the County Council and published on the website after this committee.

Recommendations

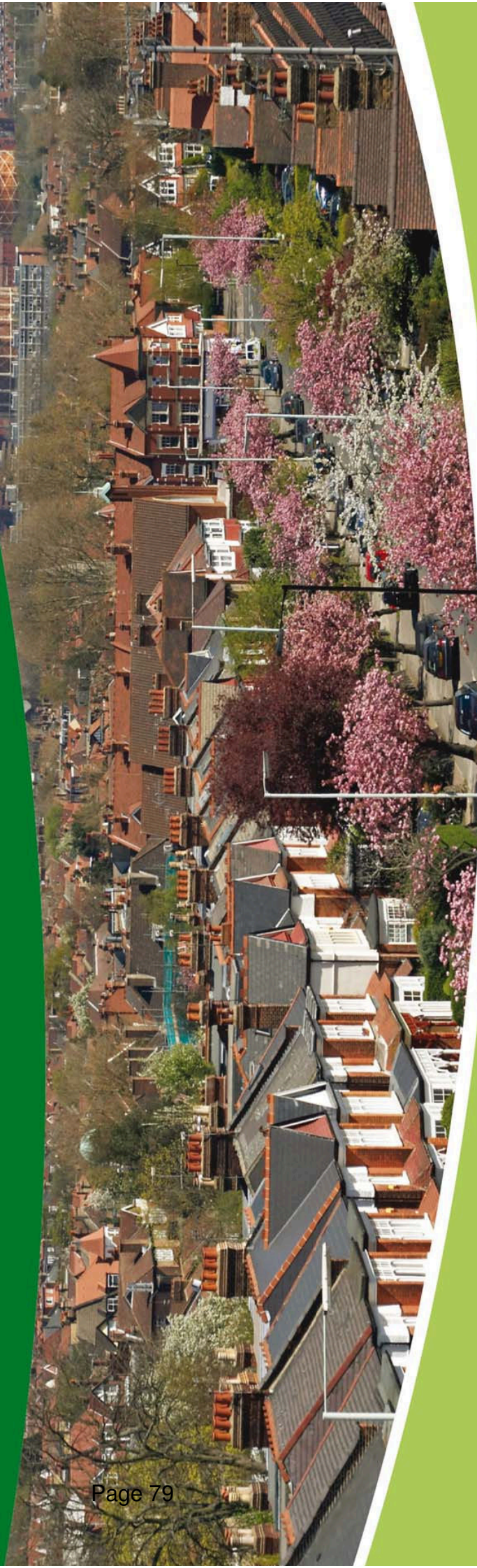
8. The Governance and Audit Committee is asked to receive the Annual Audit Letter for assurance and note:
 - the requirement of the External Auditors to prepare and issue an Annual Audit Letter to the Council has been met, and
 - the proposed actions for publication of the Annual Audit Letter.

Samantha Buckland
Acting Head of Internal Audit
Ext: 4611

Annual Audit Letter

Kent County Council

Audit 2010/11



Contents

Key messages	3
Audit opinion and financial statements.....	3
Value for money	3
Current and future challenges	4
Financial statements and annual governance statement	7
Overall conclusion from the audit.....	7
Significant weaknesses in internal control.....	7
Value for money	9
Closing remarks	12
Appendix 1 - Fees	13
Appendix 2 - Glossary	14

Key messages

- This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**
- **the audit of your financial statements; and**
 - **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit risk	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

- I issued an unqualified audit opinion on the 2010/11 financial statements, including the Kent Pension Fund, on 26 July 2011. This is one of the earliest audit opinions in local government.
- The financial statements were of a good quality. The Council responded well to the challenge and complexity of reporting for the first time under International Financial Reporting Standards.
- During the audit a minor number of amendments were identified and officers agreed to amend all but two of these errors. Neither of the unadjusted errors affected my audit opinion. This is a significant achievement by the Council considering the increased workload and tight timescales for producing the accounts.

Value for money

- I issued an unqualified value for money conclusion on the arrangements Kent County Council has in place for securing economy, efficiency and effectiveness in the use of its resources on 26 July 2011.
- The Audit Commission requires me to report by exception where significant matters come to my attention which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources. Such a matter is the findings from the Ofsted inspection of the Council's safeguarding children and young people services and services for looked after children.
- My work to support the value for money conclusion assessed the senior management restructure and the significant financial challenges the Council is facing. I agreed a number of recommendations with the Council and reported these in the Annual Governance Report presented to the Governance and Audit Committee on 14 September 2011.

Current and future challenges

Economic downturn and pressure on the public sector

The economic forecast for the UK and western developed countries remains gloomy. In his comprehensive spending review announcement in October 2010, the chancellor set out a significant financial challenge for the public sector. This includes significant decreases in local government funding:

- 28 per cent decrease in Revenue Support Grants (excluding schools) by 2014/15;
- 45 percent fall in capital funding from central government; and
- 0.1 per cent real term increases in schools funding each year

The Council's Medium term financial plan highlights the need for £95 million savings on its budget for 2011/12 and £65 million in 2012/13. A robust process applied to identifying savings targets for 2011/12. Some of the savings required in the current year have been 'funded' by underspends from last year and the use of specific reserves. The Council intends to reinstate these reserves from base budget contributions from 2014/15 onwards.

The latest budget report to Cabinet shows there is an overspend of £7.5 million to the predicted year end forecast. This is mainly a result of schools overspending at £5.7 million. Management action is being taken and the underlying revenue pressure, excluding schools, of £1.8 million is expected to reduce to £1.3 million by 31 March 2012. Management remains confident there will not be a significant overspend at year-end.

Work is in progress to identify savings for 2012/13. It is likely that delivery of savings in this year and beyond will need to be achieved more through policy changes than efficiency savings. Consultation is likely to be required and therefore these schemes may have a long lead in time. Continued strong political decision making based on robust information, coupled with strong project management for identifying and monitoring savings schemes will be essential.

I will continue to monitor the Council's plans for agreeing its budget for 2012/13 over the coming months.

Organisational development

The Council recognised that it needed to change to adapt to the current financial climate. In its medium term plan, 'Bold Steps for Kent', it published new ambitions for the next four years and stated its aim to modernise the Council. Its ambitions are; 'To help the Kent Economy to Grow'; 'To Tackle

Disadvantage' and 'To Put the Citizen in Control'. (The Council with its partners was recently successful in securing £40 million funding from central government to encourage business growth in East Kent, a key contributor to its 'economy' aim). In July 2011, the Council published a delivery framework for 'Bold Steps', setting out key priorities, milestones and key performance measures. Work is in progress to develop a rounded, robust performance monitoring suite to track progress against the key priorities. Modernisation of the Council has begun. A corporate restructuring is in progress to support better the delivery of the key aims and to change the culture of the Council from silo working to one unified council. Alongside this key business practices are being refreshed, such as staff performance management and setting and embedding management standards. Taken together, delivery against the Council's medium term aims and the modernisation of its modus operandi represents a key challenge.

Children's services

Following an inspection by Office for Standards in Education (Ofsted) last year, improving its arrangements to ensure the safeguarding and protection of children has been the Council's top priority. Work has focused on key improvement areas agreed with Ofsted. Regular reports to Cabinet during the last 12 months have highlighted the positive progress made. In November 2011, the Council announced on its website that Ofsted had acknowledged that 'significant improvements had been made' following a two day unannounced visit. The Council recognises much more work is needed on its children's services. It is developing the second phase of its improvement plan to build on the progress made so far; to focus on quality (services, record keeping and management) and to develop the range of preventive services.

Planned changes to legislation

The government has announced some wide-ranging reforms to the public sector since taking office in May 2010. Many are contained in the Localism Bill, key aspects of which include:

- introducing a general power of competence for local authorities;

- introducing the right for communities to bid for local assets threatened with closure, challenge the way services are provided and initiate referendums; and
- significant reforms to the planning system.

The Council will need to consider the implications of this new legislation. Some proposals may involve changes to workloads or more coordination with other local authorities. The Council will also need to consider the implications for their medium term financial plans of changes to funding arrangements or to the overall level of central government support.

Financial statements and annual governance statement

The financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

The Council dealt successfully with the challenges posed by the requirements of International Financial Reporting Standards and produced a full set of accounts, of a good quality, three weeks earlier than the statutory deadline of 30 June.

Officers responded quickly to audit queries and provided evidence in a timely manner. My audit work identified a small number of errors and omissions in the accounts but in the context of the challenging accounting changes introduced by international financial reporting standards, this is a significant achievement by officers. I reported the findings of my audit to members of the Council's Governance and Audit Committee on 30 June 2011. I highlighted two errors in the accounts that were not corrected; a £3.9 million overstatement of adult social care gross expenditure and gross income and a duplicated asset in the balance sheet of £6.9m. Members accepted officers' reasons for not amending the accounts. I did not judge these errors to be material to my audit opinion.

I issued an unqualified audit opinion on the 2010/11 financial statements, including the Kent Pension Fund, on 26 July 2011. This is one of the earliest audit opinions in local government and was achieved because of the quality accounts produced and highly effective joint working between officers and auditors.

Significant weaknesses in internal control

International standards of auditing require the auditor to report any significant weaknesses in the systems of internal control identified through their work. I confirmed to the Governance and Audit Committee that I did not identify any significant weaknesses in the Council's internal control arrangements. I did however, highlight a few areas where internal control could be strengthened, in respect of foster care payments and IT controls. Officers are strengthening controls in the areas I identified.

Icelandic bank investments

In previous Audit Letters, I have highlighted the Council's position in respect of money deposited with Icelandic banks. The Council had £50.3 million, including £16.3 million relating to Kent Superannuation Fund and £1.8 million deposited on behalf of Kent and Medway Fire and Rescue Authority, placed with Icelandic banks at the time of their collapse in October 2008. Since then the Council has worked with others on behalf of the local government sector to recover this money. On 28 October 2011 the Icelandic Supreme Court announced that local authorities do have preferential creditor status with the three banks. Under Icelandic law depositors are preferred creditors and they should receive a full payout before any other creditors are paid. Expected returns are:

- Glitnir - invested £15 million and a predicted return of 100%;
- Heritable – invested £18.35 million and recovered £12.02 million as at 31 October 2011. Total predicted return is 88%; and
- Landsbanki – invested £17 million and a predicted return of 98%.

In its financial statements for 20010/11 the Council impaired these funds in line with the latest guidance from CIPFA. I confirmed that the fair values and impairments for the outstanding deposits shown in the Council's accounts follow the guidance.

Audit certificate

^D
^{ag}
⁰⁸
⁰⁸ I have not yet certified the closure of the 2010-11 audit as I am considering an objection made to the Council's accounts. The potential sums involved in the objection are not material to the financial statements for 2010-11 and therefore did not stop me from issuing an opinion on the statement of accounts.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources. My conclusion did report by exception Ofsted's concerns (Office of Standards in Education) over the Council's children's services.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion

1. Financial resilience

The organisation has proper arrangements in place to secure financial resilience.

Focus for 2010/11:

The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

Key messages

The Council's medium term financial plan highlights the need for savings of £95 million in 2011/12 and £65 million the following year. In 2011/12, the target was to be achieved through efficiency savings of £39 million, policy changes of £35 million, use one-off funds of £15 million and increased income by £6 million.

Project management arrangements are in place to monitor the identification and delivery of savings plans. This includes satisfactory oversight by CMT, the Governance and Audit Committee and policy overview and scrutiny committees. An early control required the responsible directorate to prepare a short Project Initiation Document (PID) identifying how the savings will be delivered, the level of savings and project milestones. Individual projects were risk assessed for delivery. My high level review of the Council's monitoring spreadsheet shows that the total savings requirement in the MTFP was adequately captured and savings identified and that all projects over £200,000 have PIDs in place. I reviewed some of the schemes to assess the robustness of the savings assumptions and the appropriateness of the delivery risk rating. In all cases I considered the risk rating to be a fair reflection of the likelihood of achieving the targeted

savings.

Following the initial PID process, the Council's focus for monitoring and review has moved from savings delivery to budget monitoring. Therefore delivery of savings is now monitored via its usual budget reporting process rather than a separate RAG rating or reporting the value of savings achieved and forecast. This is sensible and appropriate.

However the delivery of the savings schemes may present specific risks around achieving base budget changes and one-off compensating actions. Although budget monitoring will highlight significant non-delivery of savings targets, without reviewing milestones there are risks that non-delivery may not be highlighted early enough for remediable action. The Council is reviewing corporate arrangements for monitoring achievement of PID milestones; this should include a risk assessment of each PID and clarify any escalation procedures to be used if necessary.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

In autumn 2010, the Council embarked on a programme of senior management restructure called "Change to Keep Succeeding". This was in response to the cuts in public sector funding and to strengthen corporate arrangements to deliver the Council's Medium Term Plan, Bold Steps for Kent, and new government policies and priorities. Key principles of the restructure included improving productivity and efficiency through economies of scale and providing a structure to support an integrated "One Council" approach to minimise duplication and avoid professional silos. The Council set a challenging timetable to implement the new structure by the start of the new financial year 2011/12.

The restructuring is being effectively managed. The senior management/ directorate restructure was completed in line with the planned timetable and with no detrimental impact on the delivery of Council services. Relevant systems (Finance, HR, IT etc) were up and running as planned on 4 April 2011. Significant work was undertaken to update systems to go live from 4 April 2011 including the use of dry runs and data cleaning on the HR system and the remapping of budgets to align with the new structure. The majority of transition work was completed at the start of the financial year, but some issues arose following implementation which required additional work. For example, final transfers of some staff and review of transferred budgets and associated funding. Lessons learnt from the restructure exercise were reported to CMT and recommendations have been integrated into future Council work programmes. My work confirmed there is a good understanding of the recast budget in directorates.

Following completion of this first stage of the restructure the Council is completing restructures within directorates and resulting savings have been factored into the MTFP.

The restructuring lead to some senior staff redundancies. I reviewed the payments to these staff and concluded the payments were in line with the Council's redundancy policy and the local

government pension scheme. The costs of the redundancies and the early access to pensions were reported to, and approved by, the Council's Personnel Committee.

Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Ofsted's inspection of the Council's safeguarding children and young people services and services for looked after children raised significant concerns about operational practice (which is outside the scope of my consideration) and aspects of the Council's proper arrangements. I consider that the inspection highlighted weaknesses in the Council's arrangements for:

- producing relevant and reliable data and information to support decision making and manage performance; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

Closing remarks

I have discussed and agreed this letter with the Group Managing Director and the Acting Corporate Director of Finance and Procurement. I will present this letter at the Governance and Audit Committee on 29 November 2011 and will provide copies to all members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Kent County Council Audit Fee Letter and Kent Superannuation Fund Audit Fee Letter	June 2010
Audit Fee Updates	September and November 2010
Kent County Council Opinion Audit Plan and Kent Superannuation Fund Opinion Audit Plan	March 2011
Certification of Claims and Returns Annual Report	March 2011
Annual Governance Report	June 2011
	September 2011 (revised)

Page 90

The Council has taken a positive and constructive approach to our audit. I wish to thank members and Council staff for their support and co-operation during the audit.

Darren Wells

District Auditor

29 November 2011

Appendix 1 - Fees

	Actual	Proposed	Variance
Audit Fee	385,000	385,000	(0)
pension fund fee	50,000	50,000	(0)
Total	435,000	435,000	(0)

The scale fee for 2010/11 for Kent County Council is £416,910. The pension fund audit fee was fixed at the Audit Commission scale fee. The Audit Commission made refunds of local authority audit fees to subsidise the 'one-off' element of the cost of transition to IFRS and to reflect the new reduced arrangements for local value for money audit work. These refunds are not reflected in the Kent County Council fee quoted above but totalled £39,086.

Appendix 2 - Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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



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By: Alex King, Deputy Leader
Samantha Buckland, Acting Head of Internal Audit

To: Governance and Audit Committee – 29 November 2011

Subject: **Effectiveness of Internal and External Audit Liaison**

Classification: Unrestricted

Summary: This paper summarises the effectiveness of the liaison arrangements between External and Internal Audit

FOR ASSURANCE

Introduction

1. The requirement for Internal Audit and External audit to liaise in an effective way is recognised by the professional guidance within both disciplines. The potential efficiencies that can be realised when this liaison is effective can be high, both in terms of avoided external audit fees, but also in relation to the a reduced audit burden for finance and other front line staff. For this reason the Committee's Terms of Reference include the responsibility for the Committee to annually assess the co-operation between External and Internal Audit.

Professional requirements

2. It is important to understand that both functions have very different remits. Internal Audit is an independent assurance function within the Council, whereas External Audit is responsible for giving an independent opinion on the Council's financial statements and a conclusion on its arrangements for securing economy efficiency and effectiveness in its use of resources.
3. Although their overall remits differ, it should be possible for internal and external auditors to rely on each other's work, subject to the limits determined by their responsibilities. The CIPFA code of practice for Internal Audit places requires that:
 - It is possible for Internal Audit and External Audit to rely on each other's work.
 - There are regular meetings between the Head of Internal Audit and the External Audit Manager.
 - Internal and external audit plans are co-ordinated.
4. External Audit's work is governed by the International Standards on Auditing (ISAs). In particular ISA 610 requires External Audit to:
 - Determine whether, and to what extent, to use specific work of the internal auditors; and
 - If using the specific work of the internal auditors, to determine whether that work is adequate for the purposes of the audit.
5. ISA 610 is clear that effective internal auditing will often allow a modification in the nature and timing, and a reduction in the extent, of audit procedures performed by the external auditor. However it also states that the external auditor

may decide that internal auditing will have no effect on external audit procedures. In coming to a conclusion whether to rely on the work of internal audit, the external auditor usually makes an assessment of internal audit's organisational status, objectivity and scope of the function, technical competence of the team and the due professional care in place.

Current practice

6. External Audit's evaluation of Internal Audit has been positive over recent years and no concerns across the four criterion set out in ISA 610 have been raised. There are regular meetings between the two sections to co-ordinate plans. In 2011/2012 Internal Audit is undertaking a number of core financial reviews where we have liaised with External Audit to minimise any potential duplication and to work together as much as possible, this includes the following audits where documentation of the systems and testing will be undertaken jointly:
 - Treasury Management
 - Pensions contributions
 - Pensions investment income
7. In addition the work that the Internal Audit section completes to provide assurance to the Section 151 Officer, and authority wide reviews such as Corporate Governance, Risk Management and Performance Management, can be utilised by the External Auditors to inform their risk assessment of the Council.

Conclusion and next steps

8. Liaison between Internal Audit and External Audit is in place, and there is reliance placed on the work on Internal Audit by the External Audit team where this is relevant.
9. At present Internal Audit spend a significant part of each year's audit plan reviewing the Councils financial systems. Aspects of this work have been tailored to provide the assurance required by External Audit in relation to financial systems and accounts, whilst at the same time providing the required assurance to the Council in relation to Internal Control. It is also possible for the Internal Audit section to deliver specific reviews to address some of the risks identified by External Audit.
10. Both Internal and External Audit are starting to consider their plans for the 2012/2013 year. The Acting Head of Internal Audit has agreed with the Audit Commission to seek synergy between the two audit plans, and it is hoped that this will be reflected in the plans presented for approval by the Committee next year.

Recommendations

11. Members of the committee are asked to
 - Receive the annual update on liaison arrangements between Internal and External Audit for assurance.

Samantha Buckland
Acting Head of Internal Audit
Ext: 4611

By: Samantha Buckland – Acting Head of Internal Audit
 To: Governance and Audit Committee – 29 November 2011
 Subject: INTERNAL AUDIT PROGRESS REPORT
 Classification: Unrestricted

Summary: This report summarises the outcomes of Internal Audit activity since the September Governance and Audit Committee.

FOR ASSURANCE

Introduction

1. This report summarises:
 - the key findings from Internal Audit reviews, including management responses where appropriate;
 - implementation of agreed high and medium priority recommendations;
 - progress against, and amendments to, the 2011/12 Internal Audit Plan since the last report to the Governance and Audit Committee; and
 - achievement against Internal Audit's Key Performance Indicators.

Overview of Progress

2. This report contains the outcome of Internal Audit work completed, at draft report stage or in progress for September to November 2011. During this period seven audits were finalised, five draft reports were issued and seven audits commenced. Further details of the final reports issued, including management's responses where appropriate, can be found at Annex A.
3. Annex B shows the progress of Directorates in the implementation of the agreed recommendations arising from our audit reports.
4. Progress against the Audit Plan for 2011/12 is shown in Annex C; this shows an improvement from 12% to 33% in the two months since the last progress report to Governance and Audit Committee despite a number of additional audits (see 5 below).
5. Annex D shows amendments to the Audit Plan. There are six additional audits to the 2011/12 Internal Audit plan; these are computer audits delivered through our co-source arrangements and are not in addition to the original contract. A further audit has been modified and one deleted from the plan, this last due to the 2010/11 audit of the same area being delayed to 2011/12 and completed recently.
6. Annex E provides detail of our progress against the agreed Internal Audit Key Performance Indicators for the 2011/12 year to end of October.

Implications for Governance

7. No significant control weaknesses have been identified from the audits completed or the irregularities investigated in the current financial year. All audits are allocated one of four assurance levels which are defined in Annex F.

Recommendation

8. Members are asked to note:
 - the amendments to, and progress against, the 2011/12 Audit Plan.
 - the assurance provided in relation to the Council's control environment as a result of the outcome of Internal Audit work completed to date.

Samantha Buckland
Acting Head of Internal Audit
Ext: 4611

Processes used in the Quality Assurance of Care Homes

Scope

The purpose of the audit was to review the processes by which KCC evaluates, awards and monitors care homes to ensure that they meet the required good practice standards and represent good value.

Overall assessment - Substantial

Residential and nursing homes that wish to contract with KCC are evaluated for service standards and price in order to award these with preferred provider status. The homes are evaluated in two ways; the first in that it meets good practice standards, the second the extent to which the tendered price represents good value against the maximum price that KCC will pay. KCC has approximately 7,000 people in residential placements, the majority are in Kent but there are also placements in other parts of the country.

The specific areas that were reviewed included:-

- Procedures, legislation and staff training;
- Selection and vetting of residential and nursing care homes;
- Contract formalities; Monitoring and inspection procedures, and
- Reporting.

We have made recommendations to improve controls, which predominantly relate to monitoring. The East and West Kent teams have now been merged to create one team and a review is being carried out by the Contracts Team which should help to address the recommendations in the report. In addition a new Contract Compliance Policy and Procedure was being introduced at the time of the audit.

Kent County Council Elections for 2005 and 2009

Scope

The purpose of the audit was to review the claims submitted by the Deputy Returning Officers for the reimbursement of fees and expenses incurred in managing the Kent County Council elections for 2005, 2009 and for a by-election in at Tonbridge and Malling in 2011.

In addition, we evaluated the controls in place to properly manage the expenditure on elections and the claims for reimbursement to ensure that these were well designed, appropriate and effective.

Overall assessment – assurance level not applicable given due to nature of work undertaken

The scope of the intended audit was limited as there was only one claim available for the 2005 elections, submitted late due to staff illness at the District. The other claims and supporting documents, having been settled, were not retained by Customer and Communities and therefore not available for audit. These records, supporting the payment of expenses for election costs, should be retained for the current year plus six years.

The audit of the claims available for 2005, 2009 and the by-election in 2011 identified a number of common errors. These arose because of the incorrect treatment of VAT, wrong calculations for fees and confusion on the treatment of shared expenditure because of a joint election (Parliamentary and European).

In total an amount of £21,407 has been identified cumulatively as potentially overstated on the returns. In addition, elements of expenditure could not be verified as insufficient information or documentation was provided to substantiate the claim.

The Head of Registration and Coroners has been provided with a report, detailed spreadsheet and supporting documentation for each District showing potentially incorrect elements of the claim. These findings are being discussed with each District and where appropriate additional evidence will be required before the claims are finalised.

We have made a number of recommendations designed to improve control for managing the expenditure on County elections in the future. In particular there is a need for summary estimates to support any advance payments, procedures and definitions defining the limits and detail of permitted expenditure and the need for adequate levels of supporting evidence.

Pension Payroll - Overpayments

Scope

The purpose of the audit was to review the processes by which pension payroll overpayments are identified and recovered.

Overall assessment – Full

The main reason for an overpayment is the death of a member of the pension scheme. We found that once notification of a death has been received, that the overpayment figures are calculated accurately and promptly and the relevant member record is suspended to ensure no further payments are made; requests to recover overpayments are made in a timely manner. However, as payments are made to the Pensions Section, Pensions Payroll staff are not always aware that overpayments have been recovered. In addition, when payments have been received, it is not always clear who they relate to. A new process has been put in place to show the name of the member of the pension scheme within the overpayments account and a 'task' set up within Axis, the Pensions Administration system, to ensure that Pensions Payroll staff are informed when a payment has been received.

We have made two low risk recommendations which have been agreed by management.

Transaction Data Matching (TDM)

Scope

The purpose of this follow-up audit was to provide assurance that improvements had been carried out in line with the recommendations made in the audit which was reported in February 2007. We also reviewed the setting and introduction of tolerances considering the effectiveness of these improvements and to ensure that the key objective of the system is being met.

Overall assessment – Substantial

Our follow-up identified that the processes and procedures in place for TDM are more robust and are being managed effectively.

Although we have increased the assurance level to substantial the introduction of tolerance levels is a recognition that there is a level of error due to the nature of the service. As these tolerances have only recently been introduced, and with the reduction of the percentage level in October 2011, it was too early at the time of the audit to quantify the impact.

This system is dependent on the thorough checking of the exception reports produced so that payments made for services not delivered can be recovered promptly. Since the introduction of tolerance levels in April 2011, variations will now only relate to those within the accepted level. In the four localities visited it was seen that staff are working hard on current and fairly recent exceptions but those prior to the setting of the tolerances are yet to be resolved which could mean that services not rendered have been paid for. Acceptance of those earlier variations should be agreed formally back to a reasonable date or value, bearing in mind that due to the nature of the data it would never be possible to clear all variations. It was identified that there is not a common approach across all 4 localities in the use of exception reports.

Our audit identified that a complete and accurate record of investigations and action taken is not being maintained in all cases. Delays in payment due to length of time taken to clear disputes could be occurring with no log to monitor this.

We have made 4 recommendations relating to the standardisation of work practices, agreement as to a cut-off date for retrospective clearance of variations and maintenance of records.

Commercial Services – Services Tender Costing

Scope

The purpose of this audit was to assess whether tender bids by Commercial Services had been prepared taking into account all reasonable costs, including Kent County Council overheads. The audit assessed the costs allocated to Commercial Services for the financial year 2010/11 and how those costs were allocated to individual business units.

Overall assessment – Substantial

The audit reviewed documents identifying Commercial Services' overheads and the components which form them. The overheads are allocated between business units in Commercial Services based on an appropriate method of allocation.

The tender costing methodology was confirmed for a sample of tenders within County Print & Design, Landscape Services and Passenger Services. In all cases a range of relevant costs and overheads were taken into account to form the total tender price. Overheads were often calculated at estimated rates but these were generally reasonable and consistently applied.

The tender looked at from within County Print & Design used a machine hour rate to calculate the overall cost of the tender and therefore the tender price. We were informed that this rate took into account all cost factors, but we were not able to see evidence to support this calculation during the audit. Furthermore, this is based on historical data and therefore may not include the most up-to-date prices. We have recommended that this data is reviewed and reflects current costs.

Carbon Reduction Commitment Energy Efficiency Scheme

Scope

The purpose of this was to provide assurance that the Council has complied with the requirements of the guidance laid down by the Environment Agency in producing the evidence pack in relation to the Carbon Reduction Commitment Energy Efficiency scheme (CRC scheme). We assessed the accuracy of the base data used for measuring carbon usage and reduction and the management processes put in place to allow the Council to give assurance that the evidence pack submitted to the Environment Agency is accurate and updated periodically.

Overall assessment - Compliant

The Environment Agency's guidelines identify different levels of evidence requirements, mandatory, recommended and best practice. The Council has looked to provide evidence for all levels. All the evidence that was required for the mandatory element was included in the pack. We have made a recommendation to improve the structure of the evidence file and identified some additional evidence required to comply with the requirements for recommended and best practice levels.

Our testing confirmed that the data included in the evidence pack was supported by original source data. Data used is usually obtained directly from meters but when estimations were required the methodology and calculations used followed the Environmental Agency guidelines.

Blue Book – Performance and Conduct

Scope

The overall objective of this audit was to provide assurance on the application of and compliance with the Council's policies and procedures contained in the Blue Book on Performance and Conduct. These policies are designed to ensure that the performance and conduct of staff is properly appraised. In particular the policies provide a framework for disciplinary, performance and capability procedures.

Overall assessment – Substantial

The audit found that the Blue Book was updated on a regular basis and accessible to all employees through KNet.

There were no mandatory courses for managers to attend on performance and conduct for the period covered by the audit. Going forward this is an issue that will be addressed through the implementation of the Kent Manager programme which is now being rolled out.

Our audit concluded that the performance and conduct cases were dealt with in line with the guidelines but there was some information not on the HR files; this could become an issue if the case went to appeal. Some investigations were found not to be completed within the prescribed timescale and although there could be valid reasons for this, these were not documented.

We identified inconsistencies in the processes in place to comply with the documentation requirements and discrepancies in information provided by directorates for reporting purposes. Both of these issues will be resolved as a result of the restructure and centralisation of the HR function.

We have made recommendations to address these issues.

Directorates' Progress with the Implementation of Agreed Recommendations

Where Internal Audit finds control weaknesses, instances of non compliance with existing controls or gaps in internal controls, recommendations are made to improve the control environment. At the draft report stage of an audit, recommendations are discussed with responsible managers who agree actions to implement the recommendations within a specified timeframe. Each recommendation is allocated a 'priority' ranking (high, medium or low) which relates to the seriousness of the control failure/non compliance and how quickly the agreed action should be implemented; in general we would expect high priority recommendations to be implemented within one month. The agreed action, date and name of the responsible officer are then 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 (or an appropriate alternative) has been implemented as agreed.

The attached table shows the progress with the implementation of agreed recommendations since our last report to Governance and Audit Committee.

Table 1 – This details the recommendations that were due to be actioned between April and September 2011.

25 actions were due to be in place by the end of September 2011:-

- 9 have been implemented
- 8 actions are outstanding; 1 of which is a critical priority, 1 high priority and 6 are medium priority.

Revised dates for implementing the outstanding recommendations have been provided and we have evaluated the risk of these revisions, any concerns have or will be further discussed with management.

Please note 'critical' priority is no longer used (see above) however this applies to the follow-up of audits completed prior to the agreed change in priority levels for 2011/12.

**Directorates Progress with the Implementation of Audit Recommendations
(Covers April 2011 to September 2011)**

Directorate	Total actions due to be in place by end of September 2011	Actions in place	Priority of outstanding actions			Comments on recommendations		
			C	H	M	Audit		To be completed by
Authority wide	3				3	Corporate Governance	All recommendations relating to this audit are currently ongoing and will be followed up in April 2012. There have been substantial revisions to the Code of Corporate Governance which are now subject to consultation, following which the revised version will be brought to the Governance and Audit Committee. Inclusion of a more detailed definition of the Section 151 Officer is subject to ongoing discussions and it is likely that Governance and Audit Committee will be consulted in due course. Discussion over reporting officer decisions to members was included in a report on the Scheme of Delegation to Officers.	April 2012
Children, Families and Education	4	4				SEN transport	All recommendations relating to this audit have now been completed.	
Section 151	1	1				Pensions Investment Income	All recommendations relating to this audit have now been completed.	
Chief Executive's Department	2	1			1	Virus Protection	The recommendation relating to virus detection has now been implemented. The remaining recommendation regarding the identification of unauthorised software is being investigated by ICT, but early indications are that the cost of a solution may be prohibitive.	January 2012

**Directorates Progress with the Implementation of Audit Recommendations
(Covers April 2011 to September 2011)**

Directorate	Total actions due to be in place by end of September 2011	Actions in place	Priority of outstanding actions			Comments on recommendations		
			C	H	M	Audit		To be completed by
Environment, Highways and Waste	1	1				Highways Maintenance	The recommendation regarding a programmed works timeframe has now been implemented.	
Environment, Highways and Waste	1	1				Performance and Data Quality	All recommendations relating to this audit have now been completed.	
Chief Executive's Department	13	9	1	1	2	PC End User Controls	<p>Management have accepted the risk for recommendations on the logon banner, end point security, personal USB data storage devices and CD/DVD writers. Our computer auditors will be discussing this with IS Security.</p> <p>Recommendations relating to the collection of IT assets from leavers, change management policy & procedures, local administrator permissions and standard build security checks have been implemented. The recommendation for end user policies and procedures has been superseded by work undertaken for the IT policy audit.</p> <p>The review of blackberry logical access controls was to be reported to the Information Governance Group which no longer meets. This recommendation needs to be revisited.</p> <p>Recommendations regarding user training & awareness (technical problems), patch management (contract in place to resolve by 31 March 2012) and</p>	March 2012

**Directorates Progress with the Implementation of Audit Recommendations
(Covers April 2011 to September 2011)**

Directorate	Total actions due to be in place by end of September 2011	Actions in place	Priority of outstanding actions			Comments on recommendations		
			C	H	M	Audit		To be completed by
							encrypted USB data storage devices are not yet implemented and will be followed up in March 2012. The impact of these revisions will be discussed with management, particularly in relation to the critical (patch management) and high (blackberry logical access controls) priority recommendations.	
TOTAL	25	17	1	1	6			

C = Critical risk (for audits completed to 31 March 2011)
H – High risk
M = Medium risk

Annex C
Progress against the 2011/12 Audit Plan

Directorate/area	Audit	Progress at 18 November 2011	Assurance
Authority Wide			
	Kent County Council Elections	Completed	N/a
	Governance of Partnerships	Completed	Full
	Corporate Governance	Initiation Document issued	
	Schemes of Delegation and Limits on Approval	Fieldwork in Progress	
	Annual Governance Statement	Engagement Plan issued	
	Performance Management Framework	Planning in progress	
	Risk Management	Planning in progress	
Core Systems			
	Pensions Overpayments	Completed	Full
	Responsive Building Maintenance	Completed	Substantial
	Commercial Services – Services Tender Costing	Completed	Substantial
	Oracle Database Audit	Draft report issued	
	Transaction Data Matching	Completed	Substantial
	Key financial controls – Gypsies and Travellers Unit	Completed	Substantial
	Implementation of the English National Travel Concessionary Scheme	Completed	Full
	Quality Assurance of Care Homes	Completed	Substantial
	Oracle – General Ledger	Audit in progress	
	Oracle – Accounts Payable	Audit in progress	
	Oracle – Accounts Receivable	Audit in progress	
	Oracle – i Procurement	Audit in progress	
	Use of Corporate Purchase Cards	Completed	Limited
	Oracle Payroll & HR	Audit in progress	

Annex C
Progress against the 2011/12 Audit Plan

Directorate/area	Audit	Progress at 18 November 2011	Assurance
	Treasury Management	Initiation Document issued	
	Cash and Bank	Initiation Document issued	
	Medium Term Planning	Draft report issued	
	Revenue Budget Monitoring	Draft report issued	
	Swift – Social Care System (Domiciliary & Residential)	Planning in progress	
	Client Billing	Planning in progress	
	Pensions Contributions	Initiation Document issued	
	Pensions Investment Income	Initiation Document issued	
	Enterprise & Interprise (Property Information databases)	Engagement Plan issued	
	Routewise	Planning in progress	
	Financial Controls in Schools	Initiation Document issued	
	Oracle Modules	Audit in Progress	
	Firewalls and Firewall Management	Audit in Progress	
	Network Security and Infrastructure (LAN)	Planning in Progress	
	Exchange Server and e-mail	Engagement Plan issued	
	IT Support Arrangements (ITL)	Audit Planned	
	IT Compliance	Draft report issued	
	BSS - Sharepoint	Engagement Plan issued	
	EE – Freedom Pass Application	Planning in Progress	
	FCS – Business Objects	Planning in Progress	
	CC – CARA Registrations Application	Engagement Plan issued	
	ELS – CapitaOne Application	Planning in Progress	
	ELS – ICS Implementation	Ongoing – advice and information	

Annex C
Progress against the 2011/12 Audit Plan

Directorate/area	Audit	Progress at 18 November 2011	Assurance
Policies			
	Data Protection Act	Initiation Document issued	
	Freedom of Information Act	Initiation Document issued	
	Equalities Act	Initiation Document issued	
	Complaints, Comments and Compliments Policy	Initiation Document issued	
	Blue Book – Job Evaluation	Audit in progress	
	Blue Book – Recruitment and Selection	Draft report issued	
	Blue Book – Total Contribution (TCP)	Draft report issued	
	Blue Book – Employment Contracts	Audit in progress	
	Blue Book – Equalities Act/Fairness at Work	Audit in progress	
	Blue Book – Health and Safety at Work	Audit in progress	
	Blue Book – Performance and Conduct	Completed	Substantial
	Communications Toolkit	Engagement Plan issued	
	Procurement	Engagement Plan issued	
	Information Security	Planning in progress	
	Managing Change	Initiation Document issued	
Emerging Issues			
	Carbon Reduction Commitment	Completed	Compliant

Amendments to Plan

Audit	Comments	Days
ADDED		
CS29 – SharePoint	<p>SharePoint is becoming a core user driven tool for the storage, sharing and management of data for the Council and Council Departments. SharePoint can be a powerful tool but, as with any such tool, if it goes un-checked it can become unwieldy and fail to meet manager’s expectations, with data becoming obsolete and ‘dead’ areas appearing through the provision. The audit will assess the framework for internal controls within the following areas:</p> <ul style="list-style-type: none"> • Implementation • Development • Management and Ownership • Content Definitions • Maintenance • Monitoring 	20
CS30 – Freedom Pass Application	<p>This is a potentially sensitive application with annual charges and personal information relating to children being entered and processed. It is also a new process outside of London and with annual fees due there are going to be key times of the year when the application will be under greatest demand.</p>	20
CS31 – Business Objects	<p>This is a third party report writer heavily used within Families and Social Care. Business Objects has the tendency to be linked directly into the underlying database and as a result can have access to a significant amount of information. Historically as this data should be read only (i.e. cannot be updated) there is a tendency for the controls around access through Business Objects to be more loosely defined than within the applications it plugs into. This can cause issues with data confidentiality and security which if mishandled could result in a significant breach of Data Protection Legislation.</p>	20
CS32 – CARA Registrations Application	<p>Registrations include Births, Deaths, Weddings and Civil Ceremonies and CARA is the application used for logging and monitoring as well as undertaking limited financial transactions and printing of Certificates. If the application went down it</p>	25

Audit	Comments	Days
	would quickly become an irritant with local news potential as much of the activity around the use of the application is personal to individual members of the public. The usage is distributed across the county and there are around 100 users.	
CS33 – CapitaOne Application	<p>The CapitaOne system runs on a single core with no customisations and is administered centrally. This is a Business to Business system (with inputs from schools). Schools' input is cleaned by the Management Information Unit before going into the system. There are again several modules including:</p> <ul style="list-style-type: none"> • Attendance Module • Governors Module • EPM (Recording System) – for visits to schools • POP4 – a population forecasting module. 	20
CS34 – Integrated Children’s System (ICS) Implementation	ICS draws data from CapitaOne and is a families system; this is currently out to tender and should be changing within the next 12 months. The time allocated here will be used to provide ongoing advice and information and to attend the project board as and when required.	10
CHANGED		
AW06 Business Continuity Planning	<p>The audit was originally included in the plan 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.</p> <p>However, with the changes in the organisation it is considered necessary to undertake a high level review to assess the implementation of the process within the new structure.</p>	(30)
CS28 Business Continuity (BS25999)	To review progress on the adoption of the Corporate Process under the new structure as above (AW06).	15
REMOVED		
CS12 Transaction data Matching	A follow-up has been finalised which includes recent developments. There are no changes to the system that would require another audit to be undertaken in 2011/12.	(25)

Annex E
Internal Audit Performance

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

Performance Indicator	Target	Actual (Apr – October 2011)
<p><u>Effectiveness</u></p> <ul style="list-style-type: none"> • % of recommendations accepted • Compliance with the CIPFA Code of Practice for Internal Audit 	<p>98%</p> <p>80%</p>	<p>96%</p> <p>80%</p>
<p><u>Efficiency</u></p> <ul style="list-style-type: none"> • % of plan delivered • % of available time spent on direct audit work • % of draft reports completed within 10 days of finishing fieldwork • Preparation of annual audit plan • Periodic reports on progress • Preparation of Annual Report and Opinion 	<p>95%</p> <p>85%</p> <p>90%</p> <p>By March To each G&A meeting</p> <p>By May</p>	<p>33%</p> <p>83.5%</p> <p>54%</p> <p>N/a</p> <p>Achieved to date</p> <p>Achieved</p>
<p><u>Quality of Service</u></p> <ul style="list-style-type: none"> • Average Client Satisfaction Score 	<p>90%</p>	<p>93%</p>

Assurance Level	Detailed 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.
Substantial	Whilst the controls evaluated are generally well designed, appropriate in scope and applied consistently and effectively, weaknesses have been identified that require management attention. These issues increase the possibility that objectives may not be achieved.
Limited	Some controls 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.
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.

By: Samantha Buckland – Acting Head of Internal Audit
To: Governance and Audit Committee – 29th November 2011
Subject: INTERNAL AUDIT - ANTI-FRAUD AND CORRUPTION
PROGRESS REPORT
Classification: Unrestricted

Summary: This paper provides a summary of progress of anti-fraud and corruption activity as well as the outcome of irregularity investigations concluded since the last Governance and Audit Committee meeting in September 2011.

FOR ASSURANCE

Introduction and Background

1. The responsibility for anti-fraud and corruption activity is set out within the Council's Financial Regulations and the Terms of Reference for the Governance and Audit Committee. The work of the Committee is to ensure that the Council has a robust counter-fraud culture backed by well-designed and implemented controls and procedures. This additional paper has been prepared to emphasise the planned activity and progress to date and therefore support the Committee in meeting its obligations described in the Terms of Reference.

Overview of Progress

2. In 2010 Internal Audit carried out a self assessment of the Council's anti-fraud and corruption arrangements against the CIPFA Red Book 'Managing the risk of fraud – Actions to counter fraud and corruption'. The Red Book is divided into five key areas of activity covering the strategic approach to anti-fraud and corruption, measuring fraud and corruption losses, the necessary authority and support for anti-fraud and corruption work, the range of actions taken to tackle problems (e.g. deterrence, prevention, detection, investigation, sanctions and redress), and ensuring that there are clear outcomes for anti-fraud and corruption work.
3. This assessment identified that a significant amount of work was required to complete the recommended actions. After the successful recruitment of a Counter Fraud Manager in August 2011 Internal Audit committed to presenting a detailed action plan to members for their review and agreement. The plan is attached at Appendix A. The plan identifies actions and the associated target dates, as well as progress made so far.
4. In terms of progress to date the Counter Fraud Manager has met with the Pioneer management group to discuss fraud risks and the Council's strategy, these discussions will be used to formulate future proactive anti-fraud work. Fraud awareness presentations have been delivered to the Challenger management group, through the Financial Management Development Programme and to Waste Management; positive feedback has been received from each presentation. In addition, the Intranet has been updated with useful information about fraud and fraud prevention advice.

Irregularities

5. Investigation activity has dominated the work flow of counter fraud since the last Governance and Audit Committee. Eight irregularities have remained under active investigation and two have been concluded. The detail of the cases concluded is set out in Appendix B.
6. In relation to the Laser Energy Buying Group investigation the defendant has pleaded not guilty and the trial has been set for March 2012, this is therefore ongoing and results will be reported to the committee for assurance in due course.
7. In terms of common themes in these allegations, two of the investigations relate to timekeeping and expense irregularities and recommendations have been made to strengthen both the policy and the reclaim processes. The outcome of these recommendations will be reported at the next Governance and Audit Committee. Three of the investigations relate to irregularities in schools, two of these are concerned with credit card abuse and the third concerns a school that has entered into an excessive number of photocopier leases. There has also been one incident of a supplier attempting to bribe an officer; the bribe was refused and the incident has been reported to the Police.

Recommendations

8. Members are asked to note:
 - the progress of anti-fraud and corruption activity; and
 - the assurance provided in relation to the anti-fraud culture and fraud prevention / investigation activity.

Paul Rock
Counter Fraud Manager
Ext: 4649

Adopting the Right Strategy					
Ref	Key Areas identified by CIPFA	Identified Task(s)	Target date	Progress	Completed date
1	Does the organisation have a counter fraud and corruption strategy that can be clearly linked to the organisation's overall strategic objectives?	Review the anti-fraud and corruption policy to ensure that it is fit for purpose, particularly in relation to the Bribery Act 2011. The policy must be clearly linked to the strategic objectives, include a remit to reduce losses, establish effective links between policy and operational work, include a full range of activity and be supported by the organisation.	31/12/2011		
2	Is there a clear remit 'to reduce losses to fraud and corruption to an absolute minimum' covering all areas of fraud and corruption affecting the organisation	As above.	31/12/2011		
3	Are there effective links between 'policy' work (to develop an anti-fraud and corruption and 'zero tolerance' culture, create a strong deterrent effect and prevent fraud and corruption by designing and redesigning policies and systems) and 'operational' work (to detect and investigate fraud and corruption and seek to apply sanctions and recover losses where it is found)?	Review the following policies to ensure that they are fit for purpose and include clear links to counter fraud arrangements: Whistleblowing Procedure, Disciplinary Procedure, Bribery Act Policy, Anti-Money Laundering Policy and Spending the Council's Money.	31/03/2012		

4	Is a full range of action (anti-fraud culture, deterrence, prevention, detection, investigation, sanction and redress) being taken forward or does the organisation 'pick and choose'?	Prepare and deliver supplementary work plans for anti-fraud culture (21), deterrence (21) and proactive prevention and detection activity (47). Progress against these plans will be reported to the Governance and Audit Committee.	30/04/2012	PARTIALLY COMPLETE. This action plan itself demonstrates that a full range of work is planned.	
5	Does the organisation focus on outcomes (i.e. reduced losses) and not just activity (i.e. the number of investigations, prosecutions, etc.)?	As above (1).	31/12/2011		
6	Has the strategy been directly agreed by those with political and executive authority for the organisation?	N/A	N/A	COMPLETE. The current Anti-Fraud and Corruption Strategy is owned by the Corporate Director of Finance and Procurement and was agreed at the Governance and Audit Committee in April 2011.	01/04/2011
Accurately Identifying the Risks					
7	Are fraud and corruption risks considered as part of the organisation's strategic risk management arrangements?	Annual fraud risk assessment to be completed by the Counter Fraud Manager. This will be reported to PAT and the Governance and Audit Committee.	31/03/2012		
8	Is the organisation seeking to identify accurately the nature and scale of losses to fraud and corruption?	An annual fraud loss measurement exercise to be conducted by the Counter Fraud Manager. This work will be targeted in areas identified most at risk to fraud.	30/09/2012		

9	Does the organisation use accurate estimates of losses to make informed judgements about levels of budgetary investment in work to counter fraud and corruption?	Investment in counter fraud work is currently based on historic activity. Future activity will be based on the fraud risk analysis and measurement tasks identified above (7 & 8). These will be focussed in the areas identified as most at risk.	30/09/2012		
Creating and Maintaining a Strong Structure					
10	Do those tasked with countering fraud and corruption have the appropriate authority needed to pursue their remit effectively, linked to the organisation's anti fraud and corruption strategy?	The Counter Fraud Manager will ensure that the appropriate authority has been delegated by the Corporate Director of Finance. This must grant KCC's Counter Fraud Officers access to staff and documentation but also confirm their authority to undertake criminal investigations. When necessary, legal advice will be sought and policies will be created or amended as appropriate.	31/12/2011		
11	Is there strong political and executive support for work to anti fraud and corruption?	N/A	N/A	COMPLETE. The Anti-Fraud and Corruption Strategy is owned by the Corporate Director of Finance and Procurement and was agreed at the Governance and Audit Committee in April 2011.	30/04/2011
12	Is there a level of financial investment in work for anti fraud and corruption that is proportionate to the risk that has been identified?	Recruit a suitable qualified and experienced Counter Fraud Officer.	31/12/2011	PARTIALLY COMPLETE. KCC has recruited a Counter Fraud Manager and provided authority to recruit a Counter Fraud Officer. In addition, Internal Audit are able to provide additional resources when required.	

13	Are all those working to anti fraud and corruption professionally trained and accredited for their role?	As above (12).	31/12/2011	PARTIALLY COMPLETE. The Counter Fraud Manager is a Certified Counter Fraud Specialist. A similar qualification will be required for the Counter Fraud Officer.	
14	Do those employees who are trained and accredited formally review their skills base and attend regular refresher courses to ensure they are abreast of new developments and legislation?	N/A	N/A	COMPLETE. KCC has a personal development process that assists individuals in identify skills gaps and is supportive of continuing professional development.	Blue book last revised July 2011
15	Are all those working in anti fraud and corruption undertaking this work in accordance with a clear ethical framework and standards of personal conduct?	Counter Fraud Manager to draft an investigation manual which will include a professional and ethical framework and a requirement for investigators to adhere to it.	31/03/2012		
16	Is an effective propriety checking process: (a) implemented by appropriately trained staff? (b) in place that includes appropriate action where individuals fail the check?	Internal audit to be undertaken to confirm that KCC's recruitment processes are robust.	30/11/2011	PARTIALLY COMPLETE. The audit will be finalised shortly and the outcome reported to the Governance and Audit Committee.	
17	Does the organisation regularly review its propriety checking and are random checks carried out to ensure that it is implemented?	As above.	30/11/2011		
18	Are there framework agreements in place to work with other organisations and agencies?	The Counter Fraud Manager will identify and contact key stakeholders and enter into appropriate framework agreements, memoranda of understanding and/or service level agreements.	30/06/2012		

19	Are the framework agreements focused on the practicalities of common work?	As above.	30/06/2012		
20	Are there regular meetings to implement and update these arrangements?	As above.	30/06/2012		
Tacking Action to Tackle the Problem - Culture					
21	Does the organisation have a clear programme of work attempting to create a real anti-fraud and corruption and zero tolerance culture (including strong arrangements to facilitate whistleblowing)?	The Counter Fraud Manager will draft and agree a work plan that will detail a comprehensive programme of anti-fraud culture and deterrence work. As examples this will include fraud awareness presentations, intranet and extranet information, newsletter articles and online training.	31/03/2012		
22	Are there clear goals for this work (to maximize the percentage of staff and public who recognise their responsibilities to protect the organisation and its resources)?	A baseline staff survey will be undertaken to assess the current level of fraud awareness and strength of culture. This will be repeated at least every two years. After the baseline has been identified a percentage increase target will be set. The results will be reported to the Governance and Audit Committee.	31/03/2012		
23	Is this programme of work being effectively implemented?	Progress and the effectiveness of the above work (21) will be regularly monitored and findings will be presented to the Governance and Audit Committee annually.	30/09/2012	PARTIALLY COMPLETE. While no definitive plan has been agreed, work to raise the level of fraud awareness, strengthen the anti-fraud culture and deter fraud has already begun. This includes presentations to Finance, Waste Management and the 'Challenger' management group.	

24	Are there arrangements in place to evaluate the extent to which a real anti-fraud and corruption culture exists or is developing throughout the organisation?	As at (22) a staff survey will be undertaken to assess the level of awareness. The results will be reported to the Governance and Audit Committee.	31/03/2012		
25	Are agreements in place with stakeholder representatives to work together to counter fraud and corruption?	As above (18).	30/06/2012		
26	Have arrangements been made to ensure that stakeholder representatives benefit from successful counter fraud and corruption work?	When appropriate, the Counter Fraud Manager will work with stakeholders to ensure they maximise the benefit of partnership working with KCC. There are currently no plans for joint exercises.	N/A		
27	Does the organisation have a clear programme of work attempting to create a strong deterrent effect?	As above (21).	31/03/2012		
Tacking Action to Tackle the Problem - Deterrence					
28	Does the organisation have a clear programme of work to publicise the hostility of the honest majority to fraud and corruption; effectiveness of preventative arrangements; sophistication of arrangements to detect fraud and corruption; professionalism of those investigating fraud and corruption and their ability to uncover evidence; likelihood of proportionate sanctions being applied; and the likelihood of losses being recovered?	As above (21).	31/03/2012		

29	Has the organisation successfully publicised work in this area?	As above (21).	31/03/2012	PARTIALLY COMPLETE. As above (23).	
30	Has the publicity been targeted at the areas of greatest fraud losses?	As above (21).	31/03/2012		
Tacking Action to Tackle the Problem - Prevention					
31	Does the organisation seek to design fraud and corruption out of new policies and systems and to revise existing ones to remove apparent weaknesses?	At the conclusion of all investigations the Counter Fraud Manager will review the appropriate policy and procedures and recommend amendments to remove any identified weaknesses. Any recommendations made will be reported to the Governance and Audit Committee. As a minimum the following key policies will be reviewed: Expenses, Sickness Absence, Whistleblowing, Money Laundering and Spending the Council's Money. In addition, the Counter Fraud Manager will meet with Human resources to review the policy creation/review processes and request that the Counter Fraud Manager is included on all future circulations of new and amended policies.	31/03/2012		
32	Do concluding reports on investigations include a specific section on identified policy and systems weaknesses that allowed the fraud and corruption to take place?	As above (31).	31/03/2012		

33	Is there a system for considering and prioritising action to remove these identified weaknesses?	Internal Audit prioritises and monitors the implementation of all recommendations. The investigation manual (15) will include a requirement for all recommendations made by counter fraud to follow the same process.	31/03/2012		
Tacking Action to Tackle the Problem - Detection					
34	Are there effective 'whistleblowing' arrangements in place?	The Counter Fraud Manager will review the whistleblowing arrangements to ensure they are well publicised, that fraud allegations are referred to Internal Audit and that the sources and nature of disclosures is monitored.	31/03/2012		
35	Are analytical intelligence techniques used to identify potential fraud and corruption?	KCC already takes an active part in the Audit Commission's National Fraud Initiative. In addition, the Counter Fraud Manager will undertake an analysis of the fraud referrals received in the last two years. The results will be used to inform future counter fraud activity in areas most susceptible to fraud. The results will be reported to the Governance and Audit Committee.	31/03/2012		
36	Are there effective arrangements for collating, sharing and analysing intelligence?	The Counter Fraud Manager is exploring a Case Management System that will facilitate intelligence gathering and analysis. As at (18) agreements with other organisations will identify legal gateways for sharing information, intelligence and best practice.	30/06/2012		

37	Are there arrangements in place to ensure that suspected cases of fraud or corruption are reported promptly to the appropriate person for further investigation?	The programme of work identified at (21) will include information for staff about who and when to report suspicions of fraud.	31/03/2012	PARTIALLY COMPLETE. All staff are required to report irregularities to the Head of Internal Audit. This is explicitly stated in the Blue Book.	
38	Are arrangements in place to ensure that identified potential cases are promptly and appropriately investigated?	As at (15) the Counter Fraud Manager will draft an investigation manual. This will include a requirement to investigate cases expediently and to agree timescales with the appropriate Directorate.	31/03/2012		
39	Are proactive exercises undertaken in key areas of fraud risk or known systems weaknesses?	The Counter Fraud Manager will draft a work plan that identifies proactive fraud detection and prevention exercises in areas identified at risk to fraud.	30/09/2012	PARTIALLY COMPLETE. The Counter Fraud Manager has met with the 'Pioneer' management group to discuss fraud risks. These discussions will be used to inform future proactive fraud detection and prevention exercises.	
Tacking Action to Tackle the Problem - Investigation					
40	Is the organisation's investigation work effective?	The Quality Assurance process within Internal Audit will include investigations which will be evaluated for their timeliness, adherence to policy and legislation as well as outcomes. This will include seeking feedback from witnesses and management involved in the investigation.	31/03/2012		

41	Is it carried out in accordance with clear guidance?	As at (15) the Counter Fraud Manager will draft an investigation manual, which will provide clear guidance and set appropriate standards that will subsequently be subject to quality and assurance processes.	31/03/2012		
42	Do those undertaking investigations have the necessary powers, both in law, where necessary, and within the organisation?	As at (10) the Counter Fraud Manager will ensure that appropriate authority is delegated. As at (15) the investigation manual will identify the key legislation that investigations must comply with.	31/03/2012		
43	Are referrals handled and investigations undertaken in a timely manner?	As at (36) the Counter Fraud Manager is exploring a case management system that will allow all referrals to be logged and any decisions and progress be recorded and monitored. All investigations will be subject to the Internal Audit Quality Assurance process.	30/06/2012		
44	Does the organisation have arrangements in place for assessing the effectiveness of investigations?	The Quality Assurance process within Internal Audit will include investigations which will be evaluated for their timeliness, adherence to policy and legislation as well as outcomes. This will include seeking feedback from witnesses and management involved in the investigation.	31/03/2012		

Tacking Action to Tackle the Problem - Sanctions

45	Does the organisation have a clear and consistent policy on the application of sanctions where fraud or corruption is proven to be present?	The Counter Fraud Manager will draft and agree a policy on the application of sanctions for proven cases of fraud that will include criminal, civil, disciplinary and professional sanctions.	31/03/2012		
46	Are all possible sanctions – disciplinary / regulatory, civil and criminal - considered?	As above (45).	31/03/2012		
47	Does the consideration of appropriate sanctions take place at the end of the investigation when all the evidence is available?	As above (45 & 15) the sanctions policy and investigation manual will make it clear that all available sanctions will be considered throughout the course of an investigation.	31/03/2012		
48	Does the organisation monitor the extent to which the application of sanctions is successful?	As above (45 & 15) the sanctions policy and investigation manual will include a requirement to carefully monitor the application of sanctions to ensure they are consistent. The results of this monitoring will be reported at least annually to the Governance and Audit Committee.	31/03/2012		
49	Does the organisation have a clear policy on the recovery of losses incurred to fraud and corruption?	As at (1) the Anti-Fraud and Corruption policy will be reviewed to ensure that it includes a clear commitment to recover losses incurred through fraud and corruption.	31/12/2011		

Tacking Action to Tackle the Problem - Redress					
50	Is the organisation effective in recovering any losses incurred by fraud and corruption?	As at (15) the investigation manual will include a requirement for the recover of losses to be monitored. The results of this monitoring will be reported at least annually to the Governance and Audit Committee. In addition, the Internal Audit Quality Assurance process will evaluate the effectiveness of recovery.	31/03/2012		
51	Does the organisation use the criminal and civil law to the full in recovering losses?	The Counter Fraud Manager will seek agreement with Trading Standards to utilise their Financial Investigator and ensure that recovery under the Proceeds of Crime Act can be applied whenever appropriate.	31/03/2012		
52	Does the organisation monitor proceedings for the recovery of losses?	As at (50).	31/03/2012		
53	What is the organisation's successful recovery rate?	As at (50).	31/03/2013		
Defining Success					
54	Are there clear outcomes described for work to counter fraud and corruption?	The Counter Fraud Manager will agree key performance indicators with the Head of Internal Audit and the Governance and Audit Committee.	31/03/2012		
55	Do the desired outcomes relate to the actual sums lost to and harm caused by fraud and corruption?	As above (54).	31/03/2012		

Details of Irregularity Investigations Concluded between September and November 2011

Ref	Directorate	Allegation	Outcome	Recommendation(s)	Priority	To be completed by
817	Families & Social Care	A member of staff alleged to have claimed expenses for journeys that were not undertaken, taken time off in lieu (TOIL) that was not accrued, misreported or falsified client contact records and failed to declare interests in two or more businesses that may conflict with the Council's interests.	Resigned prior to the conclusion of the investigation. The evidence has been collated and a summary report will be retained by Human Resources.	A number of recommendations have been made to strengthen the expenses policy and reclaim process and these also address a similar investigation (818) that will be reported at the next Governance and Audit Committee.	N/A	N/A
819	Customer & Communities	A member of staff was alleged to have been arrested by Kent Police in relation to an offence of fraud.	No evidence to support the allegation and the investigation is now closed.	N/A	N/A	N/A

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